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PentVars Business Journal

Vol. 3, April-June 2008 ISSN 0855-9163 GH¢4.50 $15.00

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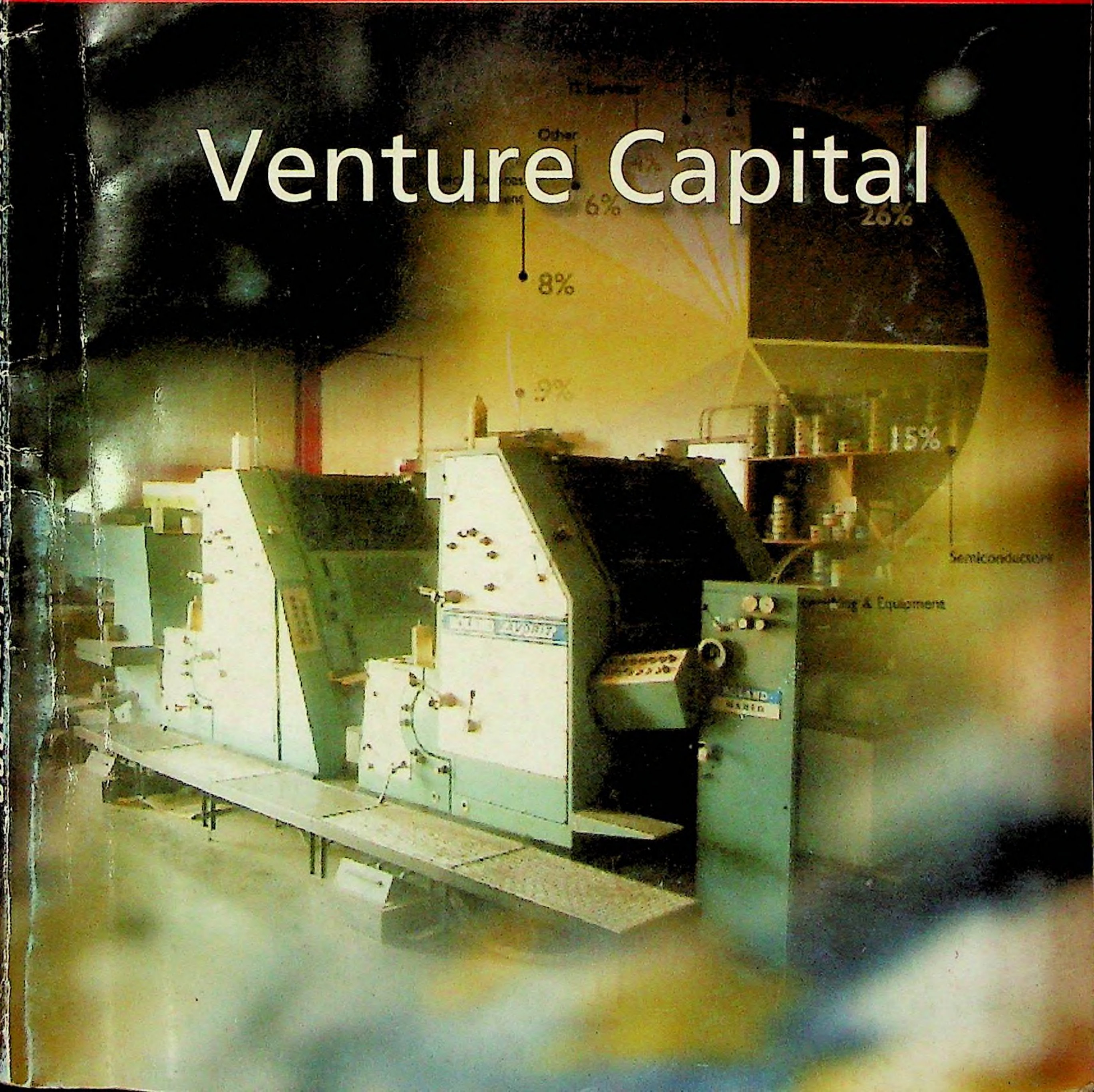

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Website: www.pentvars-gh.org

Publisher
QualiType Limited
P. O. Box AN 7314
Accra-North
Tel.: 021 325266-9
Fax. 021 325268

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EDITORIAL

There have been debates as to whether free economic interchange, which is also referred to as globalisation is beneficial to all countries. The editorial takes a brief look at both arguments. The idea is to generate intellectual debates in Ghana in order to critically examine whether Ghana is positioned to derive maximum benefits from free economic interchange.

Economic growth in the last fifty years experienced a faster forward surge. For example, Britain grew at an average of annual rate of 1.5 percent per capita. However, currently, many countries have achieved per capita annual growth rates of 5 to 8 percent. According to one school of thought, it has been argued that the reason why growth has been accelerating faster is because, growth and globalisation have gone hand-in-hand. Access to international market has greatly facilitated faster growth. A substantial degree of reliance on comparative advantage and division of labour has also contributed to this buoyant growth. They further argued that, the rapid growth is taking place in an environment where support facilities are available from other trading nations. Facilities such as communications, finance, insurance, etc., could not have been provided by poor countries themselves and thereby would have put them at a disadvantage competitively. Technology transfer to poor countries has helped boost growth rates.

To substantiate this argument, it was put forward that South Korea greatly benefited from technology transfer and with three decades, moved from 70 percent rural economy to 70 percent urban economy. This has contributed immensely to reducing global poverty. World poverty has declined regardless of increasingly high population growth in the developing countries. Since 1980, those living on less than one dollar a day have fallen by about 200 million, due to the rapid growth of China, India, and Korea.

Conversely, others are of the view that globalisation has misguided assumptions as it breeds inequality and distorts the economy of the poor and developing countries. They portend that the free market advocated by the World Trade Organisation (WTO) is laced with falsehood.

One of the falsehoods is what they refer to as the market's self-regulating virtues. For example, since 1992, the major industrialised countries have embraced global markets willingly. The United States of America (USA) quickly enacted the FAIR (Federal Agriculture Improvement and Reform) Act to do away with direct subsidies, instead of 'decoupling' aid. This allows farmers to produce with no restrictions. It is argued that this has not positively affected the wild swings in the markets. The instability of the market has rather led to the explosion of emergency direct subsidies to offset declining prices.

The untruth according to the proponents against globalisation is the assertion that competition generates wealth for everyone. They argued that, competition is meaningful only if competitors are able to survive. They are of the view that, labour productivity varies from continent to continent. Majority of farm workers who harvest the land with their hands is estimated at 1.3 billion as against a tiny minority of 28 million mechanised farmers formidably equipped for exports. Productive farmers receive emergency subsidies and multiple guarantees against falling prices in addition to their direct and indirect export bonuses. The peasant farmers go bankrupt at the failure of the rain.

Another area of controversy is the argument that, world market prices are necessary criterion for guiding output. However, it has been argued that these prices apply to a small percentage of global production and consumption. For example, the international trade takes place at prices that are determined not by aggregate trade, but prices of the most competitive exporting country. The world price of wheat is pegged to the price in the USA which accounts for only 5.84% of aggregate world output from 1985 to 2000.

To conclude, the rise of feelings against globalisation is a sign that policy makers and analysts need to consider reforms that are necessary for globalisation. It is therefore necessary for policy makers in Ghana to critically examine the effects of globalisation since 1990 when the country opened up its market to free market economy. All the sector of the economy needs to be assessed in order for the country to strategically position itself advantageously.

EDITORIAL

PENTECOST UNIVERSITY COLLEGE

James McKeown Auditorium
Air-conditioned Conference Hall

INTRODUCTION

The President of the Republic of Ghana, His Excellency, Mr. J. A. Kuffuor, , inaugurated the Pentecost University College on May 22, 2003, during the 34th Session of the General Council meeting held at the Sowutuom campus, under the Chairmanship of Apostle Dr. M. K. Ntumy.

VISION OF THE UNIVERSITY

To empower students to serve their own generation and posterity with integrity and the fear of God

ROLE AND MISSION

Our mission, which represents our philosophy, is to be on the cutting-edge of the dissemination of knowledge, quality education, research and training for the purpose of producing an excellent human resource base to meet the demands of our country's development.

The University shall be governed by the highest level of integrity and ethical standards.

This shall be achieved through:

- Building on our strengths and pursuing affirmative and open door admissions policies.
- Providing a multifaceted education in Theology, Religious Studies and Mission; Business Management, Information Technology and other academic courses towards higher degrees.
- Aligning our current and future programmes to meet the aspirations of our students, society and the worldwide community.

Accreditation and Affiliation

Pentecost University College (PUC) is a Christian University accredited by the National Accreditation Board (NAB) and affiliated to the University of Ghana, Legon.

PROGRAMMES

The University currently runs the following programmes:

BSc Administration, 4-Year (Four Options)

1. Marketing
2. Accounting
3. Banking & Finance
4. Human Resource Management

BSc Information Technology(4-Year)

1. BSc Information Technology (4-Year)

3-Yr Bachelor of Arts Degree, 2-Yr Diploma or 1-Yr Certificate.

1. Theology
2. Pastoral Studies
3. Mission Studies

ENTRY REQUIREMENTS

- Three Core (including English and Core Mathematics)
- Three Elective passes at WASSCE/SSSCE & with aggregate 6 - 24.
- Three A Level passes
- Recognised Diplomas/Certificates (GBCE, O'Level, RSA III, ABCE, foundation stages of ACCA, CIM, ICA etc)

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THE BIBLICAL CONCEPT OF LEADERSHIP AND UNITY FOR NATION BUILDING

Abstract

In the animal kingdom, leadership is determined, among other qualities, by the ability of an individual animal to sustain the continuous existence of the species through procreation and protection. Once the leader is determined, it carries out this duty without regards to personal safety and interest until its strength wanes and it is replaced by a much stronger animal from the species. In the human world, leadership had the same motive as in the animal kingdom. However, while the motive of leadership remained among the animals, there has been a considerable shift on the motive of leadership among humans. Selfish motives have set in, thereby expanding the basic necessities of food, shelter and clothes to include luxuries and pride. For many, leadership now means power, authority, honor, prestige or personal advantage. In whatever area of leadership we find ourselves in, whether as head of a home, class prefect, Church, organization or even a nation, the life and death of Jesus should be an outstanding model for us to follow.

Introduction

Leadership may be defined as the dynamic and stimulating ability of an individual or group to liberate, engage and direct the constructive endeavors of a people for the betterment of individuals and/or whole communities. It is a constructive endeavor for the material prosperity and for the socio-cultural uplift, spiritual peace and mental productivity of the community. Leadership means being in a position of responsibility. Leadership plays the role of advice and decision-making and requires the holder of the office to be a torch-bearer. Leadership requires being at the forefront and taking charge of events and issues arising from and touching on the leader's area of jurisdiction. Leadership is about service to the people being led, including a selfless devotion to the course of the prosperity of the group. The leader must be ready to lay down his or her life for the sake of the group.

Unfortunately, due to other motives other than the interest of the group to be led, leadership in the human world can be bought and sold and it could also be attained through violence. Leadership has now become the source of unrest in many societies and leaders are now served and worshipped, thereby turning upside down the natural structure of leadership. Rather, responsible leadership should evolve from the people by the people and for the people. Responsible leadership must live for the concern and the welfare of those being led.

Leadership in the Bible
In the Bible, we have models of leadership as exemplified by the lives of certain individuals including Moses, Miriam, Joshua, Deborah and the Judges, Saul, David, Solomon, the Kings of Israel, etc. The choice of a leader was determined by God. Moses was appointed by God to be the leader of the Israelites and to lead them out of Egypt and mold them into a nation that will eventually inherit the Promised Land. However, God used the people to appoint the leader. A clear example is in the appointment of Saul as the first king of Israel **(See 1 Samuel 8 10)**

Election Of Leaders In The Bible
The Bible gives some guidance as to the sort of persons to choose as leaders both for the Church and for the State

National Leaders
[14] After you have taken possession of the land that the Lord your God is going to give you and have settled there, then you will decide you need a king like all the nations around you. [15] Be sure that the man you choose to be king is the one whom the Lord has chosen. He must be one of your own people; do not make a foreigner your king. [16] The king is not to have a large number of horses for his army, and he is not to send people to Egypt to buy horses, because the Lord has said that his people are never to return there. [17] The king is not to have many wives, because this would make him turn away from the Lord; and he is not to make himself rich with silver and gold. [18] When he becomes king, he is to have a copy of *the book of God's laws and teachings* made from the original copy kept by the levitical priests. [19] He is to keep this book near him and read from it all his life, so that he will learn to honor the Lord and to obey faithfully everything that is commanded in it. [20] This will keep him from thinking that he is better than other Israelites and from disobeying the Lord's commands in any way. Then he will reign for many years, and his descendants will rule Israel for many generations **(Deuteronomy 17:14 20).**

Church Leaders
[1] This is a true saying: If a man is eager to be a church leader, he desires an excellent work. [2] A church leader must be without fault; he must have only one wife, be sober, self-controlled, and orderly; he must welcome strangers in his home; he must be able to teach; [3] he must not be a drunkard or a violent man, but gentle and peaceful; he must not love money; [4] he must be able to manage his own family well and make his children obey him with all respect. [5] For if a man does not know how to manage his own family, how can he take care of the church of God? [6] He must be mature in the faith, so that he will not swell up with pride and be condemned, as the Devil was. [7] He should be a man who is respected by the people outside the church, so that he will not be disgraced and fall into the Devil's trap. [8] Church helpers must also have a good character and be sincere; they must not drink too much wine or be greedy for money; [9] they should hold to the revealed truth of the faith with a clear conscience. [10] They should be tested first, and then, if they pass the test, they are to serve. [11] Their wives also must be of good character and must not gossip; they must be sober and honest in everything. [12] A church helper must have only one wife, and be able to manage his children and family well. [13] Those helpers who do their work well win for themselves a good standing and are able to speak boldly about their faith in Christ Jesus **(1 Timothy 3:1 13). Read also Titus 1:5 - 9**

The Bible reveals glimpses of representational choice and exercise of leadership. In Deuteronomy 1:13-18, Moses invites the tribes of Israel to choose wise and experienced representatives to help him in exercising leadership.

[13] Choose some wise, understanding, and experienced men from each tribe, and I will put them in charge of you.' [14] And you agreed that this was a good thing to do. [15] So I took the wise and experienced leaders you chose from your tribes, and I placed them in charge of you. Some were responsible for a thousand people, some for a hundred, some for fifty, and some for ten. I

also appointed other officials throughout the tribes. [16] "At that time I instructed them, 'Listen to the disputes that come up among your people. Judge every dispute fairly, whether it concerns only your own people or involves foreigners who live among you. [17] Show no partiality in your decisions; judge everyone on the same basis, no matter who they are. Do not be afraid of anyone, for the decisions you make come from God. If any case is too difficult for you, bring it to me, and I will decide it.' [18] At the same time I gave you instructions for everything else you were to do **(Deuteronomy 1:13 18).**

Styles Of Leadership

The style of the leader is very important for the well-being of an organization or nation. There are examples of both good and bad leadership styles in the Bible.

Good Leadership Styles

Good leaders point their people to God and rule in the fear of the Lord.

[4] Even though King Jehoshaphat lived in Jerusalem, he traveled regularly among the people, from Beersheba in the south to the edge of the hill country of Ephraim in the north, in order to call the people back to the Lord, the God of their ancestors. [5] He appointed judges in each of the fortified cities of Judah [6] and instructed them: "Be careful in pronouncing judgment; you are not acting on human authority, but on the authority of the Lord, and he is with you when you pass sentence. [7] Honor the Lord and act carefully, because the Lord our God does not tolerate fraud or partiality or the taking of bribes." [8] In Jerusalem Jehoshaphat appointed Levites, priests, and some of the leading citizens as judges in cases involving a violation of the Law of the Lord or legal disputes between inhabitants of the city. [9] He gave them the following instructions: "You must perform your duties in reverence for the Lord, faithfully obeying him in everything you do. [10] Whenever your fellow citizens from any of the cities bring before you a case of homicide or any other violation of a law or commandment, you must instruct them carefully how to conduct themselves during the trial, so that they do not become guilty of sinning against the Lord. Unless you do, you and your fellow citizens will feel the force of the Lord's anger. But if you do your duty, you will not be guilty **(2 Chronicles 19:4 10).**

A good leader listens to advice and delegates authority. In the following passage, Moses listens to advice and delegates authority

[13] The next day Moses was settling disputes among the people, and he was kept busy from morning till night. [14] When Jethro saw everything that Moses had to do, he asked, "What is all this that you are doing for the people? Why are you doing this all alone, with people standing here from morning till night to consult you?"[15] Moses answered, "I must do this because the people come to me to learn God's will. [16] When two people have a dispute, they come to me, and I decide which one of them is right, and I tell them God's commands and laws." [17] Then Jethro said, "You are not doing this right. [18] You will wear yourself out and these people as well. This is too much for you to do alone. [19] Now let me give you some good advice, and God will be with you. It is right for you to represent the people before God and bring their disputes to him. [20] You should teach them God's commands and explain to them how they should live and what they should do. [21] But in addition, you should choose some capable men and appoint them as leaders of the people: leaders of thousands, hundreds, fifties, and tens. They must be God-fearing men who can be trusted and who cannot be bribed. [22] Let them serve as judges for the people on a permanent basis. They can bring all the difficult cases to you, but they themselves can decide all the smaller disputes. That will make it easier for you, as they share your burden. [23] If you do this, as God commands, you will not wear yourself out, and all these people can go home with their disputes settled." [24] Moses took Jethro's advice [25] and chose capable men from among all the Israelites. He appointed them as leaders of thousands, hundreds, fifties, and tens. [26] They served as judges for the people on a permanent

basis, bringing the difficult cases to Moses but
deciding the smaller disputes themselves. 27
Then Moses said good-bye to Jethro, and Jethro
went back home (**Exodus 18:13 27**).

There is progress where leaders consult their people and involve them in the decision making process and the running of affairs

1 Some time later, as the number of disciples
kept growing, there was a quarrel between the
Greek-speaking Jews and the native Jews. The
Greek-speaking Jews claimed that their
widows were being neglected in the daily
distribution of funds. 2 So the twelve apostles
called the whole group of believers together
and said, "It is not right for us to neglect the
preaching of God's word in order to handle
finances. 3 So then, friends, choose seven men
among you who are known to be full of the Holy
Spirit and wisdom, and we will put them in
charge of this matter. 4 We ourselves, then, will
give our full time to prayer and the work of
preaching." 5 The whole group was pleased
with the apostles' proposal, so they chose
Stephen, a man full of faith and the Holy Spirit,
and Philip, Prochorus, Nicanor, Timon,
Parmenas, and Nicolaus, a Gentile from
Antioch who had earlier been converted to
Judaism. 6 The group presented them to the
apostles, who prayed and placed their hands
on them. 7 And so the word of God continued to
spread. The number of disciples in Jerusalem
grew larger and larger, and a great number of
priests accepted the faith (**Acts 6:1 7**).

Jesus teaches that greatness lies in service. A leader is more of a servant of the people than an over-lord. As indicated in Luke 12:48, "Much is required from the person to whom much is given; much more is required from the person to whom much more is given."

35 Then James and John, the sons of Zebedee,
came to Jesus. "Teacher," they said, "there is
something we want you to do for us." 36 "What is
it?" Jesus asked them. 37 They answered,
"When you sit on your throne in your glorious
Kingdom, we want you to let us sit with you,
one at your right and one at your left." 38 Jesus
said to them, "You don't know what you are
asking for. Can you drink the cup of suffering
that I must drink? Can you be baptized in the
way I must be baptized?" 39 "We can," they
answered. Jesus said to them, "You will indeed
drink the cup I must drink and be baptized in
the way I must be baptized. 40 But I do not have
the right to choose who will sit at my right and
my left. It is God who will give these places to
those for whom he has prepared them." 41 When
the other ten disciples heard about it, they
became angry with James and John. 42 So Jesus
called them all together to him and said, "You
know that those who are considered rulers of
the heathen have power over them, and the
leaders have complete authority. 43 This,
however, is not the way it is among you. If one
of you wants to be great, you must be the
servant of the rest; 44 and if one of you wants to
be first, you must be the slave of all. 45 For even
the Son of Man did not come to be served; he
came to serve and to give his life to redeem
many people" (**Mark 10:35 43**).

Bad leadership Styles

The Bible acknowledges that when we have the right rulers, everybody and everything is at peace. In the Book of Proverb 29:2, we read: "Show me a righteous ruler and I will show you a happy people. Show me a wicked ruler and I will show you a miserable people." Conversely, when "evil people are in power, crime increases. But the righteous will live to see the downfall of such people" (29:16).

1 Listen, you rulers of Israel! You are supposed
to be concerned about justice, 2 yet you hate
what is good and you love what is evil. You skin
my people alive and tear the flesh off their
bones. 3 You eat my people up. You strip off
their skin, break their bones, and chop them up
like meat for the pot. 4 The time is coming when
you will cry out to the Lord, but he will not
answer you. He will not listen to your prayers,
for you have done evil. 9 Listen to me, you rulers
of Israel, you that hate justice and turn right
into wrong. 10 You are building God's city,
Jerusalem, on a foundation of murder and
injustice. 11 The city's rulers govern for bribes,
the priests interpret the Law for pay, the

prophets give their revelations for moneyand they all claim that the Lord is with them. "No harm will come to us," they say. "The Lord is with us." [12]And so, because of you, Zion will be plowed like a field, Jerusalem will become a pile of ruins, and the Temple hill will become a forest (**Micah 3:1 4, 9 12**).

Helps To Good Leaders

Good Advice

Being human and limited, leaders need help in order to be good and effective. Leaders need wise counsel, especially from those who are very close to them like wife, husband, parents and fellow leaders.

[1] These are the solemn words which King Lemuel's mother said to him: [2] "You are my own dear son, the answer to my prayers. What shall I tell you? [3] Don't spend all your energy on sex and all your money on women; they have destroyed kings. [4] Listen, Lemuel. Kings should not drink wine or have a craving for alcohol. [5] When they drink, they forget the laws and ignore the rights of people in need. [6] Alcohol is for people who are dying, for those who are in misery. [7] Let them drink and forget their poverty and unhappiness. [8] "Speak up for people who cannot speak for themselves. Protect the rights of all who are helpless. [9] Speak for them and be a righteous judge. Protect the rights of the poor and needy" (**Proverbs 31:1 9**)

Obedience and Cooperation

The leaders and those who are led both have a part to play, if things are to go well. Leaders should care for the people, and the people should obey and respect their leaders.

Obey your leaders and follow their orders. They watch over your souls without resting, since they must give to God an account of their service. If you obey them, they will do their work gladly; if not, they will do it with sadness, and that would be of no help to you (**Hebrews 13:1**).

[1] I, who am an elder myself, appeal to the church elders among you. I am a witness of Christ's sufferings, and I will share in the glory that will be revealed. I appeal to you [2] to be shepherds of the flock that God gave you and to take care of it willingly, as God wants you to, and not unwillingly. Do your work, not for mere pay, but from a real desire to serve. [3] Do not try to rule over those who have been put in your care, but be examples to the flock. [4] And when the Chief Shepherd appears, you will receive the glorious crown which will never lose its brightness.

[5] In the same way you younger people must submit yourselves to your elders. And all of you must put on the apron of humility, to serve one another; for the scripture says, "God resists the proud, but shows favor to the humble." [6] Humble yourselves, then, under God's mighty hand, so that he will lift you up in his own good time (**1 Peter 5:1-6**).

However, the leaders are given the authority to punish as a controlling factor. In Romans. 13:1-5, we read,

[1] Everyone must obey state authorities, because no authority exists without God's permission, and the existing authorities have been put there by God. [2] Whoever opposes the existing authority opposes what God has ordered; and anyone who does so will bring judgment on himself. [3] For rulers are not to be feared by those who do good, but by those who do evil. Would you like to be unafraid of those in authority? Then do what is good, and they will praise you, [4] because they are God's servants working for your own good. But if you do evil, then be afraid of them, because their power to punish is real. They are God's servants and carry out God's punishment on those who do evil. [5] For this reason you must obey the authoritiesnot just because of God's punishment, but also as a matter of conscience (**Romans 13:1- 5**).

Blessings Of Good Leadership

A nation with good leadership prospers, but a nation with bad leadership is doomed. When a nation sins, it will have one ruler after another. However, a nation will be strong and endure when it has intelligent, sensible leaders.

Proverbs compares the actions of a leader who oppresses the poor to a driving rain that destroys the crops. Such a leader is useless and not worthy of his office (see Proverbs 28:2-3, 29:2, 4, 18). It is a blessing to have good leaders. It is important that people pray, work and elect leaders who have integrity and sincere feelings for the people.

[1] Some day there will be a king who rules with integrity, and national leaders who govern with justice. [2] Each of them will be like a shelter from the wind and a place to hide from storms. They will be like streams flowing in a desert, like the shadow of a giant rock in a barren land. [3] Their eyes and ears will be open to the needs of the people. [4] They will not be impatient any longer, but they will act with understanding and will say what they mean. [5] No one will think that a fool is honorable or say that a scoundrel is honest. [6] A fool speaks foolishly and thinks up evil things to do. What he does and what he says is an insult to the Lord, and he never feeds the hungry or gives thirsty people anything to drink. [7] A stupid person is evil and does evil things; he plots to ruin the poor with lies and to keep them from getting their rights. [8] But an honorable person acts honestly and stands firm for what is right **(Isaiah 32:1-8)**.

The people of a nation will be happy when the king is concerned with justice. Such a nation will also be strong. However, when the leader is concerned with money he will ruin his country. The people of any nation will be miserable when the king is wicked **(See Proverbs 29:2, 16)**.

Unity of Humanity

The unity of humanity is a concept which was widely known in the ancient world, particularly in the Greek world. Paul centered his teaching on the unity of humanity and this represented in part his response to the concept of mankind of his contemporaries. The unity of the Church was a burning issue for Paul, the Gospel of John, and to a lesser degree the synoptic Gospels. In the New Testament unity is of particular concern at two points: the unity of humanity and the unity of the Church.

And now I am coming to you; I am no longer in the world, but they are in the world. Holy Father! Keep them safe by the power of your name, the name you gave me, so that they may be one just as you and I are one **(John 17:11)**.

I gave them the same glory you gave me, so that they may be one, just as you and I are one **(John 17:22)**.

Our unity lies in the fact that all are children of God and that all have sinned. We all are citizens of the same great kingdom. Paul brings out this thought clearly in the image of the body:

[14] For the body itself is not made up of only one part, but of many parts. [15] If the foot were to say, "Because I am not a hand, I don't belong to the body," that would not keep it from being a part of the body. [16] And if the ear were to say, "Because I am not an eye, I don't belong to the body," that would not keep it from being a part of the body. [17] If the whole body were just an eye, how could it hear? And if it were only an ear, how could it smell? [18] As it is, however, God put every different part in the body just as he wanted it to be. [19] There would not be a body if it were all only one part! [20] As it is, there are many parts but one body. [21] So then, the eye cannot say to the hand, "I don't need you!" Nor can the head say to the feet, "Well, I don't need you!" [22] On the contrary, we cannot do without the parts of the body that seem to be weaker; [23] and those parts that we think aren't worth very much are the ones which we treat with greater care; while the parts of the body which don't look very nice are treated with special modesty, [24] which the more beautiful parts do not need. God himself has put the body together in such a way as to give greater honor to those parts that need it. [25] And so there is no division in the body, but all its different parts have the same concern for one another. [26] If one part of the body suffers, all the other parts suffer with it; if one part is praised, all the other parts share its happiness. [27] All of you are Christ's body, and each one is a part of it **(1 Corinthians 12:14 27)**.

Nation Building
Ghana as a nation has much to praise and thank God for. The discovery of oil in commercial quantities in our jubilee year and the cutting of sod to begin the Bui dam project should not be taken for granted. These could be signs of God's favor. Much as we have every cause to rejoice, there is much more that needs to be done and put in place to make us stand much more firmly and to prosper to the glory of God and His people. The psalmist has pointed out that if God does not build this house, the builders will labor in vain.

> 1 If the Lord does not build the house, the work of the builders is useless; if the Lord does not protect the city, it does no good for the sentries to stand guard.
> 2 It is useless to work so hard for a living, getting up early and going to bed late. For the
> Lord provides for those he loves, while they are asleep **(Psalm 127:1-2)**.

Experience has shown that for any country to have a sustainable development and grow as a nation, there need to be a system of government which is effective, inclusive, clean, broad-based and a system that safeguards national stability. We need to pray that God gives us a government that has all these qualities as its goal. *Then like Jabez, we can pray:*

Bless me, God, and give me much land. Be with me and keep me from anything evil that might cause me pain **(1 Chronicles. 4:10)**.

About the author
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GENERAL SOCIAL FUNCTIONS OF ANY SYSTEM OF LAW

1. Restoring equilibrium to the social order (or to some part thereof) when that equilibrium has been seriously disrupted.

2. Enabling members of the society to calculate the consequences of their conduct, thereby securing and facilitating voluntary transactions and arrangements.

3. Teach people right belief, right feeling, and right action that is, to mold the moral and legal conceptions and attitudes of a society.

4. Maintain social continuity and consistency of doctrine

In speaking of law, then, we have in mind a special type of process of restoring, maintaining or creating social order, characterised by formality (in the sense indicated: that is, by relative deliberateness, definiteness, etc.), whose main general functions are:

1. to resolve disputes
2. to facilitate and protect voluntary arrangements,
3. to mold and remold the moral and legal conceptions of a society, and
4. In the Western tradition, at least, to maintain historical continuity and consistency of doctrine.

Checklist For Starting As Business
Before actually starting a business, ponder over the following broad questions. Consider each question as it applies to your particular situation, you must make an honest effort to answer each question.
1. Are You The Type To Own And Operate A Business?
2. What Business Should You Choose?
   a. Your Own Background, Education,

Experience, And Hobbies?
b. Other Peoples' Needs?
c. Opportunities For Growth And Survival?
3. What Are Your Chances For Success?
4. What Will Be Your Return On Investment?
5. How Much Money Will You Need?
6. Where Can You Get The Money?
7. Should You Share Ownership With Others?
8. Where Should You Locate?
9. Should You Buy A Going Business?
10. How Much Should You Pay For Or Invest In The Business
11. Should You Invest In A Franchise?
12. Have You Worked Out Plans For Buying Into The Business?
13. How Will You Produce Your Products?
14. How Will You Price Your Products?
15. How Will You Distribute Your Products?
16. How Will You Select And Train Your Personnel?
17. What Other Management Problems Will You Face?
18. What Records Will You Keep?
19. What Laws Will Affect You?
20. How Will You Handle Taxes And Insurance?
21. How Will You Set Measurable Goals For Yourself?
22. How Will You Keep Up To Date In Your Business?

Prof. John B. K. Aheto

STRATEGIES TO PROTECT MOBILE ASSETS

From common sense to high-tech solutions, the following are 10 tips for a multi-layered strategy for protecting data on mobile assets:

1. **Understand the risks:** As organizations open up their networks to their mobile workforce, partners, customers, and others, they expose themselves to greater security risks than when traffic was mostly internal.

2. **Be proactive:** If the organization does not identify the weaknesses in its network's security, someone or something will exploit those vulnerabilities. Organizations must become educated on current security risks, including the tools and techniques used by cyber criminals. Data security is a moving target that requires ongoing attention.

3. **Use cable locks on laptops as visual deterrents:** Many cable locks can be ripped off the plastic exterior of a laptop with a strong tug. Like ink-filled garment security tags in clothing stores, cable locks leave a mark when removed by force, but are ineffective at preventing all thefts.

4. **Avoid leaving unsecured notebooks unattended:** Lock them in cupboards, notebook carts, or other secured facilities when not in use. If they must be left in a vehicle, they should be covered up or locked in the trunk.

5. **Keep laptops inconspicuous:** Laptops should be carried in inconspicuous carrying cases, such as backpacks or tote bags, instead of telltale laptop bags.

6. **Install antivirus software, encryption, and firewalls:** Data encryption software can prevent unauthorized access and protect valuable information. All software

products should be updated with the latest versions or patches to help minimize security holes. Web servers, operating systems, and line of business applications should be fully patched.

7. **Back up valuable data on a scheduled basis:** Data backup needs to happen frequently to minimize the risk to the organization in the event of loss.

8. **Create a contingency plan:** Potential damage from a breach in security should be identified. Consideration should be given as to how to serve stakeholders in the event of catastrophe. Contingency plans for security should be integrated with overall disaster recovery plans.

9. **Use computer tracking and recovery software:** An asset tracking and recovery tool to track and recover computers that are lost or stolen and to monitor any changes or disappearances in computer memory, hard drives, or peripherals should be installed.

10. **Invest in advanced data protection:** A software tool should be used to remotely wipe sensitive information in the event that a computer is lost, stolen, or nearing the end of its life cycle.

Prof. B. Omane-Antwi

SEVEN SECRETS TO ENTREPRENEURIAL SUCCESS

Ever wish you had a **"cheat sheet"** for starting a great business? Icon Brian Tracy's seven core principles are as close to it as you can get. There are seven essential principles that you must practice as an entrepreneur throughout your business life if you are to achieve maximum success. They have been taught and repeated in thousands of business schools, books, and articles over the years, and here they are:

1. **Clarity:** You must be absolutely clear on who you are and what you want. You need written goals and plans for every part of your life. As Zig Ziglar would say, you must become a **"meaningful specific"** rather than a **"wandering generality."**

Begin with your values. What do you believe in and stand for? What is most important to you ina life? What would you pay for, fight for, suffer for, nd die for? What do you really care about? Pastor Mensa Otabil once said, "Until you know exactly what you would do if you only had one hour left to live, you are not prepared to live."

What is your vision for yourself and your future? What is your vision for your family, business and finances? What is your vision for your career and your company? Peter Drucker once wrote, "Even if you are starting your business on a kitchen table, you must have a vision of becoming a world leader in your field, or you will probably never be successful."

What is your mission for your business? What is it that you want to accomplish for your customers? What is it that you want to do to improve the lives and work of the people you intend to serve with your products and services? You need a clear vision and an inspiring mission to motivate yourself and others to do the hard work necessary to achieve business success. What is your purpose for your life and your business? Why do you get up in the morning? What is your reason for being? Here's a great question: "What do you really want to do with your life?"

Finally, what are your goals? What do you want to accomplish in your financial life? What are your family goals? What are your health goals? What difference do you want to make in the lives of others? And here is the best question: "What would you dare to dream if you knew you could not fail?"

The greater clarity you have regarding each of these issues, values, vision, mission, purpose and goals, the greater the probability that you will accomplish something wonderful with your life.

2. Competence: To be truly successful and happy, you must be very good at what you do. You must resolve to join the top 10 percent in your field. You must make excellent performance of the business task your primary goal and then dedicate all your energies to doing quality work and offering quality products and services.

To be successful in business, according to Jim Collins, author of ***Good to Great: Why Some Companies Make the Leap . . . and Others Don't***, you must find a field that satisfies three requirements. First, it must be something for which you have a **passion** - something you really believe in and love to do. Second, it must be an area where you have the **potential to be the best**, to be better than 90 percent of the people in that field. Third, it must involve a product or service that can be **profitable** and enable you to achieve all your financial goals.

According to the Harvard Business School, the most valuable asset a company can develop is its **reputation**. Your reputation is defined, **as "how you are known to your customers"**. The most important reputation you can have revolves around the quality of the products and services you offer and the quality of the people who deliver those services and interact with those customers.

3. Constraints: Between you and your goal, whatever it is, there will always be a constraint or limiting factor ("a thorn in the flesh", Apostle Paul would say). Your ability to identify the most important factor that determines the speed at which you achieve your business goals is essential to your success. The "80/20 rule" applies to constraints in your business. Fully 80 percent of the reasons that you are not achieving your goals as quickly as you want will be within yourself. Only 20 percent will be contained in external circumstances or people.

What are your constraints? What holds you back? What sets the speed at which you achieve your goals? What one thing could you do immediately to begin alleviating your main constraint? This is often the key to rapid progress.

4. Creativity: The essence of successful business is innovation. This is the ability to find faster, better, cheaper, and easier ways to produce and deliver your products and services.

Fortunately, almost everyone is a "potential genius." You have more intelligence and ability than you could ever use. Your job is to unleash this creativity and focus it, like a laser beam, on removing obstacles, solving problems, and achieving your goals.

The essence of creativity is contained in your ability to solve the inevitable problems and difficulties of business life. Colin Powell said, "Leadership is the ability to solve problems." Success is the ability to solve problems. And remember: A goal unachieved is merely a problem unsolved.

The way of the successful entrepreneur is to focus on the solution rather than the problem. Focus on what is to be done rather than what has happened or who is to blame. Concentrate all your attention on finding a solution to any obstacle that is holding you back from the sales and profitability you desire. The more you think about solutions, the more solutions you will think of. You will actually feel yourself getting smarter by focusing all your energies on what you can do to continually improve your situation.

5. Concentration: Your ability to concentrate single-mindedly on the most important thing and stay at it until it is complete is an essential prerequisite for success. No success is possible without the ability to practice sustained concentration on a single goal or task, in a single direction.

The simplest way to learn to concentrate, according to the experts, is to make a list for each day before you begin. Then prioritize the list by putting the numbers 1 through 10 next to each item. Once you have determined your most important task, immediately begin to work on that task. Discipline yourself to continue working until that top task is 100 percent complete. When you make a habit of doing this-starting and completing your most important tasks each day-you will double or triple your productivity and put yourself solidly on the way to wealth.

6. Courage: Winston Churchill once wrote, "Courage is rightly considered the foremost of the virtues, for upon it, all others depend." It takes tremendous courage to take the entrepreneurial risks necessary to become wealthy. In study after study, experts have concluded that it is the courage to take the "first step" that makes all the difference. This is the courage to launch in the direction of your goals, with no guarantee of success. Most people lack this.

Once you have begun your entrepreneurial journey, you also need the courage to persist. As Ralph Waldo Emerson once said, "All great successes are the triumph of persistence."
The word entrepreneur means "one who undertakes the risks of a new venture in pursuit of profit." Fully 90 percent of the population will never have sufficient courage to launch a new venture, to start a new business, to boldly go where no one has ever gone before. You need, first of all, the courage to begin, to move out of your comfort zone in the direction of your goals and dreams, even though you know you will experience many problems, difficulties and temporary failures along the way.

Second, you need the courage to endure, to hang in there, to persist in the face of all adversity until you finally win. When you develop these twin qualities-the ability to step out in faith and then to persist resolutely in the face of all difficulties-your success is guaranteed.

7. Continuous Action: Perhaps, the most outwardly identifiable quality of a successful person is that he or she is in continuous motion. The entrepreneur is always trying new things and, if they do not work, trying something else. It turns out that most entrepreneurs achieve their success in an area completely different from what they had initially expected. But because they continually reacted and responded constructively to change, trying new methods, abandoning activities that did not work, picking themselves up after every defeat and trying once more, they eventually won out.

Top people, especially entrepreneurs, seem to have these three qualities. First, they learn more things. Second, they try more things. Third, they persist longer than anyone else. The good news is that, because of the law of probabilities, if you learn more things, try more things, and persist longer, you dramatically increase the probability that you will succeed greatly. If you launch toward your goal and resolve in advance to never give up, your success is virtually guaranteed.
Captain Sam Addaih (Rtd.)

TRENDS, CHARTS, AND GRAPHS:

THE BASICS OF TECHNICAL ANALYSIS OF INVESTMENTS IN STOCKS

Financial consultants must understand the concept of fundamental analysis, where investors concentrate on the quality of a company's business, finances, and management. In addition to fundamental analysis, technical analysis is another tool for investors to use in analyzing investments. Technical analysis attempts to predict the direction of stock prices based on historical price and trading volume patterns. Some key points regarding technical analysis follow.

In general, stock prices tend to move or trade together (although some move in opposite directions). The average stock, by definition, tends to rise in a bull market and decline in a bear market. Technical analysts chart the daily prices and volume movements of individual stocks and market indices to discern patterns that allow them to predict the directions of market price movements.

Technical analysts also keep a close eye on market trading volumes. Volume that is substantially above normal signifies or confirms a pattern in the direction of prices. If overall volume has been listless for months and then suddenly jumps dramatically, a technical analyst would view this change in trading volume as the beginning of a trend.

Technical analysts closely watch market breadth, which is the number of issues closing up or down on a specific day. The number of advances and declines can be a significant indication of the market's relative strength. When declines outnumber advances by a large amount, the market is considered bearish even if it closed higher. In bull markets, the opposite is true and advances substantially outnumber declines. Technical analysts plot daily advance and decline ratios on a graph to produce an **advance-decline line** that gives them an indication of market breadth trends.

In addition to studying the overall market, technical analysts attempt to identify patterns in the prices of individual stocks. Technical analysts chart stocks with **trendlines**. While a stock's price may spike up or down daily, over time its price tends to move in one direction. Technical analysts identify patterns in these trendlines of individual stocks from graphs in the same way they identify patterns in the overall market. Technical analysts then base their buy or sell recommendations on a stock's price trendlines. An upward trendlines is bullish; a downward one is bearish.

A trendline connects the reaction lows in an uptrend and the rally highs in a downtrend. Some common patterns in a stock's price are consolidations and reversals. Consolidation occurs when a stock's price stays within a narrow trading range. When viewed on a graph, a trendline is horizontal and moves sideways, neither up nor down. A reversal indicates that an upward or downward trendline has halted and the stock's price is moving in the opposite direction. In between the two trendlines, a period of consolidation occurs and the stock price levels off.

Stock prices may move within a narrow range for months or even years. The bottom of this trading range is known as the support level; the top of the trading range is called the resistance level. When a stock declines to its support level, the low price attracts buyers, whose buying then supports the price and keeps it from declining further. When the stock increases to its resistance level, the high price attracts sellers, whose selling then hinders a further rise in price. Stocks may fluctuate in trading ranges for months, testing their support and resistance levels regularly.

Prof. B. Omane-Antwi

MAIN ARTICLES

VENTURE CAPITAL AND CORPORATE GOVERNANCE IN GHANA

John Gartchie Gatsi

Abstract

Venture capital (VC) investments in Ghana are relatively new but promise to enhance economic development. This article discusses the general description of the process and recent contribution of VC on corporate governance is discussed. This study was conducted using both complementarities framework and governed corporation principle in which venture capital firms and their portfolio firms provided the basis of resource exchanges. There is now transformation in corporate governance in Ghana as a result of VC investment. Venture capital investment at the moment is skewed in favour of late stage financing. The active participation in the portfolio firms through board representation by VC firms is enhancing corporate governance.

Introduction

Venture Capital (VC) investment has become an important part of globilisation. According to the European Venture Capital Association, (EVCA, 2005) Venture capitalists are progressively expanding their investments across their national boundaries because of the availability of abundant international entrepreneurial projects. A report presented by the European Private Equity and Venture Capital Association (EVCA, 2005) indicated that between 2004 and 2005, VC investment by Europeans increased from $12.8billion to $15.8billion. This provides some evidence that VC in Europe is growing. The Israeli Venture Capital Association (IVA, 2005) also reports that VC activities in Israel are developing rapidly. VC firms in Israel raised over $700 million in 2004 and $1.2billion in 2005, even though most of the funding come from external sources such as the United States of America and Europe in order to take advantage of entrepreneurial projects outside Europe and the USA. According to Zarutskie (2005), Venture capital provides an important financing source to start up businesses and increases the investment portfolio of many institutional and angel investors.

Venture capital is described by Gompers (1995) as "independent, professionally managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high growth companies". VC firms mainly invest in high-technology firms where they expect that growth and returns will be higher than other industries. VC investment could also be explained as the commitment of huge high-risk equity capital into innovative projects with mutual high expected returns at exit which is aligned with specific lifespan of the projects.

The investments normally concentrate on the early stage and the growth stage firms. In America, private equity means high risk investment in the late stage ventures reflecting in leverage buyouts, privatizations, and mergers and acquisitions. In Europe, VC and private equity is the same thing. Venture Capital (VC) is normally led by the private sector in which equity capital is raised from outside the mainstream capital market (e.g. the Stock Exchange) to be distributed to entrepreneurial firms with promising and innovative projects. By this, VC firms are important part of the financial intermediation process.

VC investment is relatively new in Ghana with very few participants at the moment. This paper attempts to provide in depth description of VC investment and how this type of investment helps to change or transform corporate governance activities within VC-backed firms. The situation in Ghana is based on simple responses provided by some VC firms operating in the country. It is believed that the paper will set the pace for serious research into VC investment in Ghana. The study is premised on the complementarities and the agency theory.

Venture Capital Investment Process

Venture capital investment is a process that involves mobilisation of funds, financing high-risk projects by entrepreneurial firms in specific industries with stated project lifespan and expecting high returns at exit. Sourcing of funds and investment (disbursement) activities of VC firms differ with respect to the economic and financial structure of the country (Mayer et al., 2002). Countries such as Germany, which is bank-based economy, VC investment is concentrated at the late stage with less investment in the technology industry. However, VC firms which raise funds from pension funds and insurance companies prefer to invest in the early stage firms. However they focus on low technology projects and concentrate their investment activities domestically to reduce risk. Individuals and corporate entities are willing to invest in early stage high technology projects and diversify to invest internationally.

Government-backed VC firms concentrate their investment internally and are willing to invest in early stages and in high technology firms. VC involves professional scrutiny of founders of entrepreneurial ideas and the returns viability of their projects to ensure that they finance only positive net present value projects (Fried and Hisrich, 1994). The fact is that VC investment is an important part of the entrepreneurial process such that with enough funds, new firms will spring up to promote economic development and growth.

VC firms are generally active investors (Puri (1996, 1999)) who monitor their portfolio (entrepreneurial) firms formally and informally to ensure the necessary corporate governance needed to effect the expected mutual benefit at exit. They monitor their portfolio firms formally when they serve on board of governors and informally through links with related institutions, such as banks. Bygrave and Timmons (1992) mentioned that VC firms provide business contacts and managerial training to their portfolio firms in order to ensure that the projects exit with profit. However, Hellman (1998) explains that some investment bankers make investment in VC firms in order to be engaged as underwriters at exit, especially when initial public offering is the preferred strategy.

Stages of Venture Capital Investment

There are generally two main stages of VC investment. They are the early and late stages .The seed and start up stages of VC investments form the early stage while the stages after the start up including expansion form part of the late stage.

According to Jeng and Wells (2000) the seed stage receives the initial finance as a newly founded entrepreneurial firm to conduct feasibility studies (research and development) to assess the commercial viability of the ideas. This stage is normally financed by the entrepreneurs themselves and in some cases by family members because most investors are interested in investing in products. At this stage, is also referred to as "zero P & C" since there is no product and no cash flow is generated.

At the start up stage, VC finances are received to finance actual products or work in progress to produce the product or service for the market. Firms at this stage may generate some cash flows but less than the investment cost. The startup "stage" provides the opportunity for VC firms to acquire expertise in allocating their resources to future potential start ups. Gompers (1994) explains that angel investors serve as an alternative source of funding for startups. "angels" are essentially wealthy individuals who finance startups out of their own funds.

While "Angels" represent an important source of financing, their scope is limited by the wealth of these individuals. "Angels" are not a viable source for large amounts of capital. Another source of startup financing is large corporations. Angel investors are limited in number. It is difficult to identify any of such investors in most developing countries, especially in Sub Saharan Africa. According to Yepez (2004), at the start up stage, it is common to have a proof-of concept or a working prototype that constitutes a formal technical development of the product. The entrepreneur may start to develop a business plan and marketing analysis that can help him look for outside capital. In many instances, angel investors are willing to invest in this stage because they have been entrepreneurs themselves and are quite familiar with the technology industry.

Startup firms generally operate in new markets, with less information about the nature of the market and have no established track records, which could be used as a measure of performance. In practice, startup firms have more intangible assets. As a result, their value lies in their potential for future growth requiring that their financial performance is monitored effectively. In this regard, Jensen (1993) "describes the type of investor needed in this environment as "active investor." This is because active investors are concerned with large financial interests in their investments in startups. They can provide effective decision driven management for the startups.

At the expansion stage, a firm has already established its product in the marketplace. It however needs extra capital to fund the growth of its manufacturing and distribution capacity; to fund further research and development (R&D), and to position itself strongly in the market place. Yepez (2004) concluded that VC investors are the main investors at this stage with increasing market share and on encouraging level of positive cash flows.

Mezzanine stage financing is part of the late stage in which investors search for an effective exit strategy. The venture would have typically reached a profitable level Banks and other financial institutions are typical investors at this stage. This is obvious because at this stage, the portfolio firms normally establish a pool of marketable tangible assets which can serve as collateral for bank credits for improved leverage. It is therefore not surprising to note that since most of the Ghanaian VC firms are financed by banks, they tend to concentrate their investment activities on existing small and medium scale enterprises (SMEs), which indeed limit the growth of entrepreneurship.

The usual exit strategies include Initial Public

Offering (IPOs), mergers and acquisitions (M + As) and leverage buyouts (LBOs). Venture capitalists may also invest at this late stage. However, the development of the capital market will determine whether initial public offering is an important exit strategy. The recent surge in initial public offerings (IPOs) in Ghana provides a promising effect of VC activities on the capital market.

Fund Raising

This is the first step in the VC process. They raise the funds within a certain specified period of time from individual investors and institutional investors. Pension plans and insurance contracts of individuals and institutions held with pension funds, insurance companies and banks are committed to VC funds being administered by VC firms. When the target amount is raised, then the next stage in the process follows. Currently, some of the VC firms are sourcing funding from external sources, Ghana Venture Capital Trust Fund (GVCTF), banks, Social Security and National Insurance Trust (SSNIT), other companies and individuals. However, it is still difficult for VC firms to raise funds from individual investors. GVCTF has recently organized a successful road show throughout the country to create awareness about the existence of the fund to be accessed by entrepreneurs and SMEs. Unfortunately, the VC firms have not staged specific programmes to attract investment from individuals to contribute to their fund raising activities.

Investments

VC firms or funds invest the funds committed to them by pension funds, insurance companies, banks, and individual investors in entrepreneurial firms with projects that promise high returns. VC firms may specialise their investment, in specific industries such as biotechnology, building technology etc. They may also decide to operate only at the start- up stage or expansion stage. Currently, almost all the VC firms operating in the country are skewed toward investment in the late stage. This does not help entrepreneurs interested in startups. The implication is that VC may not do much for the economy since most SMEs may not qualify for collateral embedded funding normally associated with late stage financing. The disbursement activity of the GVCTF concentrates on providing loans to SMEs which does not encourage equity investment in entrepreneurial firms.

Divestment at Exit

VC finance is time bound and the resources are considered as seed money that grows with time and should be harvested at exit. This process is normally called divestment. VC firms can exit with gain or loss. When exit occurs with gains, then the VC funds will distribute the residual income by making repayments and capital gains to the pension funds, insurance companies, banks, and individual investors who committed their resources to the VC funds. The institutional investors (pension funds etc) also pay back to holders of pension plans, insurance contracts and saving accounts. When the process continues then it is called virtuous cycle since it is yielding returns to the parties involve.

The governmental VC industry in Ghana has just completed the first element of the cycle (fundraising) and is in the process of disbursement or investing. It should, however, be noted that the fund raised for VC activities is undergoing the initial phase of disbursement. It is fully government funded through the Venture Capital Trust Fund. There are few official private venture capital firms currently operating in Ghana. They include Activity Venture Company Ltd, Gold Venture Capital, Fidelity Venture capital and Data Bank Venture Capital.

The nurturing of VC in Ghana is therefore very important. It demands that more professionals such as accountants, legal practitioners, engineers and finance experts come on board to build a strong alternative source of funding and to manage creative ideas. VC promises to contribute greatly to the development of the Ghana stock Exchange if portfolio firms adopt initial public offering (IPO) as their exit strategy.

The VC investment process is briefly

summarized drawing from Tybee and Bruno (1984) and sited by Yepez (2004) as a sequence of five key stages:

1) Deal origination: Prospective ventures or entrepreneurs enter VC firms by means of technology scans, referrals by personal contacts, or entrepreneur's direct approach. The deals are the entirety of business proposals well written by entrepreneurs for consideration by VC firms for funding.

2) Screening: Deals are screened based on salient factors such as stage of development, industry, and investment size. The VC uses experts to consider the business plans submitted by entrepreneurs as the first test.

3) Evaluation: If the deal reaches this point, extensive due diligence is performed on the company. Due diligence becomes an important professional exercise to ensure that only promising entrepreneurial projects are financed to gain at exit.

4) Structuring: When the decision to invest has been done, entrepreneur and the VC agree on the terms and conditions of the deal.

5) Post Investment Activities: At this point, VCs are involved in the management of the firm, usually playing roles in the board of directors. This will be an important challenge for entrepreneurs in Ghana since governance structures are weak and the owners usually do not want "interference".

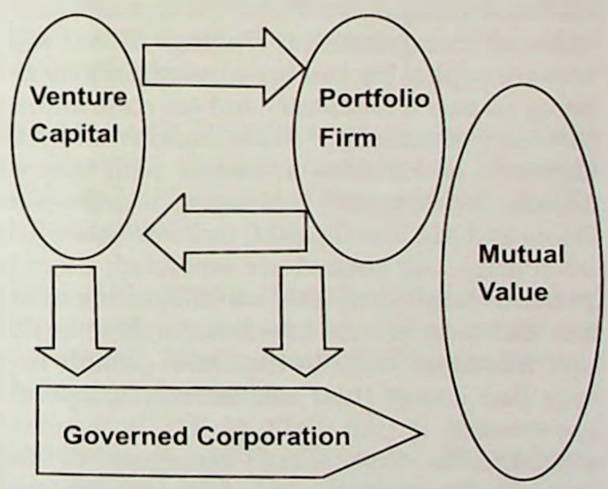
Complementarities Theory

There exists resource exchange between VC firms and entrepreneurs in which the firms exchange financial resources with innovative and technological knowledge of entrepreneurs. The incentive for the exchange process is the expected mutual value created at exit Gatsi, (2006). Complementarities therefore provide effective and supportive exchanges and effective decision management between VC firms and Entrepreneurs to generate end of project mutual benefits.

According to Maula and Murray, (2002) the heart of complementarities is the sharing of valuable knowledge such as extensive market and product knowledge that enhances market share and balanced management of the portfolio firms. When the vast experience and market-related information is combined with the active involvement in the management of the portfolio firm, mutual value added is created at exit. The diagram below shows the reinforcement of complementarities and governed corporation. A governed corporation implies that both VC firms and entrepreneurs shift from power-driven corporate governance to collaborative, joint decision making by both parties. When complementarities ideals and governed corporation principles are put together, the result is a successful exit which will benefit both the VC firms and the entrepreneurs, hence the mutual value as the product of the process.

The arrows show the interdependence between Venture firms and their portfolio firms. This interdependence and sharing of resources make both Venture firms and entrepreneurs committed to achieving individual but collective goals. This further produces effective decision making under the governed corporation paradigm.

Complementarities and Venture Capital Investment



Source: Adapted from Gatsi (2006)

The arrows show the relationship expected between entrepreneurial firms and VC firms complementing each other. When VC firms are represented on the boards of the portfolio firms with the inherent professional benefits, this will result in mutual benefits at exit.

Agency Theory

According to Jensen (1976) there is a principal-agent relationship between investors and corporate entities. In VC, the venture capitalist is the financier hence the principal while the entrepreneurial firm is the agent. The VC firms expect that entrepreneurial firms can be managed well to provide the needed mutual benefits. In this relationship, there is bound to be some level of information asymmetry to the disadvantage of the VC firms hence the active role being played by venture capitalists.

In this paper, the agency and complementarities theories are seen as reinforcing each other as displayed in figure 1 above.

Corporate Governance

Hochberg (2003) theorised that venture capitalists play major governance roles in their portfolio firms by closely monitoring the internal activities and providing valuable supports to management. McCahery and Vermeulen (2006) reviewed the corporate governance literature and give many comments on listed companies. There are equally many unlisted companies, including those with venture capital backed investments, which are being managed efficiently and are contributing to many economies. This makes studying corporate governance in sectors with venture capital investments interesting worthwhile. Denis and McConell (2003) indicate that when ownership and control are separated, there is potential conflict of interest. This is due to the fact that owners want to maximise their wealth and managers want to maximise wealth in a way that serves their self interest. Corporate governance in the light of VC is a set of mechanisms that make managers of the portfolio firms to make corporate decisions that will satisfy the interest of suppliers of capital and originators of innovative ideas. Board of directors, who act in the interest of shareholders, are entrusted with the power to hire, monitor, compensate, and fire where necessary to maximise shareholder value.

In the corporate governance structure under publicly listed firms, audit committees and compensation committees play important roles. Audit committees monitor the financial management and accounting process by interacting with management, board of directors, and external auditors. They also conduct inquiries into specific estimates and accounting issues to prevent fraudulent activities and bridge the gaps between management and external auditors. Compensation committees serve as independent units that determine and review remuneration packages so that management does not control and abuse the process and thereby ensure financial discipline.

From historical standpoint, corporate governance emerged as a result of the so called agency problem in which managers tend to be opportunistic by acting in their own selfish interest instead of shareholders and other stakeholders due to information asymmetry. Shareholders who are normally dispersed can not practically influence due diligence decision making that creates value, hence they delegate this responsibility to boards of directors. However, the monitoring and control cost are overwhelming and result in highly ineffective process.

Many researchers believe there is safe corporate governance among non- listed companies due to the legal restrictions and demand imposed on them by companies' codes around the world. According to Vermeulen (2003), the relationship between the entrepreneur and the Venture Capitalists is a form of principal agent situation where the entrepreneur is the agent and the Venture capitalist is the principal.

As a result of the above, many of the perceived problems of the venture capitalists are captured in the investment contracts. Entrepreneurs have monopoly over the ideas and knowledge they posses about the technologies and projects while the venture capitalist firms have monopoly over finance. This demands that venture capitalists monitor their investment, in the portfolio firms to avoid managerial opportunism and excessive risks. The monitoring costs are however very expensive such as creating huge compensation packages for managers and entrepreneurs. Venture Capitalists therefore monitor their investments by actively participating in the management of the portfolio companies. Their active participation is done through due diligence and establishing good relationship with the managers and sitting on the board of directors. In order to maintain acceptable levels of corporate governance, VC firms also provide other services such as consultancies, renegotiation of contracts, and legal counsel. In some cases they are not represented on the board of directors but influence the board decisions through board members who represent other investors whose businesses such Venture Capital firms have significant investments. From Venture Capital point of view, corporate governance is the process leading to achieving corporate goals through active participation.

Venture Capital Governance in Ghana

VC investment started in Ghana Since November 2004, with the enactment of the Ghana Venture Capital Trust Fund Law. The VC firms have indicated that there is prospect of improving the economy through venture capital activities even though entrepreneurs do not seem to understand the mechanism of VC. Some of the entrepreneurs who contacted them are interested in loans rather than equity investment in which VC firms own some stake in entrepreneurial firms. Interestingly VC firms are interested in between 45% to 50% stake in portfolio firms with average lifespan of five years. VC firms have also indicated that they are represented on the board of directors of their portfolio firms but do not seek to occupy the chair. However, there are clauses that empower the VC to take over management if the chief executive is not managing the firm well. They have stated that they also provide technical and managerial training to the portfolio firms and demand monthly report from them so as to closely follow developments.

Conclusion

The involvement of VC firms in financing entrepreneurial firms is transforming the level of corporate governance and managerial competence among entrepreneurs in Ghana. VC firms must therefore intensify their fundraising activities to be able to finance many entrepreneurs to spread their corporate governance influences further.

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MICRO FINANCE PRODUCT DEVELOPMENT IN GHANA: The Case of Kraban Support Foundation's Micro-Loan Products.

Nana Opare Djan

Abstract

In Ghana today, the growing competition in the financial services sector has necessitated the need for innovative products with emphasis on sale of funds in order to succeed in the dynamic operating financial environment. Micro-finance institutions (MFIs), especially the financial non-governmental organizations (FNGOs), are playing pivotal roles in micro-finance service delivery in Ghana. Through innovative product development, these microfinance institutions render very useful financial services to the rural, peri-urban, urban, and the informal sectors of the Ghanaian economy to meet ever increasing demand for these innovative micro-finance services.

The need for innovation is largely attributed to the fact that FNGOs are not legally authorised to collect deposits from clients or the larger public to improve their deposit and liquidity base. They are therefore compelled to design unique and innovative loan products that will sell in order to keep them in business. They therefore adopt innovative approaches and develop tailor-made loan products to meet the increasing economic activities and to address poverty in Ghana. Moreover, the increased need for micro-finance services which calls for these innovative approaches in loan product development to meet the increasing demands for micro-loans in Ghana cannot be over-emphasized.

Furthermore, such micro and small business lending operations cannot realistically and successfully be undertaken by conventional banks without a known methodology. Micro and small business lending is a specialized activity with known and specialized methodologies which do exist for micro-enterprise finance, but may not be suitable for larger commercial banks operations.

Several other innovative approaches have been undertaken by these FNGOs to reach their clientele in Ghana. These include flexible lending mechanisms based on the "group solidarity concept," the "mutualist guarantee schemes" and the "inventory credit" systems. Some specific loan products of these MFIs are:

(1) The *Credit with Education* pioneered by Freedom from Hunger Ghana;

(2) The micro-lending and spiritual transformation programme of Sinapi Aba Trust,

(3) The food inventory credit initiated by Technoserve International and

(4) The Training, Education and Credit for Health (***TEACH***) lending strategy of Kraban Support Foundation.

A number of FNGOs have designed specific loan products for micro enterprises lending in Ghana. One such organisation is the Kraban Support Foundation. The purpose of this paper therefore is to examine the various innovative micro-loan products designed by this FNGO

and to analyse how the sale of these products have enabled the FNGO to carve a niche in the microfinance market in Ghana.

OBJECTIVES

The objectives of the paper are as follows:

1. Reveal the creative, innovative, and unique dimensions of loan product development by Kraban Support Foundation.

2. Bring to the fore the variety of micro-loan products developed by Kraban Support Foundation.

3. Determine the effectiveness of loan products developed by Kraban Support Foundation.

4. Analyze the extent to which loan products have impacted positively or otherwise on clients of Kraban Support Foundation.

5. Evaluate the role of research and development as key to the sustenance of FNGOs in Ghana

Research Methodology

The main research instrument used was personal interviews based on a structured questionnaire. The questions were however classified into two categories. A set of questions were for the literate respondents who were largely the staff of the various institutions contacted. The second set of focus guided questions was administered to the clients of some selected institutions of the population. These were mostly illiterate clients.

The study identified and examined the varied and peculiar characteristics which were considered when the FNGO developed its micro-loan products. The study further analyzed the specific characteristics of micro-finance clients whom such products are developed for. Typical characteristics of such clients are that they are self-employed, low-income entrepreneurs in both rural and urban areas, lack traditional collateral, business records, systems or established credit history and can be in groups or are individuals. The paper would also identify the gaps in existing products of the FNGO. It would critically review how new needs in key profitable markets currently not being satisfied informed Kraban's decision to become innovative in product development.

The study further analyzed the changing tastes and habits of clients, which could quickly determine the pattern of demand for a micro-loan product. Also the study examined the microfinance market place of FNGOs in Ghana where it is relatively easy for others to enter and inevitable prospects for many organizations to compete and render the market lively and active.

The paper would critically review the various creative techniques that were used to help Kraban Support Foundation to produce new concepts and micro-loan products. These best ideas came through a combination of data analysis and creativity using the following useful and creative techniques: brainstorming, attribute listing, modification of each attribute in the search for an improved product, need/problem identification and idea screening approaches. Other micro-loan product development techniques examined included technological development, past failures, ideas borrowed from elsewhere and forecasting the future environment.

Finally, the study reviewed some documents of the FNGO including the Kraban's capability statement, 2004 product costing, and 2006 Annual Report. Other documents from the other organisations within the population including audited financial statements and annual reports were analysed. Furthermore, various loan products from other financial intermediation programmes, including formal commercial banks and non-bank financial intermediaries, were examined.

Population

In all seven (7) institutions were selected for the study. The institutions the researcher dealt with within the population were Kraban

Support Foundation; Ecumenical Church Loan Fund Ghana; ProCredit; and Manya Krobo Rural Bank. The others were Taifa Presby Church Credit Union, Care Women's Association; and the Ghana Cooperative Susu Collectors Association. The study analysed the eleven loan products of Kraban Support Foundation vis-à-vis the products of the other organisations within the population. The products of Kraban Support Foundation are *PCIP, BEAM, SANKOFA, ORACLE, READY, TEACH 1, TEACH II, TEACH III, SIKA ROSE, AGAPE & EXTRA MILE.*

The researcher collected secondary information about the loan products through the various units and departments of the organisations. To validate the secondary data, the researcher conducted a rapid participatory survey with some selected clients and collected primary data and other information needed from clients who participated in the various programmes.

In total six institutions in addition to Kraban Support Foundation formed the population of the study. They included two financial non-governmental organizations, one savings and loans company, one rural bank, one credit union, one cooperative society and a susu organisation was contacted. Their systems of product development and credit delivery were studied in comparism with that of Kraban Support Foundation.

Research Questions

1. What skills do the FNGO have in developing micro-loan products?

2. Do the FNGO undertake research and development before developing their micro-loans?

3. Are the micro-loans developed by FNGOs reaching the target clientele?

4. Do the FNGO have other products from the micro-loan products?

Problem Statement

Financial Non-Governmental Organizations do not have marketable micro-loan products designed to meet the specific needs of their clients.

Findings

The study brought to the fore that the main microfinance model being championed by the FNGO, Kraban Support Foundation is known as the *TEACH* lending model. This micro-finance service delivery tool was designed and is operated by Kraban Support Foundation, a financial Non-governmental Organisation (FNGO).

Other organizations the study covered also have loan products including that of funeral loans, church loans, fishermen loans, salaried loans and consumer loans among others. However Kraban Support Foundation's loan products stand out unique. The study identified the following as the conditions that permitted the FNGO to come out with such innovative products:

Conditions

The study found out that the FNGO develops its micro-finance products based on the following 3 key principles:

1. The identification of gaps in existing financial product range,

2. Identification of new needs in key profitable markets currently not being satisfied or

3. A decision to become innovative

These principles were important, especially the third, to the FNGO because it was identified that the organization's clients, just like many others, had changing tastes and habits, which quickly changed their pattern of demand for a loan product. Since the FNGO was operating within a market place where it is relatively easy for others to enter, it is inevitable that Kraban Support Foundation would be in competition with many other organizations. This also made the micro-finance market in Ghana lively and active.

Kraban Support Foundation therefore adopts various creative techniques in its micro-finance product development. In producing new concepts and products, the FNGO either adapts existing product through a combination of data analysis and creativity or develops completely new products.

Steps

The following are the useful but necessary steps the FNGO adopts in developing its micro-finance products:

- Brainstorming
- Attribute listing techniques
- Need/Problem Identification
- Idea Screening
- Technological Development
- Past Failures
- Borrowed ideas
- Futurology

Having identified why and when new products should be developed, the FNGO's staff is then assisted to know and understand the whole process of product development. The research and development unit stated that a new product is then developed through the following stages:

- Identification of market/sector
- The Market
- Needs Analysis
- Product Testing
- Advertising Testing
- Launch
- Product Management

Identification of market/sector: This requires an extensive research work to find out what sector of the economy will be viable to invest in, be it agriculture, mining, services, etc. The choice of a sector is influenced by the aim and objective of the clientele as well as the branch location of the FNGO.

The Market: A deep understanding of the market is important for effective product development. Kraban Support Foundation makes the effort to understand and know the size of the total market and its growth pattern - who makes up the market in socio-economic terms, what are the uses for the product, who is the decision maker, when is the product most likely to be used, how are they currently served, and where do they live.

Need Analysis: After aiming at and obtaining the data on the sector and market, it is then necessary for staff of Kraban Support Foundation to fully understand the needs of the target clientele in a thorough manner. This stage helps the FNGO to distinguish possible segments and provide useful insights into the type of micro-finance products that should be developed.

Product Testing: Having gained valuable insight into the needs of the segment and having identified areas where the micro-finance products could be developed, prototype products are then developed. The FNGO develops these to such a stage that the clientele upon whom it is tested feels that it is a real proposition. The organization starts the loan product through pilot test on some few clients within specific communities of a particular district in a region.
Specific examples of the FNGO micro-finance products are indicated below.

Advertising Testing: If the product testing stage showed many problems, the FNGO then goes back to the drawing board and revises its product development strategy. However, if some positive indications cropped up, then the next stage is to develop the advertisements together with the micro-finance product test again, this time with a representative clientele drawn from the target district. This is the fine-tuning stage for the micro-finance product launch

Launch: With the final product and advertising fully tested, the FNGO then develops plans to launch it. By necessity of the newness, the launch involves a lot of fanfare and publicity about the product through community information dissemination, church advocacy, policy dialogues, brochures, flyers, and other point of sale materials.

Challenges

The following are the 3 key challenges that serve as constraints to micro-finance products development of Kraban Support Foundation as a financial non-governmental organization:

- Established computer systems, i.e. technological advancement limit the range of products to be developed.
- Legal issues prevent some lines of thought emerging as micro-finance products.
- Lead times on product development are usually long. Consequently, micro-finance product development must be brought into the strategic business plans of the FNGO.

Micro-Finance Products

PCIP: The Public Catering Improvement Project was implemented at Daboase in 1997 in the Mpohor Wassa East District in collaboration with the National Service Secretariat District Office and the Lower Pra Rural Bank. Our NGO facilitated the child growth-monitoring component with support from UNICEF. The Project cost was ¢10 million and reached 400 micro enterprises.

BEAM: The Basic Hygiene Education and Micronutrients Promotion project was piloted in the Yilo Krobo District with the District Health Management Team (DHMT) in 1999.The target beneficiaries were lactating mothers and children. Our organisation facilitated the use of protein substitutes to supplement the dieting of weaning mothers.

The sessions also included Immunisation, wean mix preparation, the use of iodized salts and Vitamin A supplements for children. Save the Children UK funded the project. Project cost was ¢14.5 million and assisted 575 women in various income generating activities.

ORACLE: The Organic Agriculture and Credit Lending Education project was undertaken in 2000.The partners of this project are the Centre for Biodiversity Utilisation and Development (CBUD) at the Kwame Nkrumah University of Science and Technology and the Ghana Organic Agriculture Network (GOAN). Our NGO animated farmer groups in the Fanteakwa District. The project promoted the use of improved Leafy vegetables, *prekese* and snail farming methods alongside other improved indigenous farming techniques. Project cost was ¢12 million for a revolving loan scheme for 1,310 smallholder farmers.

READY- Involves the identification and provision of requisite rural entrepreneurial skills for the youth in Ghana. This is a linkage programme with 30 selected rural junior secondary schools with each school providing 20 school leavers towards this programme annually. They are provided training in bee-keeping, fish-farming, vegetable cultivation, carpentry, masonry, hairdressing and dressmaking. The Rural Entrepreneurship and Agricultural Development for the youth (READY) links products of this training programme to rural financial institutions for credit to enable them establish their own enterprises.

SANKOFA - Sankofa means "go back to basics". This savings mobilization programme is based on the traditional savings concept in Ghana called "SUSU". Members of such Susu Schemes contribute a fixed amount of money to a common fund at regular intervals for a specific period. The amount is then rotated amongst contributors on monthly basis. With the Sankofa Strategy, the amount is used to purchase a tangible assets which serves as an additional skills to generate income for themselves and their children. About 500 disabled persons had benefited from this programme 450 of the beneficiaries are women.

TEACH 1: The Training Education and Credit for Health project is an entrepreneurship skills development and sanitation improvement project. It was undertaken in Christian Village and Kisseman communities in the Okaikoi-North sub-metro of the Accra Metropolitan Assembly. The project seeks to improve the incomes and health status of women traders especially cooked food sellers. The German

Development Service (DED) is supporting the project. The project cost is ¢18 million. It is a Small credit scheme for women traders and mostly chop bar operators numbering 851.

TEACH II: An HIV/AIDS behavioural change and awareness promotion programme in the Yilo Krobo District of Ghana. The District is noted for a high infection rate of about 5% in the country. The overall infection rate in the country is 3%. Our modules include: Overcoming Stigmatization & Discrimination, Communication for Behaviour Change, Voluntary Counseling and Testing, Reproductive Health Programmes Reducing Mother-to-Child Transmission, Care and Support for PLWHAs. Opportunistic infections and Future Directions: Vaccines/Microbicides. The project is being financed by the Ghana AIDS Commission under the Ghana AIDS Response Fund (GAR FUND) and the Yilo Krobo District Assembly. Project cost is ¢65 million credit for women income generating activities. The number of women reached was 1,200.

TEACH III: The objective of this programme was to provide a complementary capacity building role of stakeholders charged to formulate development programmes in some Districts in Ghana to be sensitive to the plight of the poor. This is being done through the establishment of an open and collaborative planning, implementation, monitoring and evaluation mechanism of participating communities to prepare environmentally friendly community-based projects in 6 Social Investment Fund-Assisted District Assemblies in the Eastern Region. The programme is being supported by the World Bank Small Grants. Project cost is ¢146.2 million. The credit programme has reached 2,050 small enterprises.

SIKA ROSE: This on-going micro-finance programme started in November 2004 and is being financed with a Revolving Loan Fund from the Social Investment Fund (S.I.F). The fund is managed by the ARB Apex Bank. The programme has an outreach of 2,098 small scale enterprises. These clients are located in 10 Communities within the Ga East, Ga West and Dangbe West Districts of the Greater Accra Region. Our MFI has received a cumulative amount of ¢1,728 million from the Fund Management Unit of S.I.F. The programme achieved a 100% repayment in 2005 and 2006 with an interest repayment of over ¢ 80 million. Currently, in 2007 fiscal year, the financial NGO is managing S.I.F revolving loan facility of ¢ 887 million.

The Rural Financial Services Project (RFSP) of the Ministry of Finance and Economic Planning (MoFEP) has assisted in building the capacity of the groups in financial management, micro-finance operations and governance. The training was handled by Freedom From Hunger Ghana, a Training Provider under the RFSP.

AGAPE: The Agape loans are humanitarian loans given to externally displaced persons operating income-generating activities to support their families within the informal economy of Ghana. Some beneficiaries of these loans include Liberia Women Refugees operating micro, small, and medium enterprises at the refugee camp in Gomoa Buduburam. Other clients are migrant Togolese women operating income-generating activities at Kisseman, Christian Village, and Katapo, near Pokuase in the Greater Accra Region. The programme which started in May 2005 is supported by the International Alliance of Women (TIAW) a micro-enterprise development organisation based in Ontario Canada. TIAW has provided an initial seed capital of ($10.000) about 92 million Cedis for 55 migrant micro women entrepreneurs to promote their alternative livelihood activities.

EXTRA MILE: The Extra Mile loan product is a micro-credit scheme where individuals world-wide make loans to individual clientele of Kraban via the internet on a website which KIVA Microfunds, an on-line lending facilitator manages. KIVA Microfunds is based in San Francisco, California in the United States of America. The scheme which started in November 2006 has reached out to 600 clients of Kraban with a credit facility of ¢ 3.5 billion as at June 2007.

Conclusion

Having identified why, when and how new products are developed by Kraban Support Foundation, the author would like to conclude and to help readers to understand the whole process of micro- finance product development. Micro-finance product development must be done innovatively by all actors within the industry, especially financial non-governmental organisations. This would ensure their sustenance in the fledgling but competitive micro-finance industry in Ghana. New micro-finance products could be developed by adopting the following steps: identification of market/sector, the market, need analysis, product testing, advertising testing, launching and product management. These are successful tried and tested key steps necessary for achieving an excellent market niche in micro-finance.

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THE ENTREPRENEURSHIP CHALLENGE IN AFRICA

Capt Sam Addaih (Rtd.)

Abstract

There is a great excitement in SME circles about the political, social, and economic developments taking place worldwide. Of particular interest are developments in emerging countries, especially those of Africa, where it is believed the SME sector can catapult socioeconomic development. But will entrepreneurship and SME develop be the panacea for African economies?

This paper argues that while a positive link exists between economic development and entrepreneurship at least in the developed world (Birch, 1987) one cannot be too sure about a similar research systematically demonstrating the relation in Africa. This raises a fundamental problem.

The problem that emerges when attempting to generalize economic development trends from one economy to another is the lack of consideration of current models of entrepreneurship development. It is widely believed that the development of entrepreneurship is the result of coordination of internal and external components facing the entrepreneur. The favourable nature or lack of it regarding internal and external factors frequently influences the entrepreneurs' ability to create viable organizations. Therefore, external bottlenecks created by African economies need to be removed if SMEs are to be their engines of growth.

Introduction

In most African countries, especially those south of the Sahara and excluding South Africa, the conditions that existed before the adoption of some measure of economic arrest in the form of International Monetary Fund (IMF) prescriptions were almost moribund. Conditions that existed at that time included:

- Excessive inflation up to three digits.
- Huge budget deficits mainly financed through massive banking sector borrowing.
- Import restriction became draconian as attempts were made to protect a fast diminishing stock of foreign exchange reserves.
- Very low per capital income.

The overvaluation of exchange rates meant contraction of exports, particularly cash crops. Operations in parallel foreign exchange became intensified. There was reduction in the tax base, which placed constraints on revenues of governments. Consequently, in most of these countries, there was an almost "criminal" neglect of infrastructure maintenance. As the economies became stagnant, most employees were forced to adopt survival strategies by means of activities outside of, and frequently in addition to, their formal employment.

The Role Of Small And Medium Enterprises

The sharp decline of African economies over the years as a result of both internal and external factors coupled with the poor performance of many large state-owned enterprises (SOEs) of many African countries has brought into sharp focus the importance of SMEs as the engine of economic growth. That it should take an economic decline for countries to realize this basic development paradigm is most unfortunate. Because according to a Netherlands Development Corporation policy document on small-scale enterprise, it has long been known that industrialization is of crucial importance to sustainable development. Only very few countries with a small population and a great wealth of natural resources have succeeded in achieving a high degree of prosperity without industrial development.

In fact, the success of a number of newly industrialized countries, especially in East Asia, has emphasized the importance of the relationship and interaction between agriculture, industry and the service sector. Within each of these sectors, strategic changes are taking place, with employment in agriculture almost always going into sharp decline while employment in services and the industries soaring. Growth in the industrial sector is less rapid than in the service sector, however, mainly because of higher growth in labor productivity in industry during the same period. In any case, the changes referred to highlight the increasing importance of development in the micro and small enterprise sector.

Advantages of SMEs over large enterprises include:

- They make more efficient use of inputs.
- They can be places of learning and training for people at all levels and functions a capacity that could be used in other sectors of the economy.
- They facilitate the creation and use of otherwise non-existence and unused savings.
- They are characterized by dynamism, flexibility and readiness to innovate, which enable them to adapt more easily to new markets.
- In Africa, they constitute an important source of employment generation and as a means of generating regional industrial and commercial activity thus minimizing the rural-urban drift.

Deakins (1996) attributes the increased importance of the SMEs to their ability to respond quickly to change. As the pace of technological change has increased in society, so the ability of small firms to respond quickly to change has given them an advantage over large firms. This characteristic of SMEs has been called "flexible specialization" and reflects the ability of small firms to be both specialized and responsive to change. Deakins conclude thus "As the demands of society change, it may be that the growth of the small firm merely reflects those demands." (Addaih 2007:44).

Definitions of SMEs

The first problem to be overcome in any discourse of SMEs is one of definition. According to Technology Training Center report on SMEs, the Georgia Institute of Technology alone has compiled more than 50 definitions in about 75 developing countries, which could be classified into the following groups:

- Economic sectorial definition
- Commercial financial definition
- Institutional definition
- Statistical definition
- Functional definition
- Technological definition

According to the ILO, SMEs, in the broadest meaning of the term, include modern industrial firms of up to 50 employees, family units of 3 or 4 people, village of cottage industries, associations, companies, cooperatives, owner-operators, mini firms and the self-employed in the non-structured sector of the economy. The term also covers small firms carrying on small-scale, non-manufacturing activities in construction, transport, maintenance and repairs, trade, etc. (ILO, 1986).

In Ghana, for example, several definitions have been considered at one time or the other. In the industrial statistics published by the Statistical Service, small scale industries are defined as those employing 29 employees or fewer, the rest are all considered medium and large scale. The National Board for Small Scale Industries, on its part, considers a combination of assets as a basis of classification. This apex body charged with the promotion of SMEs in Ghana defines a small-scale enterprise (SSE) as an enterprise which employs not more than 9 workers with an investment in plant and machinery, excluding land and building, not exceeding US$100, 000 (Addaih, 2007).

It can be seen that there is no agreement on the definition of SMEs in Africa. Perhaps, this shows a lack of adequate theory and practice relating to the evolution and role of SMEs on the continent. A report by CSIR for the World Bank suggests that a definition of SMEs as enterprises employing not more than 30 people, including apprentices and permanent employees, as the true reflection of the SME sector given the current size of most African economies.

Economic Conditions and Their Effects on SMEs

Historically, most developing countries have geared their efforts to the single objective of economic growth, concentrating in particular on rapid, large-scale industrialization. Arguably, this strategy could be a necessary condition, but by no means always sufficient in itself, for socio-economic development.

In practice, the preferential treatment of larger firms by government's policy undermined small-scale enterprise. For example, the introduction by means of subsidies of artificially low interest rates for large-scale investments in many African countries distorts the allocation of capital, opens the door to corruption and patronage, and does not increase access for the lower classes.

In addition, subsidized capital often leads to the choice of inappropriate capital-intensive technologies, which does not contribute substantially to the creation of jobs. Fiscal incentives to larger firms, such as tax exemptions, also often have an unfavorable effect on SMEs. In this way, "Many African countries have created a situation in which a minority of the population has ever-increasing amounts of capital at its disposal, while the great majority have to scrape together a meagre existence with very limited resources" (DCI: 15).

Small enterprises are influenced more than others by the environment in which they have to operate. Government policy determines whether there are institutions, which can be of service to them, or, indeed, which will work against them. Paradoxically, however, we observe that policy and regulatory constraints have restrictive effects on the productive potential of SMEs in Africa. First, in many countries, the state has sponsored the development of large-scale firms with policies designed to inhibit direct competition. Second, most states maintain extensive controls over resource allocations, particularly foreign exchange and credit, and often aggravate maintaining fixed or subsidized prices. Large, politically connected enterprises have generally controlled access to financial resources and raw materials. To exist, smaller firms either depend on large firms for access to inputs or pay premium price in parallel markets. Third, tax incentives have been designed for large firms. Fourth, registration procedures are complex and expensive (large firms can spread the fixed cost over larger output, or use their influence to reduce transaction costs). Finally, the hostility of some governments toward private profits and politically powerful business class repress SMEs.

Against this backdrop, the following are some internal economic conditions and their effects on SMEs, and indirectly their effects on enterprise development. It must be noted that some of the conditions are causally interrelated as outline on the next page:

- High inflation rates: Little productive investment, particularly in small industries. Investments in gold, real estate, cattle, more wives and children, offshore foreign currency accounts are likely to be more common.

- **Declining per capita income:** Less demand for products and services of SMEs.

- **Low wages in the public sector:** Outflow of skilled personnel; personnel to implement SME programs have to find other sources of income. The lack of incentives brings about program administration problems. Development policies, if formulated become difficult to implement.

- **Exchange rate and shortage of foreign exchange:** Exchange rates have been a major disincentive for local production. Shortages of spares, raw material and capital equipment. Large industries and enterprises gain priority in accessing foreign exchange.

- **Price controls:** SMEs producing consumer items frequently are squeezed by high priced and low selling prices.

- **Trade liberalization:** Often makes some imported and smuggled goods cheaper than local products of SMEs.

- **Low tax revenues:** Fewer or no development program services for SMEs. Attempts to broaden the tax net could bring about increase in government activity to extract more taxes from the SME sector, and reinforcement of the usual apprehension of small enterprises of government officials.

- **Deterioration of infrastructure:** Everyone, particularly those in remote areas have to pay more for SME inputs, or marketing.

- Poor credit facilities and negative interest rates on savings: Few incentives for SMEs to open bank accounts and to enter into formal credit system. SMEs have little access to resulting scarce loan funds and forced to depend on black-market credit sources or family savings.

Constraints of SME Development

Several problems confront the small and medium scale business operators. These problems include managerial capacity, technical know-how, technology, capital, marketing problems, and miscellaneous production bottlenecks. Similarly, Baa-Nuako and others, in a recent study of the "Growth and Transformation of Small Firms in Africa" identified six major sources to have constrained the growth of SMEs in Ghana as follows:

- Entrepreneurial attitudes.
- Firm characteristics and operations.
- Equipment acquisition and technological advancement.
- Sales and product support and market orientation.
- Business support and perception.
- Formality and management capability.

Private Sector Development

To achieve rapid self-sustained growth, African countries must overcome several major obstacles to private sector development in attempt to ensuring that SMEs champion the sector as the engine for growth of their economies. The general lack of confidence in the business environment among private sector SMEs have been frequently noted. The confidence issue is partly a legacy of past policies. Serious economic mismanagement prior to the adjustment program had led to chaos and real hardship both of which remain vivid in the collective memory. Even during the period of recovery, the economic climate was clouded by official actions that posed serious threat to private business. Properties were seized and people's lifetime savings were confiscated. Prosecutions of individuals were actively pursued under normal and paralegal channels. Business opportunities were constrained by the presence of public enterprises with powerful political connections.

Availability of Credit: The absence of confidence shows up in the banking system. Deposits at the banks represent only about 8 percent of GDP in recent years. This failure to mobilize resources is in turn restricting the access to credit thereby raising the cost of funds, with pervasive repercussions in the economy. For example, Ghanaian business owners consider the difficult access to credit as one of the most serious problems facing SME operators.

Labor Markets: Wage rates and quality of labor represent a major part of business decisions, particularly those of foreign companies. Wage rates in the country remain competitive by international standards, but the relatively low level of education and skills of the average worker offset this wage advantage. Furthermore, the poor quality of infrastructure and support services in Ghana tends to erode the country's competitive position.

Commercial Assets: Public sector ownership of commercial properties is also pervasive. Local authorities and public enterprises control substantial amounts of commercial property and land. Whilst agreeing that government ownership of land and commercial structures needs further research, Leechor nevertheless postulates that the supply of commercial properties is substantially more restricted than it would be without such extensive ownership. Additionally, entrepreneurs operating in rented premises have little incentive to make extensive investments to upgrade and develop the properties.

Addressing The Presence Of Public Enterprises: To a private entrepreneur, public enterprises pose a significant threat. To overcome some of their disadvantages, many entrepreneurs evade taxes. Even if successful, the benefits of tax evasion offset only a small part of the disadvantages. Clearly, private entrepreneurs have to seek out the activities and niches in which public enterprises have not already occupied. But which niche remains unoccupied? In the presence of such competition, investment is the preserve of those with exceptional business acumen or those not too sensitive to risks. Ordinary law-abiding and risk-averse entrepreneurs probably would not invest in this environment.

Restricting Monopoly Power: Many legal barriers have been erected to restrict the entry of private companies. The most visible restriction, according to Husain and Faruqee, applies to cocoa trading in the case of Ghana. Until 1992 private companies were not allowed to trade cocoa in competition with the state-owned Cocoa Marketing Board. Since 1992 private companies have been granted the right to buy and sell cocoa within Ghana but the Board still exclusively undertakes exporting.

In Ghana's energy sector, a few state-owned entities monopolize production, pricing, and marketing. These entities are the Ghana National Petroleum Company (GNPC), Volta River Authority (VRA), and Electricity Corporation of Ghana (ECG). Numerous restrictions apply to other industries. In the insurance business, for instance, policies covering a public sector organization or its purchases can be written only by the state-owned State Insurance Company. This restriction allows SIC capturing about 80 percent of share of the public sector insurance market. Similarly, in the pension fund business, a mandatory contribution of 17.5 percent of each company's wage bill goes to the government-owned SSNIT, which is the only pension fund in the country.

Efficient and competitive private sector firms not develop solely because of their own internal capabilities. While innovative entrepreneurs, skilled managers, a dedicated and well-trained workforce, and efficient administrative and operational procedures are important, the number, size, and efficiency of enterprises in a country are affected by a host of external factors.

Generally, the private sector needs an overall enabling environment, which allows firms to operate efficiently and specific institutions and policies that promote private sector develop. Most of these factors which were discerned at a National Economic Dialogue held at the beginning of the century in Accra in2000 include:

- **Microeconomic stability:** A key to economic growth is prudent economic management that avoids volatility and uncertainty. Policies that lead to high inflation, excessive taxation, distorted factor prices, or lack of foreign exchange frequently discourage business formation and investment.

- **Financial system:** An efficient financial system is an important pre-requisite for economic development in mobilizing savings and channeling them into investments. For private sector firms, it serves an additional purpose besides providing them credit. It is also a means of enforcing discipline on firms that borrow.

- **Competitive markets.** Even more important to economic development and private ownership is the presence of competitive markets. Competition promotes efficiency. Policies that promote intensive and fair competition will result in competitive enterprises and a strong private sector.

- **Access to markets:** Building and enhancing our competitiveness to access internal and external markets.

- **Regulation:** Regulation of the private sector is necessary to ensure competition and fair trade, but unnecessary regulation burdens the private sector and leads to fewer and less efficient enterprises and reduced competition.

- **Physical infrastructure:** The size, characteristics, and efficiency of the private sector depend very much on the available infrastructure. Public investment infrastructure "crowds in" private investment.

- **Political and social stability:** To operate efficiently, the private sector requires a generally conducive political and social environment. Institutions such as public administration systems, security, schools, and hospitals are necessary for the stable society that provides an environment for sound economic development.

- **Legal framework:** Business, like society in general, needs to operate under the rule of law. No strong private sector can exist in the absence of an adequate legal framework to resolve disputes, facilitate efficient transactions, and protect property rights.

- **Policy frameworks:** Various policies, even those not directly related to the private sector, can affect its growth and size. Policies that provide adequate support to the private sector are essential.

- **Access to resources and support services:** Entrepreneurs and owner-managers need access to finance, information, and various types of support services to create and operate business in the most efficient and competitive fashions.

Conclusion

A comprehensive policy framework governing the operations of the private sector should be formulated and implemented to facilitate the sector's development. Such a policy framework needs to be consistent with the overall macroeconomic conditions of the nation. It should include a range of policies, procedures, and laws that provide both the regulation and the promotion of SMEs. Such a framework should essentially be harmonized with specific policies for industry, investment, energy, and entrepreneurship development.

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LEADERSHIP AND EXCELLENCE: A Tool For Good Governance Of Tertiary Institutions The IPS Experience

Rev. Fr. J.J.M Martey

Abstract

Very often, administrators only manage or govern by means of what they perceive as the best administrative procedures and policies without paying regard to the art of leadership. Leadership entails influence persuasion, and direction. It is concerned with the communication of the vision and the development of a culture and set values that lead to what the organization desires for the future. The environment of teaching and learning requires a more complex form of leadership and management because of the presence of diversity of purpose and academic freedom. For effective governance, universities require the use of leadership skills and styles that will enhance the collective role of the university to advance knowledge in all respects.

This paper aims at the sharing of leadership experience gained through a real life situation by a tertiary educational institution that has made a tremendous strides. It discusses the impact of the use of leadership skills in the governance of tertiary educational institutions. The use of appropriate leadership power in an attempt to influence people has also been discussed and the effect on the vision of the organization has been considered. The experience of the Institute of Professional Studies (IPS) confirms that the Rector or Vice-Chancellor is more likely to succeed when he or she shares his vision with others. The case of IPS gives an indication that leaders who combine the middle-of-the-road management style with team management style and behaviour achieve better results.

The article suggests that effective leadership involves the creation of enabling environment, empowerment, collaboration, cordial relationships, and diversity.

Introduction

The effective governance of African universities and other tertiary institutions continue to become an important issue in the light of the increasing demand from the users and beneficiaries of knowledge as well as the growing competition in the provision of knowledge. As numbers of student intake keep rising in the wake of inadequate funding and facilities, the governance of African tertiary institutions becomes more complex and challenging. Universities and other tertiary institutions now need a framework for effective information management in a rational manner with credible needs identification. Structures that will help effective decision making and the implementation of such decisions will have to be put in place while monitoring and reviewing of performance is undertaken continually. There are several challenges stemming from the governance structures through the academic faculties down to the level of the junior members of the institutions. The different perspectives of faculty members and administrators present even a more challenging task that needs to be appropriately addressed by the governors of a typical university.

Corporate Governance is defined as "the system by which companies are directed and controlled" (Cadbury Report, 1992). It is concerned with the practices and procedures that ensure that an organization is effectively governed so as to achieve its objectives. We agree with Professor Bob Tricker (1984) who is of the view that every organization needs "governing as well as managing". Governance is more than just managing the day-to-day operations of an organization. Gayle and Dennis (2003) indicated that university governance may be seen as a series of concentric circles or a set of overlapping circles. They hinted that an extensive group of stakeholders try to influence the rules and policies of universities in the United States of America. In most African countries however, governments attempt to influence the running of universities because they provide significant amounts of their funding. This has resulted in lack of infrastructure, adequate funding and slow pace of growth. The modern idea of corporate governance requires that universities become responsive to the needs of society and also present value for money. Prestige, effectiveness, and mission diversity are fundamental issues in the governance of universities. According to Brewer, Gates, & Goldman (2002), in the U.S. academic hierarchy, prestige refers to the activities of high-performing institutions that hold top at a diversity positions in that country. Eckel observed Missions Conference in 2007 that because the demonstration of performance is difficult in the academic arena, the characteristics of prestigious institutions in the U.S. become the standard by which others determine their own stance. Institutions in African's higher education have frameworks for authoritative decision making and governance. In resource allocation, a "prestigious and effective institution" has a governance system that ensures that effective distribution is done.

Wren (1995) and Jennings (1960) assert that leadership is a social influence that leaves a mark. According to them leadership involves initiation and guidance that leads to change in character or direction. Tannenbaum and Schmidt (1958) define leadership as "A process of interpersonal influence exercised in situation and directed, through the communication process, towards the attainment of a specified goal or goals". Leadership is a process or managerial skill that is applied in having people directed or influenced to work towards the achievement of agreed organizational goals. Good leadership ensures that people work willingly, and in the best way that they can. Good leaders are active and not reactive. They shape ideas instead of responding to them. They make people realize their full capabilities through excellence. "Excellence is an art won by training and habituation. Excellence is not an act but a habit." ... (Aristotle, 384-322 BC).

The success story and the leadership excellence in the IPS case has not been achieved merely because of skills but also by the development of high value relationships based on trust and respect. Sustainable results have been achieved because of core behaviours that helped in transforming a vision into reality (*NMA* 2007). Leadership competencies vision, innovation, inspiration, discipline and strategic management are to be credited. To achieve effectiveness and excellence in the management of tertiary institutions, it is pertinent to have people who are prepared to try something new, while taking the risk to help move an idea forward with deep respect for the budget lines of the institutions.

Leadership Power and Influence

Abraham Zaleznik (1992) says that leadership requires the use of power to influence the thoughts and actions of other people. It is worth mentioning therefore that there are various reasons why some leaders are able to influence their followers effectively while other leaders cannot get their followers to do what they want them to do. This includes reward power, coercive power, legitimate power, expert power, referent power, etc. Some leaders have the capacity to reward those who follow them. The leader's power increases when that leader is considered by subordinates as having control over certain rewards. Some examples of rewards that a leader may possess are praise, recognition, and attention. These may be part of the leader's personal power. Other rewards that a leader may control are those belonging to the organization. For example a leader may gain his leadership influence because he has control over pay increase and promotion. Coercive power refers to the leader's ability to punish his followers. In some cases coercive power is personal. This is when leaders are considered as lacking recognition, especially during times of criticism of the leader.

Legitimate power refers to the power a leader possesses as a result of occupying a particular position or his role in the organization. In every organization, certain types of requests and directions issued by leaders to subordinates are viewed to be legitimate and valid. Subordinates are obliged to comply with such requests because of the organization. Legitimate power is clearly a faction of the leader's position in the organization and is completely independent of any of the leader's personal characteristics. Expert power refers to power that a leader possesses as a result of his or her knowledge and expertise regarding the tasks to be performed by subordinates. Subordinates are more likely to respond positively to a leader's attempts to influence their behaviour if they view the leader as having information regarding effective task performance that they themselves lack. The possession of expert power by a leader obviously depends upon the personal characteristics of the leader (ie. his or her personal expertise) and it is not determined by the formal position that the leader occupies in the organization. Referent power Is dependent upon the extent to which subordinates identify with, look up to, and wish to emulate the leader. The more that subordinates admire and identify with the leader, the greater the leader's referent power over subordinates. Referent power, like expert power, is totally dependent upon the personal characteristics of the leader and does not depend directly upon the leader's formal organizational position.

The Effects of Leadership Vision

The sharing of power and the exercise of such power by different groups and people to ensure that corporate objectives are met, are within the province of corporate governance. Through governance, an academic institution ensures that the Academic Boards act in the interests of all Stakeholders including student and staff associations. For efficient and effective governance of African universities, the Vice-Chancellors, Rectors, Principals, and the management teams need not act in their own interests. They must have a vision that can be shared by all for the achievement of the goals of the universities. Peter Drucker (1992) said: "The best way to predict the future is to create it."

In the case of IPS, the leadership created what never was and made a difference by leading the management team into what IPS is today. It developed the vision and spent considerable time reinforcing the shared vision. It maintained the needed stamina in order to see the vision through. The leadership remained visionary and motivated the workforce through sound new reward systems and staff development programs. It breathed life into the Institute through the introduction of new programs, especially fee-paying courses that eventually improved the financial base of the Institute. The leadership, as part of its vision led the Institute in establishing structures and procedures that were not part of the traditional operating structures of the Institute. The Institute developed a vision that depicted an ambitious and desirable future for the Institute. The Institute now has the basis for building on in order to become a prestigious professional institution.

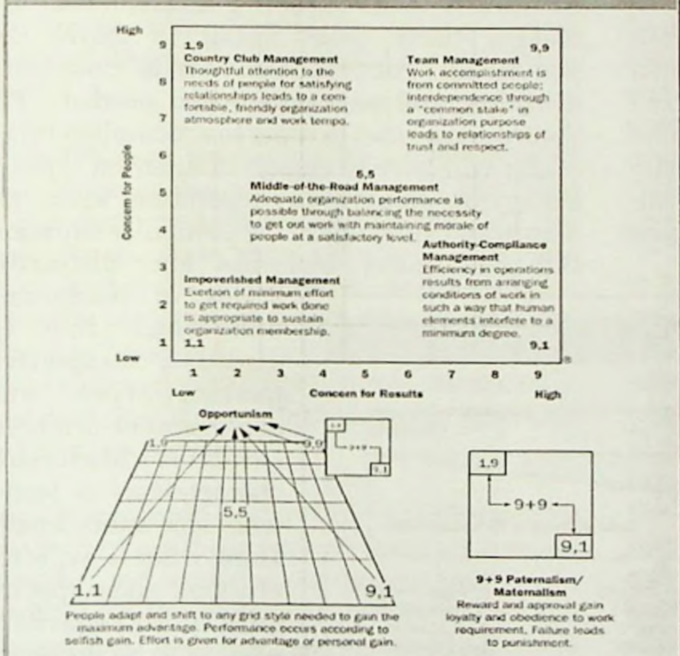
Leadership Traits, Behaviour and Change

Leadership is one of the most studied aspects of management. A tremendous variety of research, terms, and values underlie leadership definitions, theories and findings. There are three widely accepted historical models, namely trait, behavioral, and contingency theories.

The trait theory describes effective leaders in a systematic fashion focused on distinctive internal qualities or characteristics of an individual, (i.e. height, weight, appearance, energy etc.). Early researchers initially measured various traits of individuals and then typically had the individual work in leaderless groups. The idea was to see whether certain traits would predict the individuals who would emerge that is, be identified by members of the group as leaders. Research however revealed that there is a weak relationship between personal traits and leader success (G A Yukl,1981). The leadership success at IPS is therefore not totally being attributed to the traits of only the Chief Executive Officer. Although there are a number of myths and realities in dealing with change, the new leadership of IPS believed that it was the right time for the change when it took office.

From the year 2001 to the present time, the Institute of Professional Studies (IPS) has been undergoing dramatic changes which require that people are managed through the change. The philosophy of acknowledging people and rewarding efforts is now the norm. This has contributed to the success of the Institute. The leadership took steps and unfreezed the status quo, moved to the desired state and are now operating by the new conditions with flexibility (Kurt Lewin, 1935). All workers and external stakeholders are actively involved in the process. They were given time to adjust while constant communication was undertaken. The culture of IPS was renewed and grounded on innovative approaches that created better performance, better leadership, and effective management.

The Leadership Grid® Figure



SOURCE: The Leadership Grid Figure, Paternalism figure and Opportunism figure from Leadership Dilemmas—Grid Solutions by Robert R. Blake and Anne Adams McCanse (formerly the Managerial Grid by Robert R. Blake and Jane S. Mouton). Houston: Gulf Publishing Company (Grid figure: p. 29, Paternalism figure: p. 30, Opportunism figure: p. 31). Copyright 1991 by Scientific Methods, Inc. Reproduced by permission of the owners.

The behavioural approach of leadership focuses on what the leader actually does when dealing with subordinates. The theories consider the behavioural aspects of the leader and suggest how effective a leader may be. Some behavioural issues worth considering in the governance of tertiary institutions are first, consideration and initiation structure; second is concern for people and concern for production, and the third is bosscentered and subordinate-centered.

Hemphil and Coons (1957) identified two categories of leadership behaviour thus: Consideration and Initiation Structure. Consideration refers to the extent to which a leader is considerate and concerned about the quality of his or her relationship with subordinates. This involves friendliness, consultation with subordinates, open communication with subordinates, supportiveness, and representation of subordinate interests. Initiation structure refers to the extent to which the leader is task oriented and concerned with utilizing resources and personnel effectively in order to accomplish group goals. A leader with this type of behaviour does the planning, co-ordination, problem solving and criticizes poor work by subordinates. The issue of concern for production, and concern for people, is also very crucial for leadership excellence in the governance of tertiary institutions. Given below is the grid that explains the concern of the leader.

The "Impoverished Manager" (1.1) is lazy, shows little effort or concern for staff or work targets while the "Country Club Manager" (1.9) is attentive to staff needs and develops satisfying relationships. He however, pays little attention to the achievement of results. The "Authority-Compliance Manager" (9.1) concentrates more on the achievements of results. The needs of people are virtually ignored and conditions of work are so arranged that people cannot interfere to any significant extent. The Middle of the road manager (5.5) or the dampened pendulums is the guy who keeps the balance. He gets people to work while maintaining their moral at a satisfactory level. It is interesting to have a team management manager (9.9) because is a high performance manager who achieves high results through "leading" committed people who strongly identify themselves with the organizational aims.

It is proven from the IPS case that the "Middle of the Road Management" combined with Team management styles and behaviour help to achieve results. Team-work at IPS was built over the years through committees while the chief executive kept the balance and ensured that activities were on course. The Rector as the Leader exercised minimum level of authority and allowed subordinates to function within limits as shown in the Leadership Continuum given below:

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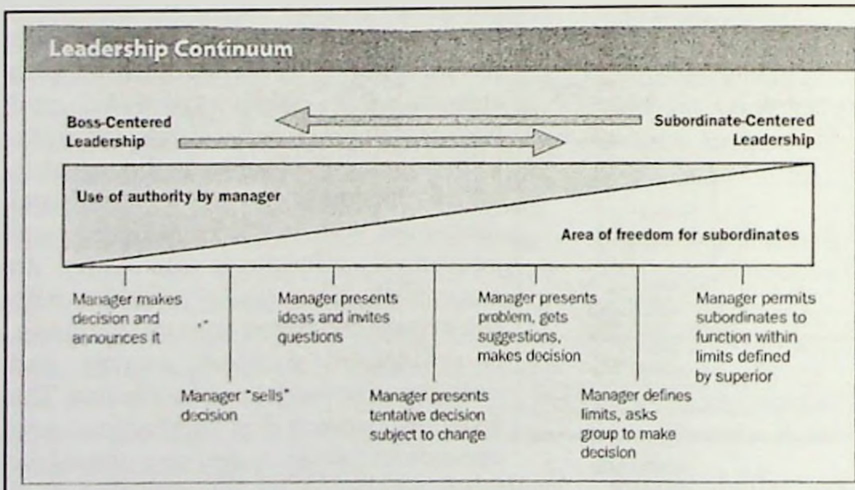

SOURCE: Harvard Business Review. An exhibit from Robert Tannenbaum and Warren Schmidt, "How to Choose a Leadership Pattern" (May–June 1973). Copyright 1973 by the president and Fellows of Harvard College.

Situation Vs Influence and Satisfaction

Evans and House (1971) postulates that a leader can influence the satisfaction, motivation, and performance of subordinates primarily by providing them with rewards, making the attainment of those rewards contingent upon the accomplishment of performance goals, and helping subordinates to obtain rewards by clarifying the path to the goals. It requires that the leaders help subordinates to understand exactly what they must do to obtain the relevant rewards (Robert J House, 1971) and making these paths easier to travel (i.e. providing subordinates with coaching, direction, and assistance when needed). The theory argues that in order to accomplish this, a leader will have to engage in different types of leadership behaviour, depending upon the nature and demands of the particular situation. Path-goal theory identifies four distinctive styles of leadership behaviour, that is, directive, supportive, participative, and achievement-oriented. Directive leadership characterizes a leader who lets subordinates know what is expected of them, gives specific guidance regarding what is to be done and how it should be done, and ensures that his or her role as leader of the group is clearly understood. Such a leader also schedules work to be done. In the IPS case, the leadership maintained definite standards of performance, and encouraged group members to follow standard rules and regulations. Administrative manuals that guided performance by staff were introduced accordingly.

Supportive Leadership is produced by a friendly and approachable leader who shows concern for the needs and wellbeing of subordinates. A supportive leader treats subordinates as equals and frequently. He does little things to make the work more pleasant and enjoyable. In participative leadership the leader, when faced with decision, consults with subordinates, solicits their suggestions and takes ideas seriously in arriving at a decision. The achievementoriented leader constantly emphasizes excellence in performance and simultaneously displays confidence that subordinates can and will achieve the high standards that are set. Such a leadership style sets challenging performance goals and encourages subordinates to take personal responsibility for the accomplishment of those goals.

In the IPS case, the leadership team displayed confidence in the subordinate staff that they would perform well to achieve the new set goals. For example, some secretarial staff were given higher responsibilities (tasks that are normally performed by staff of higher caliber). This was because in April 2001 when the new leadership took office the Institute did not have Assistant Registrars although these positions had been established.

Ram Charan and Geoffrey Colvin (1999) say the best leaders are those who are deeply interested in others and can bring out the best in them. In the IPS case, the leadership put people first and created an enabling environment through empowerment, collaboration, cordial relationships, and diversity. In modern times the leadership has to share power rather than hoard it. The "we" and "us" mentality was developed.

The pathgoal theory of leadership argues that no single style of leader behaviour will universally result in high levels of subordinate motivation and satisfaction. Instead, the theory suggests that different types of situations require different styles of leader behaviour. The theory suggests that the personal characteristics of subordinates and the characteristics of the work environment should be considered. A number of personal characteristics of subordinates are thought to influence the extent to which subordinates will experience a leader's behaviour as acceptable and satisfying. When subordinates perceive their ability to be low, they are likely to find directive leadership acceptable and to see it as helping them to perform more effectively in the future. However, when subordinates perceive their ability to be high, directive leadership is likely to be perceived as unacceptable and is unlikely to have any positive effects upon subordinate satisfaction or motivation.

Most staff members of IPS viewed what happened to them as determined by circumstances and events outside themselves and beyond their own control that is, they are people with external locus of control. Where necessary, the leadership adopted the directive style of leadership because subordinates responded positively to this.

It is interesting to note that the particular needs, motives, and personality characteristics of subordinates influence their acceptance of different leadership styles and satisfaction. Subordinates who have a strong need for achievement react positively to the achievement oriented leadership style. Those with a strong need for affiliation responded more positively to the supportive or participative leadership style. In line with the path-goal theory, the leadership adopted different styles at different times and on different occasions. Certain characteristics of the work environment influence the extent to which the various leadership styles will have a positive impact upon subordinate motivation and performance. Three important contingency factors that operate in the work environment have to be constantly considered. These are Subordinates' tasks, the formal authority system of the organization, and the primary work group.

An effective leadership style (in terms of motivating subordinates) is one that complements the subordinates' environment by providing direction, assistance, and support that would otherwise be missing. Thus, if subordinates are working on a highly ambiguous task in an organization with few set policies and procedures, the theory predicts that a directive leadership style will increase motivation and performance by helping subordinates understand what they need to do in order to perform effectively. On the other hand, the theory predicts that if subordinates are working on a high routine and structured task in an organization with elaborate rules and regulations, directive leadership will not facilitate performance but will simply create frustration and resentment among subordinates.

Route-Mapping for Success

In the IPS case, strategic planning was used as a leadership tool to create an enabling environment and provide the route-map needed for success. The first ever strategic plan was prepared by a strategic planning committee chaired by the Rector of the Institute. The Governing Council of the Institute approved of the plan that served as the game plan for the period 2001 to 2004. Tactical plans were also prepared for purposes of achieving the overall goals at unit levels. Through an environmental scanning exercise, the strategic planning process helped to shape the future of the Institute.

The exercise revealed the effect of environmental factors (such as the economy, government policy, technology, and social issues) on the operations of the Institute. This guided the management philosophy and contributed immensely to the success story of IPS. The Institute remained pro-active in its approach in order to ensure effective planning. Heads of Directorates and Academic Staff Associations were involved in the planning process. The plan therefore gained acceptance and the staff got committed in its implementation. Michael Porter (1987) in his paper on Corporate Strategy: The State of Strategic Thinking said whatever techniques are used a good plan should contain the following elements:

- An analysis of the industry
- Sources of competitive advantage
- An analysis of existing and potential competitors
- An assessment of the company's competitive position
- Selection or ratification of strategy
- Actions

The analysis of the management of education industry in Ghana revealed that the Institute had goodwill with increasing number of student applications. The Institute therefore took advantage of the market opportunity available and introduced fee-paying programs. In all these, the leadership played a very significant role by always leading that is, designing and/or prompting what needs to be done. Even though the Institute had that game plan, people sometimes argued and challenged certain actions that were meant for the achievement of the planned targets.

One lesson therefore learnt is that people can have a change of mind irrespective of whether they were part of the planning process or not and that when this occurs leaders should continue to persuade and stick to the Agenda that has been shared and accepted by many. Another lesson learnt is that as the Institute pursued its intended strategies other valuable strategies emerged. The workings of both intended and emergent strategies therefore have to be ensured for good governance. The Institute continually monitored the working of the strategic plan and where reviews were needed these were carried out by way of additional directives and information. On several occasions people have to be reminded that a particular line of action was necessary for the achievement of targets and the overall goals of the game plan.

The IPS experience confirms that the vision owner will always have to be on his guard to keep others on track, especially when the organization is undergoing a major change. The route-map needs to be revisited regularly to ensure that major deviations do not occur.

The Role of Personality in Understanding Others

Personality plays a vital role in an organization because one has to deal with other people all the time. Individuals view things differently and as such create personality difference. Such difference then serves as a barrier to performance and opportunities. In an academic institution, there is diversity to the extent that differences occur most of the time. It is expected that qualities such as basic honesty, concern for others and open-mindedness will belong potentially to all people (B Schwartz, 1990). As an institution experience greater diversity, this will not always be the case and therefore the need for greater tolerance. When people especially members of the top management, exercise sufficient tolerance, the different positive qualities of most people can be exploited to help the organization achieve its full potential.

The leader's challenge in dealing with different people is to be wise, caring, and flexible in meeting the needs of the people. Interpersonal relationship is influenced by the person's culture, how that individual has been raised and his or her own personality that is, whether a traditional, participative or individualistic (Kagitcibasi and Berry).

The effective leader in a tertiary institution should be aware that some members of faculty and the administration are traditionalists who believe that there is time and place for everything as is taught by scripture in Ecclesiastes 3:1-2. Such people have the notion that the best way to grow is to follow an established order. They believe in hierarchy and are comfortable with structural and organizational clarity. The IPS experience indicates that some top ranking officers as well as middle-management level staff are traditionalists.

As the Institute traveled through its reforms, people welcomed the introduction of order by means of organization charts, policies, statutes and the like. As staff meetings and team-work was introduced, the participaticipants also displayed their love for human interaction and shared the basic values that were introduced. The participants enjoyed working with and through others. They assisted very much in meeting both work and social needs within IPS. There were some few members of the Institute that displayed individualistic personalities. While some groups of people aimed at particular targets and organizational goals those with individualistic personalities favoured different directions and goals. This resulted in minor conflicts which were either dealt with or ignored.

In all these the leadership team maintained balance in meeting different needs. Organisational values sometimes affect a leader's effectiveness and the leadership process as a whole (England and Lee, 1974). The personal value of a leader very often affects the perception of the leader. The leader who values career success is likely to see mistakes by subordinates as impediments to growth whereas the leader who has a great value for supportiveness will see mistakes of subordinates as a chance to play a role by offering assistance. The latter then identifies that there is the need to help the subordinate to improve or grow. The relationship of the leader with others is also affected by the values of the leader. Some leaders have great value for obedience, conformity and politeness and therefore will have difficulty in understanding followers who are self-reliant, independent, creative and rebellious. Values influence the way leaders acquire and use power as well as the way they deal with conflict.

The experience of the leadership of IPS indicates that values play an important role in the leadership. The pastoral role of the Rector, who happens to be a Minister of Religion, contributed in his understanding of people with different and varied attitudes, values, and perceptions.

Conclusion

The role of a leader is to mobilize and energise the group. The leader serves as the ambassador of the group and a model as well. A leader gives sense of direction in times of change. Effective leadership involves the creation of a compelling vision and development of strategies that will work towards the achievement of that vision. He or she sets examples and produces own output.

The concept of a manager differs in the sense that the manager just keeps the organization running. He controls under the belief that systems and processes will work. The manager's role is administrative. The leader's role as is to influence people and have them perform willingly. The lessons given have revealed that leadership power is effective when there is a clear vision that points into a future of success. The IPS experience explains that power lies in the strength of the quality of relationships rather than titles and policies. It is also clear that leadership influence and follower satisfaction have links to success in an organization. It is also confirmed that people are now looking for empowerment rather than controls. therefore strict rules and top-down control will not yield good results in terms of performance by subordinates. The case supports the idea that the world is moving towards diversity and universities need to respond accordingly.

No leader can exist in isolation. It is only by providing his worth through the achievement of goals that a leader, despite his structural authority, will be regarded by subordinates as being valuable or even be accepted as an integral member of the group. This implies that the governors of universities can only succeed if they combine the "manager concept" with the "leader concept". It is not enough to just manage a university.

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BRAIN DRAIN AND ITS ASSOCIATED EFFECT ON THE ECONOMY OF GHANA

Gerald Dapaah Gyamfi

Abstract
This paper looks at the effects of brain drain on the Ghanaian economy. It is a reflective study based on the premise that brain drain has a negative effect on the Ghanaian economy. It is based on exploratory studies in Ghana, United Kingdom, Netherlands, Malaysia, a literature review and a tracking of contemporary events from professionals from the public sector of Ghana, most especially the health sector. Data gathered were subjected to reflective analysis with an outcome which revealed that even though brain drain from Ghana has negative connotations on the public sector because of loss of vital human resources from Ghana to other countries, there are however some associated benefits to Ghanaian households and firms. The benefits include improvement in labor resources, reduction of poverty; financial deepening through remittances repatriated back home and improvement in macroeconomic effects through foreign exchange rates. It was revealed that both the sending and receiving countries of the 'brains' could strategize to derive mutual benefits.

Introduction
'Brain drain' usually refers to the movement of skilled professionals from one nation to the other or from one organization to the other (Kwok 1982). It has been defined variously as:

- The loss of skilled and technical labor through the movement of such labor to more favorable, geographic, economic or professional environments (American Heritage Dictionary).
- An emigration of trained and talented individuals for other nations or jurisdiction due to conflict or lack of opportunity or health hazards where they are living. (Wikipedia, the Free Encyclopedia).
- The emigration of highly skilled or qualified people from a country (Oxford Dictionary).

The emigration of highly skilled people from one country to another, is an issue, which is seriously affecting both developed and developing countries. The study seeks answers to the following questions: to what extent do such emigrations have positive and negative economic effects on the home countries of the migrants and the countries which receive them? Are there some benefits associated with brain drain? The main focus of the research is to find out more about the positive and negative effects of brain drain with a special interest in the health sector of the Ghanaian economy. This reflective research paper, therefore, considers the general overview of brain drain, how extensive is the brain drain, the causes and effects of brain drain with more emphasis on the health sector of the economy of Ghana.

The study was conducted by relying on literature on brain drain; data gathered from migrants from both developed and developing countries, especially immigrants in UK, Malaysia, Netherlands and Ghanaians domiciled abroad who were visiting relatives in Ghana. Data were also gathered from a monited Radio News.

The study made extensive use of the electro-magnetic media especially the Internet and other sources of reference relevant to the study.

In gathering data for the analysis, unstructured interviews were conducted with most professionals and students who were residing in the UK, Netherlands and Malaysia who were emigrants from Africa and Far East countries.

A field study in Malaysia and Netherlands was undertaken to collect adequate data on this phenomenon.

Data was also gathered from the office of Nurses and Midwives Council in Ghana, UK General Medical Council and World Bank Report.

General Overview Of Brain Drain

After World War II many people from the European countries especially Britain and Germany started moving to America for better protection. Since that time the professionals with certain required skills from low income countries started migrating to the advanced countries for better economic benefits (Cohen 1996). Movements of professionals from one country to another (Brain Drain) have increased recently due to the impact of globalization, information technology and the rapid changes in the world economy. A number of developed countries including United Kingdom, Canada, Australia and USA have recently changed their policies to attract more highly skilled workers from different parts of the world, through a credit written system of qualification.

The demand for professionals has stimulated increased outflow of skilled personnel from developing countries recently. Although some Analysts suggest that some mobility is crucial for developing countries if the developing countries want to become part of the global economy, the positive and negative impact of such mobility are still questionable. The greatest challenge faced by policy-makers and Human Resource Professionals is how to find the possible solutions to the problem and also how to derive benefits from the high influx of migrated professionals.

How Extensive Is The Brain Drain

Traditionally, medical doctors and nurses have made up the bulk of migrants among the various health professionals. Recently there has been increased movement of other healthcare professionals such as pharmacists and physiotherapists, Dovlo, D (1999).

Migration studies from 61 developing countries to the United States, according to the 1990 U.S. census disclosed that the highly educated immigrants from Africa numbered about 95,000 of the 128,000 African migrants. The biggest migratory flow came from Egypt, Ghana, and South Africa. Among the countries in Asia and the Pacific were Philippines with 730,000 and China with 400,000 migrants where a great majority of them had tertiary education. More than 75 percent of Indian immigrants and 53 percent of Korean immigrants had tertiary education out of the total immigrants of more than 300,000 from both countries. The migratory flow from Mexico was 2.7 million, about 13 percent of which had a tertiary education. The report revealed that for most countries people with tertiary education had the highest migration rate (Carrington and Detragiache (1999).

Relying on the statistics of Organization for Economic Cooperation and Development (OECD) Reporting System on migration, it was revealed that migrants to the United States accounted for less than one-third of the total of immigrants to all OECD. The research also revealed that the migration to the United States, Australia, Canada, France and Germany accounted for about 93 percent of the total migratory flows to the OECD countries. The report further indicated that the migration rate of highly educated individuals from Ghana was 26 percent of all the immigrants from Ghana to OECD countries.

Causes Of Brain Drain

According to this research the major causes of brain drain stem from such factors as large differences in economic development and living standards among countries; most of the people who migrate from poorly developed economies to highly developed economies are motivated by the economic activities found in the developed economies. Some professionals are lured by improved education, which results in better access to information about living conditions and employment opportunities abroad. People get to know more of other places through learning.

Advancement in information technology and the rapid growth of international contacts through the electro-magnetic media, especially the internet, have also added to the brain drain. People move from one nation to the other after establishing contacts abroad and knowing the adventures there. Others migrate because of the value system.

The quality of education and research in countries attract experts from less developed countries for enhancement of their skills. After acquiring the requisite skills they get attracted by the availability of jobs and the lifestyle of the people in that country. Another factor which pushes people to migrate is instability in the political system of developing countries.

Negative Effect Of Brain Drain And Its Associated Effect On Ghana

Brain drain has become an issue, which is seriously affecting both developed, and developing countries and having both negative and positive impacts on the giving and receiving countries. Most Economists believe that the major negative impact of brain drain is the reduction of economic growth of the source countries (Lowell 2001). Reports from the Criminal Intelligence Authority (CIA) of the United States of America, have disclosed that in the first half of the 1990s many of the Soviet Science Specialist who were working in the field of nuclear and missile technology migrated to the Middle East to work in violation of the treaty on the non-proliferation of weapons of mass destruction due to economic reasons. Petrakov, who was a member of the Russian Academy, said that, 'Russia now has a missing generation of Scientist'. In the top secrete series it is said that eight hundred thousand (800,000) Scientists left Russia in the first ten years of easing of emigration rules in the 1990s. NTV Mir, a television station in Moscow, Russia, on 23 January 2005 at 1018 GMT reported that the training of the Scientist who had migrated from Russia had cost the country $60 billion.

Data gathered from the United Kingdom General Medical Council on registration of doctors in the United Kingdom, based on place of primary medical qualification, from the period 2000 to 2002 as shown below indicate an upward increase of 21 percent.

Full Registrants	**199 9**	**200 0**	**200 1**	**2002**
U. K.	4,24	4,21	4,46	4,288
EEA	2	4	2	1,448
Overseas	1,39	1,19	1,23	4,456
	2	2	7	**10,1**
Total	2,88	2,99	3,08	**92**
	9	3	8	
	8,52	**8,39**	**8,78**	
	3	**9**	**7**	

Source: United Kingdom Medical Council (as adopted from Buchan & Dovlo, 2004).

These data give the indication that more medical doctors from different countries are moving to the United Kingdom than ever. It is established that the situation is worse with the nursing profession as currently about 45 percent of all new entrants onto the UK nursing register are from international sources as compared with the about 15 percent in 1999 (Dovlo 2004).

According to the Canadian Medical Association, Canada has been relying on foreign medical practitioners for its rural medical outpost since the past decade. The Association reported that about One thousand seven hundred (1,700) medical doctors were from South Africa because most of the Canadian Medical Doctors had left the country to work in other countries-'One out of every five Physicians in the Saskatchewan province migrated from South Africa' (Leslie 2003: 12). South Africa with its AIDS pandemic, economic uncertainties and the loss of its doctors to Canada, Australia, Britain, New Zealand and USA was also falling on medical doctors from poorer countries including Ghana, Nigeria, Zimbabwe, Kenya and Uganda for its medical services.

The Economist of 25th September 2004 reported that many of Europe's best brains had migrated to USA to work on the world's best University campuses due to economic reasons. Other countries like Australia, New Zealand and Japan were also competing for the best brains in Europe. In Amsterdam, an upward bias in the social value of high-income type of research had created more serious brain drain problems (Viem and Hapie 1982). Australia has recently put in place so many incentives which attracts highly skilled personnel, especially those from UK and other developed countries to Australia.

According to UNDP Human Development Report (2001), brain drain costs developing countries billions of dollars in a year. It prevents taxpayers from reaping a return on their taxes. The report disclosed that there was a strong consensus that many poor countries, including Ghana, continue to remain poor because of deficiency in human capital as a result of brain drain. It makes investment in education not leading to faster economic development. It affects strategic plans and policies of nations and also causes reduction in the sense of patriotism. Its detrimental effect could cause a heavy burden on basic social services including education and health.

Statistics from Ghana Statistical Services indicate that out of every one hundred and twenty medical doctors turned out yearly from Ghana Medical schools, 70 percent leave the country within two years. As compared to the United States of America, where statistics indicate that currently there is one doctor per two thousand people, in Ghana statistics available indicate that there is one doctor to eleven thousand people and that Ghana now has less than two thousand doctors in total working in Ghana. In an interview by 'Agence France- Presses' the former director of Ghana Health Service, Professor Badu Akosah stated that *'Brain Drain is the single most significant impact on health delivery in Ghana ... Ghana has some hospitals that do not have a single doctor and are run by enrolled nurses who were originally trained to assist professional nurses in the delivery of care'*. It was said that there were more Ghanaian nurses working in London than their counterparts working in Accra.

In another development it was indicated that 448 doctors, who constituted 54% of the doctors trained during the period 1999 to 2004, left Ghana to work abroad. A lot of the 2-3 million Ghanaians abroad are health professionals, lecturers, engineers, accountants, architects and other Professionals. This statistics indicate how serious brain drain is affecting Ghana. Due to poverty and other unknown reasons it has become the habit of the Ghanaian youth to take delight in migrating to other countries to even do menial jobs which if done in Ghana could increase their living conditions and make them better off than living abroad.

Due to shortage of medical doctors in Ghana, the few doctors available keep on threatening leaving the country by making demands which the government finds it difficult to meet. Such demands in most cases lead to industrial unrest with untold hardship to the people of Ghana and contribute to increase in the mortality rate.

It was observed abroad that most of the Ghanaian 'brains' were doing excellent jobs in their professions and were holding key positions in the organizations they work for. In UK, for instance, a Ghanaian medical consultant working at the Manchester University Hospital indicated that he had worked for over twenty years in that hospital and was not prepared to come back to Ghana. Among the reasons stated for not coming back were bad economy, incompetent political leadership and corrupt practices.

Most of the professionals interviewed gave the impression that they went abroad through Ghana government scholarship but decided not to return to Ghana because of the benefits they were receiving. It was disheartening to note that some of such experts were in their pension age after working for over forty years abroad and still preferred staying there.

There were a lot of other professionals like lecturers, nurses, architects and security personnel abroad who were Ghanaians who had put aside their professions and were doing other demeaning jobs such as cleaning, serving as kitchen porters, waiters and waitresses, attending to the aged and invalids, washing of vehicles, engaged in security jobs and rendering other services which have nothing to do with their acquired profession. Most of the sponsored students also took delight in staying abroad after their studies without realizing the cost of their studies to the economy of Ghana, especially the organizations which sponsored them.

It was observed that there were a lot of Ghanaian professionals abroad whose living conditions were worse off than when they were in Ghana but for no apparent reasons preferred staying abroad with their expertise. In Amsterdam, for example, most Ghanaian professionals interviewed in the year 2005 indicated that they were taxi drivers who had not registered to drive taxis there but had devised their own means through which they got their passengers.

Most of the 'taxi drivers' indicated that they were university and polytechnic graduates from public universities and polytechnics in Ghana. Most of the Ghanaians were also observed at car selling places assisting people, especially Ghanaians who were searching for used cars to buy at Amsterdam car market; some were also seen working at the market where shipment of cars and other properties to different countries were taking place. Most of them were university graduates and some had completed their doctorate degree programs.

The question that could be asked is what impact would these 'Brains' have made if they had stayed and put their expertise to the service of Ghana? Ghana spends a lot of its income on training these professionals but most of the returns from such professionals are kept abroad. For instance, Ghana lacks Medical Doctors and sometimes has to rely on doctors from Cuba and elsewhere who work at most of the hospitals located in the rural areas. Most of the industrial unrest emanated from the actions of the few medical doctors in the country who because of their high demand, as the result of brain drain, embark on strikes to press home higher increases in their remuneration. Whenever such demands are considered by the government it serves as a trigger for workers in other public and private organizations to follow suite.

The universities in Ghana would have been better of with qualified young lecturers if the Ghanaian lecturers abroad were to work in Ghana as lecturers. Available statistics from the manual on condition of service of University of Ghana indicate that in the year 2005, 14.65% of Lecturers there were above sixty years of age. In that report it was indicated that in that year one hundred and ten (110) retired lecturers were called back to the classroom to lecture. This is an indication that brain drain in Ghana is not only in the medical field.

The following measures have been suggested to reduce the negative effects of brain drain:

- The ability of the government to significantly and dramatically lift the standard of living and welfare of all Ghanaians by putting in place sound economic policies leading to a viable private sector, institution of a fair and friendly regulating environment,
- The application of the rule of law in an open and transparent manner, establishing standard of good governance, protection of property right through reputable judiciary system.
- Bonding of all professionals sponsored to do further study abroad.

- Attitudinal change of those in various positions of authority towards the professionals who work with them.

- The government making provisions for logistical improvement which will improve the quality of working life of the professionals in Ghana.

- Government to initiate outreach programs to the Diasporas which offer incentives such as competitive salaries, relocation subsidies, housing, duty free privileges, cash bonus and access to reliable quality health services.

Even though the suggested measures could not bring the devastating effect of brain drain to a halt, it could minmize its effect on Ghana.

Positive Effects Of Brain Drain

Brain Drain, despite its negative repercussion, it has some positive effects on both the sending and receiving countries. International migration could reduce unemployment in the labor exporting countries. The UNDP 2001 report indicated that in some countries, including Pakistan, Bangladesh, and Sri Lanka remittances from migrant workers accounted for six to twelve percent of GDP. It was indicated that migrants had high rates of savings and investment in land, agriculture, equipment, vehicles and stores. Unemployment is a problem encountered by many nations, especially developing nations and through brain drain more unemployed Ghanaians will get jobs in Ghana. It has been realized that most of the Ghanaian professionals abroad were compelled to travel as a result of the unemployment situation in Ghana. Recent springing up of many universities has brought about manpower surplus in most skillful areas and this excess has compelled the employers to look for candidates with some number of years of working experience. The fresh graduates who do not have the required experience are forced to look elsewhere abroad for their survival. The unemployed graduates better their living conditions abroad.

Brain drain could cause increases in real wages and consequently create equal distribution of national income as a result of labor shortage which raises the value of certain skills.

When the advanced countries enter into a period of recession barriers to the free flow of labor are raised and sometimes-foreign labor with enhanced values in skills and know-how is repatriated to the sending countries. The repatriates return to their motherland with enhanced skills which contribute to the development of such economies. Migration, in this sense, is conducive to the formation of human capital, bringing about innovation and wealth to the sending countries. In Ghana, it could be observed that most of the big assets in the country are owned by the professionals who are based abroad or have returned to settle in Ghana after spending many years abroad.

The receiving countries also benefit from the migrated professionals by saving cost on training and generating highly skilled people to work within those countries. The immigrant professionals are accepted for their cheap labor. The movement of people could also lead to a spillover of knowledge and technology (Meyer, 2003).

In Ghana, most of the 'high class' properties belong to the Ghanaian professionals who reside abroad. Most of them have raised their standards of living and have better lifestyle than their counterparts left behind. In an address given by President Kuffour, the President, indicated that in 2001 Ghanaian professionals abroad remitted US$ 400 million and in 2004 remitted over US$ 2 billion. Much of the money raised was used in servicing the private sector that attracted new international companies like Anglogold-Ashanti, Newmont Mining Company and expanded the existing companies including Coca Cola; Nestle, Ghana and the Ghana Stock Exchange. The remittances also brought about improvement in Ghana's foreign exchange as a result of the appreciation of the local currency (Cedi) as against the major foreign currencies which result from high inflows of the foreign currencies. At a general durbar of the chiefs and people of Kwahu traditional Area in the Eastern region of Ghana, on the 7th April 2007, the President further indicated that over US $6 billion remittances from Ghanaians abroad were sent home to enhance developments in Ghana in the year 2006.

Conclusion And Recommendations

Most developed countries take advantage of their development to attract most professionals from developing countries, usually for their cheap labor. The devastating effects of brain drain affecting developing countries are so enormous that even the health sector of the economies of the developing countries lack the needed medical practitioners.

The study established that the health sector of the Ghanaian economy has suffered a lot as a result of the shortages that the sector encounters. Hospitals and clinics in Ghana lack professional doctors, nurses and other health professionals whose expertise are highly needed for the effective upkeep of the sector.

Despite the negative consequences of brain drain there are positive aspects of it to the developing countries as a result of the remittances repatriated back home and spillage of knowledge that enhances the skills of the immigrants which could be an asset if they should go back home.

Even though there is no single solution that could address the impact of Brain Drain at once, over the long run the policies that could help increase universal education and boost economic development could be the best options to address the emigration of skilled professionals. Reduction of wage differentials between countries and improved living conditions could also help curb the high level of skilled human resource migration. It is also important for both developed and developing countries to take responsibilities to foster commercial ties and enhance international network of science and technology which could help reduce the effect of brain drain. Developing countries could also capitalize on the need for their professionals abroad and train more people with the view of receiving benefits from the developed countries who need the professionals on regularized agreements.

The research revealed that even though the health sector of Ghana has suffered through brain drain, most professionals from the health sector of Ghana resident abroad are doing well in their fields of endeavor which adds some values to their expertise. However there is a greater number of professionals who are not using their acquired skills which could have been put to better use back home. The economic development of Ghana would have been accelerated faster if the professionals abroad had joined hands with the few behind. It has also been revealed that though Ghana has suffered increasing brain drain, it has benefitted in diverse ways through remittances and other developmental activities engaged in by the emigrants.

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FINANCIAL MARKET EFFICIENCY UNDER THE INTEREST RATE REFORM POLICY IN GHANA: Theory, Model and Empirical Analysis

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Abstract

This paper sets out to evaluate the level of financial market efficiency under the interest rate reform policy (interest rate liberalization policy) in Ghana from 1988 to 2004. In line with this objective, a model has been specified and estimated. The results of the study revealed that the interest rate liberalisation policy has not yet succeeded in correcting the financial market inefficiency or distortion in the country between 1988 and 2004, even though there has been a fair improvement as compared to the pre-reform period. There is therefore the need to intensify efforts to significantly reduce the inflation rate for a corresponding reduction in the interest rate, in order to minimize or eliminate the level of financial market inefficiency, which is necessary for efficient mobilization and allocation of financial resources in the country.

Introduction

The Ghanaian financial sector like the real sector of the economy suffered from the distorted macroeconomic policies that prevailed in the 1970s and early 1980s, and deteriorated immensely. Cheap credit was directed to the favoured borrowers, mostly the public sector itself at the expense of economic efficiency and productive investment. As a result, financial intermediation (the main function of the financial system) in the economy declined as people abandoned banking system deposits that yielded negative real rates of return.

Money supply increased very fast during the period 1970 to early 1980s. For example, in 1972 broad money rose by over 41 percent (from 473.9 million Cedis in 1971 to 666.2 million Cedis in 1972, and between 1972 and 1978, the average rise was about 41 percent with a peak of 68 percent in 1975 and 50 percent in 1981 (ISSER 1993: 27). Since money supply was increasing and quite out of hand, monetary/financial policy at the time was geared towards achieving economic stability, achievement of financial mobilisation and allocation. Credit and interest rate policies were used to achieve these objectives. The prevailing interest rates were administered. The Central Bank (Bank of Ghana) set both the lending and deposit rates based on the Bank of Ghana discount rate. These rates were rarely adjusted and kept down low (interest rate repression) apparently to stimulate investment in accordance with Keynesian and Neoclassical theories of investment, and also possibly to reduce the cost of interest rate payment to the financial institutions and the private sector by the government. Deposit rates varied between 3.5 to 17.58 percent and, lending rates from 10 to 25.5 percent from 1970 to 1987 (see Table 1a).

Another factor that adversely affected the efficiency of the prevailing interest rates was rising inflation rates. As the adjustments of the nominal interest rates lagged behind changes in the expected inflation rate, the real interest rates remained persistently negative. For example in 1971, real deposit rate was 0.5, -109 in 1977 and 113 in 1983, whiles the corresponding real lending rates for these years were 6.5, -104.0 and 103.8 respectively

Consequently, financial resources flowed into inflation hedges and holding of foreign currency and assets. Thus, financial deepening of the economy which was as high as 29.8 percent in 1976 declined remarkably to 13.2 percent in 1983, and shot up a little to 17.8 percent in 1987.

In order to address the distressed or distorted financial market that prevailed in the 1970s through early 1980's, the interest rate liberalisation (deregulation) policy was launched in September, 1987 as one of the major components of the Economic Recovery Programme (ERP) started in 1983 (Aryeetey et al. 2000). The interest rate reform policy was meant to permit interest rates to move closer to the market-clearing rates, in order to eliminate the level of financial market distortion (inefficiency).

Ever since the launching of the interest rate liberalisation policy, both nominal and real interest rates for both deposit and lending rates have been fluctuating widely and causes concern.

The main objective of the research therefore, is to evaluate the efficiency of the financial market under the interest rate liberalisation policy in Ghana from 1988 to 2004. The specific objectives are to:

- Determine the level of financial market efficiency during the pre-interest rate liberalization period (1970 1987);
- Determine the level of financial market efficiency during the interest rate liberalization period;
- Compare the pre- and post interest rate reform levels of financial market efficiency and
- Analyse the policy implications.

The paper is divided into six sections. After the introduction, we examine briefly the elements of the interest rate policy reform in Ghana in section two. Section three addresses both theoretical and empirical literature on the topic. The methodology for the study is taken up in section four. It includes portions on model specification, econometric techniques and sources of data. Section five presents the empirical results and their interpretation, whiles section six deals with conclusions and policy implications of the study.

Table 1a. Selected Financial Market Indicators in Ghana, 1970 to 1987

YEAR	NDR	NLR	FR	RDR	RLR	DLRS %*	FD
1970	3.5	10.0	3.0	0.5	7.0	187.7	18.8
1971	7.5	14.5	8.0	-0.5	6.5	93.33	18.9
1972	7.5	14.5	10.8	-3.3	3.7	93.33	23.6
1973	5.0	10.0	17.1	-12.1	-7.1	100.0	22.7
1974	5.0	10.0	18.8	-13.8	-8.8	100.0	21.8
1975	7.5	12.5	29.8	-22.3	-17.3	66.7	26.8
1976	7.5	12.5	55.4	-47.9	-42.9	66.7	29.8
1977	7.5	12.5	116.5	-109.0	-104.0	66.7	27.2
1978	11.5	19.0	73.1	-61.6	-54.1	65.22	24.3
1979	11.5	19.0	54.5	-43.0	-35.5	65.22	20.9

YEAR	NDR	NLR	FR	RDR	RLR	DLRS %*	FD
1980	11.5	19.0	50.1	-38.6	-31.1	65.22	20.4
1981	11.5	19.0	116.5	-105.0	-97.5	65.22	18.8
1982	11.5	19.0	22.3	-10.8	-3.3	65.22	19.8
1983	11.5	19.0	122.8	-111.3	-103.8	65.22	13.2
1984	15.5	21.17	39.0	-23.5	-17.83	36.58	12.5
1985	15.75	21.17	10.4	5.35	10.77	34.41	16.0
1986	17.0	20.0	24.6	-7.6	-4.6	17.65	16.5
1987	17.58	25.5	39.8	-22.22	-14.3	45.05	17.8

Sources: International Financial Statistics (various issues); The State of the Ghanaian Economy (various issues);

Author's Calculations

$$* \; DLRS\% = \left(\frac{NLR - NDR}{NDR}\right)100$$

NDR = **Nominal deposit rate**
NLR = **Nominal lending rate**
RDR = **Real deposit rate**
FR = Inflation rate
RLR = Real lending rate
DLRS = Deposit-lending rate spread
FD = Financial deepening (see Appendix 1 for definition of the variables)

INTEREST RATE LIBERALISATION POLICY

The Ghanaian financial system like that of most developing countries is fragmented. There exist both formal (organised) and informal (unregulated) markets giving rise to what is called "credit dualism". The informal sector comprises susu groups, money lenders and petty traders, providing financial or credit services to the people.

In the formal sector, we have the Central Bank (Bank of Ghana) as the apex bank overseeing monetary and financial transactions of the units in the sector. The sector includes; Commercial banks, Development banks, Merchant banks and rural/community banks. Also found in the formal financial sector is the non-bank financial institutions (NBFIs) which include the Stock Exchange, Leasing Companies, Credit Unions, Building Societies among others.

Even though the need to introduce some flexibility into the determination of the prevailing interest rates in Ghana was realised in 1983, the actual reform policy started in 1988. The interest rate liberalisation policy involved the deregulation of interest rates (both deposit and lending rates) in order to reduce the high level of the financial market distortion, and to encourage competition among the banks. Consequently, financial intermediation would improve, leading to increased mobilisation and allocation of resources in the financial sector in particular and in the economy as a whole. Thus, the prescription of Commercial banks' borrowing and lending rate ceased, except for savings deposit rate which was temporarily maintained at 21.5 percent. By March 1989, the commercial banks were given the full authority to determine their own rates and display them in their banking halls. Furthermore, in November 1990 the 20 percent mandatory lending to agriculture was abolished, and by the beginning of 1991, the Ghanaian financial sector was highly liberalised.

As a result, the nominal deposit rate increased from 16.5 percent in 1988 to 33.50 percent in 1997, and there after has continued to decrease reaching 10.35 percent in 2004. The nominal lending rate also shot up from 25.58 percent in 1988 to 47.0 percent in 1997, and fell to 28.75 percent in 2004. The corresponding real deposit rates were 14.9 percent in 1988, 5.7 percent in 1997 and 2.25 percent in 2004. Whiles the real lending rates were 5.82 percent in 1988, and 16.15 percent in 2004 (see Table 1b).

Financial deepening unlike the pre-FINSAP period, has fairly assumed an increasing trend during the FINSAP period (1988 2004), despite the fluctuating rates as we see in Table 1b.

Table 1b. Selected Financial Market Indicators in Ghana, 1988 to 2004

YEAR	NDR	NLR	FR	RDR	RLR	DLRS%*	FD
1988	16.5	25.58	31.4	-14.9	-5.82	55.03	14.7
1989	16.0	30.25	25.2	-9.2	5.05	89.06	16.9
1990	19.0	30.3	37.1	-18.1	-6.8	59.47	13.4
1991	21.32	31.5	18.0	3.32	13.5	47.75	13.4
1992	16.32	29.0	10.1	6.22	18.9	77.70	19.2
1993	23.63	34.5	25.0	-1.37	9.5	46.00	16.9
1994	23.15	35.0	24.9	-1.75	10.1	51.19	18.6
1995	28.73	36.0	59.5	-30.77	-23.5	25.30	17.6
1996	32.28	41.5	46.6	-14.32	-5.10	28.00	19.4
1997	33.50	43.0	27.8	5.70	15.20	28.00	18.0
1998	23.30	38.50	14.6	8.70	23.90	65.00	22.7
1999	17.11	36.50	12.43	4.68	24.07	113.00	22.0
2000	27.61	47.00	25.6	2.01	21.40	70.00	23.3
2001	18.22	43.75	32.9	-14.68	10.85	140.00	20.7
2002	13.38	36.36	14.8	-1.42	21.56	171.00	24.7
2003	12.45	32.75	26.7	-14.25	6.05	163.00	25.1
2004	10.35	28.75	12.6	-2.25	16.15	177.00	26.3

Sources: International Financial Statistics (various issues); The State of the Ghanaian Economy (various issues);

Author's Calculations

$$* * DLRS\% = \left(\frac{NLR - NDR}{NDR}\right)100$$

NDR = Nominal deposit rate
NLR = Nominal lending rate
RDR = Real deposit rate
FR = Inflation rate
RLR = Real lending rate
DLRS = Deposit-lending rate spread
FD = Financial deepening (see Appendix 1 for definition of the variables)

LITERATURE REVIEW

Theoretical Literature

The Neoclassical and Keynesian Theories

Until 1970s, the mainstream theoretical literature on interest rates, savings and investment was underpinned by Neoclassical and Keynesian schools. The Neoclassical school was founded in the 1870s, by Leon Walras, Kenneth Arrow and Daivid Strarret , and the Keynesian school was powered by John Maynard Keynes in 1939. These two schools advanced the argument that interest rate and investment vary indirectly, based on the implicit assumption that the cost of capital and not the availability of loanable fund is the binding constraint for capital accumulation. In line with this, the policy of low interest rates was implemented by most developing countries in order to accumulate sufficient capital, via productive investment for rapid economic growth. It is in this respect that Raj (1948) reiterated that, since investment is a desideratum in the LDCs it needs be promoted by reducing interest rates.

The Repressionist School

McKinnon (1973) and Shaw (1973) provided theoretical models to criticise the supposed wisdom of keeping interest rates very low in countries, especially LDCs and hence the repressionist school. The McKinnon and Shaw (1973) hypothesis suggests that the level of financial intermediation should be closely related to the prevailing level of real interest rates, because the level of real interest rate, when held below their normal competitive levels, indicates the level of interest rate or financial repression (Gregorio and Guidoli 1995). Financial repression especially under inflationary conditions stimulates demand for physical wealth as well as capital flight. According to this repressionist view a positive real interest rate stimulates financial savings and financial intermediation, thereby increasing the supply of credit to the private sector. This in turn stimulates investment and economic growth. Thus, positive real interest rates that are consistent with the equilibrium interest rates make the allocation of investible funds more efficient, thereby providing positive effect on economic growth. This school therefore favours interest rate liberalisation within an economy, and so largely underlies the interest rate reform policy in Ghana. Among the supporters of the 'Repressionist' school in slightly modified forms (see Fry 1988) include; Kapur (1976a), Galbis (1977), Fry (1980a, 1980b), Mathieson (1980b), Romer (1986, 1990), Lucas (1988), De Gregorio (1993), and Levine (1993).

The Neostructuralist School

The Neostructuralist school was formulated in the early 1980s. Prominent economists in this school include Wijnbergen (1982, 1983a, 1983b), Tayor (1983), Kohsaka (1984), and Buffie (1984), who launched attack on the Mckinnon-Shaw (1973) school of thought for failing to recognise the negative impact of the high real interest rates on costs. They maintain that increasing interest rates would lead to a cost-push inflation, and become counter productive. According to them, the nominal interest rate which is determined in the curb or informal market, adjusts to equate demand for and supply of money and credit. Income then adjusts to equilibrate the demand for and supply in the goods market.

They maintain further that funds flow freely between the banking system and the curb market; savers and investors can use either market at least to some extent. Thus, the relevant interest rate in the Structuralist models is the curb market rate (Fry 1995). Hence their models provide an intellectual justification for financial repression.

Market Failure or Imperfect Information School

This is a slightly different kind of school from the neostructuralist theory, which runs counter to the McKinnon-Shaw (1973) model. The Market Failure or Imperfect Information School spear-headed by Stiglitz in the early 1980s, emphasises market failures as a principal cause of poor financial markets (Stiglitz and Weiss, 1981; Stiglitz, 1989; Stiglitz, 1994). It goes to emphasise that high transactions costs due to imperfect information and difficult contract enforcement lie at the root of these market failures, inhibiting the ability of interest rates to achieve market equilibrium. There is therefore the need for governmental intervention for a smooth running of the financial market.

Thus, Stiglitz (1994) suggests that "there exist forms of government intervention that will not only make the markets function better but will also improve the performance of the economy".

Empirical Literature

The main stream empirical literature attests to the fact that the level of financial market inefficiency reduces as the persistently negative real interest rate turns positive during the process of interest rate deregulation. Generally, the empirical works on the effectiveness of interest rate liberalisation policy in a nation are methodologically based on negative and positive real interest rates. All these works maintain that the level of financial market inefficiency reduces as the persistently negative real interest rates turn positive during the liberalisation period. Consequently, an interest rate reform process may stimulate savings, investment and economic growth. We note some of these studies as follows:

Vogel and Buser (1976) tested the repressionist hypothesis for 16 Latin American countries using pooled time-series data for the period 1950 to 1971. As proxies for financial deepening, they used three indicators, namely, currency in circulation, demand deposits and time deposits, each expressed as a ratio of GDP. They developed two regression equations. In one, the independent variables were the current and one-period lagged values of the actual rate of inflation and real GDP. In other, a simple average of the two period values of the independent variables were used. Their findings were that, inflation had a consistently significant and negative effect on financial deepening and moreover, the low elasticities for currency in circulation and demand deposits strongly supported the McKinnon and Shaw (1973) view that financial repression may proceed to the point where the willingness to hold those assets that are used for transaction are no longer very responsive to inflation because of the high cost of reversion to barter.

Lanyi and Saracoglu (1983) in a sample of 21 developing countries between 1970 and 1980, using regression analysis have shown that liberalised financial (specifically interest rate) policies have led to positive real interest rates. As a result, financial savings have significantly improved.

World Bank (1983) employed the methodology of negative and real interest rates to classify a sample of 31 countries according to their degree of distortions in the financial markets. The degree of distortions is defined as being high when the real interest rates during the 1970s were less than minus 5 percent, low when real interest rates were positive and medium when they were in the zero to minus 5 percent range.

De Melo and Tybout (1986) analysed the effects of financial liberalisation on savings and investment for Uruguay during the period 1974 to 1983. They specified separate single equation models for savings and investment variables with the interest rate as a proxy for financial liberalisation. The estimation technique was the ordinary least squares method. They observed that even though the real interest rates improved positively, there was no significant improvement in the savings and investment levels of Uruguay during the period.

Cole and Slade (1988) reviewed the Indonesian experience of financial liberalisation for the period mid-1960s and late 1980s using simple statistical techniques of observing the trends ratios of the variables concerned. The financial reform programme involved the removal of interest rate controls and credit ceilings, which was preceded by a major devaluation and fiscal retrenchment. Consequently, the prevailing real interest rates improved and led to a rapid growth of the banking system. However, it exposed the economy to sudden shocks emanating from large falls in foreign exchange reserves.

Oshikoya (1992) undertook a study on the effect of financial liberalisation (interest rate liberalisation) on savings and economic growth among others for Kenya between 1980 and 1999. The methodology involved computation of ratios and averages of some key financial indicators. He noted that as might be expected, the real rate of interest on the average became positive in the liberalisation regime. However, he observed that the computed statistics did not support the view that domestic savings rate rose in response to interest liberalisation. According to him, gross domestic savings rate remained virtually stagnant at 20.1 percent during the reform period, and even the gross domestic product growth declined remarkably from 7.3 percent to 4.2 percent.

Khan and Hassan (1998) have examined the effect of financial liberalisation on saving and economic growth in Pakistan using a simultaneous equation model, in an error correction fashion. The period of study was 1960 to 1995. The results suggest that financial liberalisation policies pursued in Pakistan were likely to result in financial deepening. An increase in the real interest rate (by increasing the nominal interest rate or by reducing the inflation rate) would lead to the accumulation of money balances (financial assets) which would enhance the availability of loanable funds for investment activities and hence economic growth.

This study, unlike the earlier ones employs a different methodology based on the observed nominal and estimated equilibrium interest rates to evaluate the effectiveness of the interest rate liberalisation policy in Ghana and the related policy implications. An important and useful advantage of this new approach is its ability to track quantitatively the magnitude of a financial market efficiency or otherwise during a period of time.

METHODOLOGY

Deviations Model

In order to effectively address the stated objectives of this research, we use a model called the "Deviations Model". This model seeks to make a comparison between the observed nominal interest rates and those that would prevail in a perfectly functioning financial market. This implies that the various equilibrium nominal interest rates from 1988 to 2004 would be estimated. The deviations of the actual or observed nominal interest rates from the equilibrium ones would then be compared and hence, the name "Deviations Model".

The deviations may assume any of the following forms:

(i) all deviations being positive,
(ii) all deviations being negative, and deviations made up of both positive
(iii) and negative values

It is the sum of all deviations that would be meaningful for the analysis. The sum of deviations of the observed nominal interest rates from the equilibrium nominal interest rates can either be positive, negative or zero. Symbolically, we state the Deviations model as follows:

$$\sum_{t=1}^{n}(NIR_t - ENIR_t) \quad \leq / > 0 \qquad (1)$$

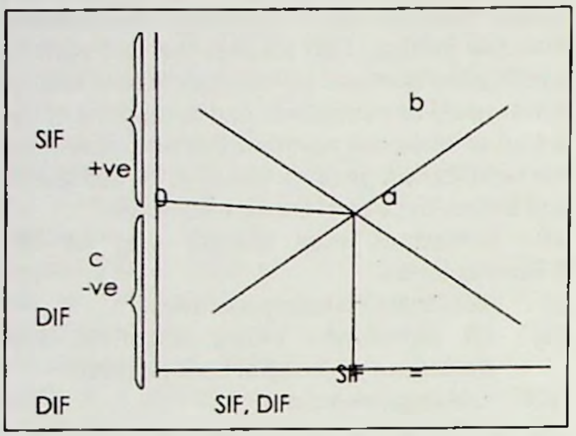
Where:

NIR = Nominal interest rate (actual)
$ENIR$ = Equilibrium nominal interest rate
$t = 1,2,3\ldots n$ (i.e; 1988 to 2004)
n = number of observations.

There is an upward distortion of the financial market if the sum of the deviations is positive, meaning that the prevailing interest rates are above the market equilibrium rates in aggregate. The model points to a downward distortion of the financial market if the sum of the deviations is negative, meaning the prevailing interest rates have fallen below the market equilibrium rates on the average. A situation, in which the sum of the deviations is zero on the average, indicates an absence of distortion in the financial market, meaning an optimally functioning of the financial market Figure 1 is a diagramatic illustration of the Deviations model.

Figure 1. Graphical Illustration of the Deviations Model

Sum of Interest Rate
Deviations



SIF = Supply of investible funds
DIF = Demand for investible funds
a = Equilibrium point
o = Zero deviation (no distortion)
b = Positive deviations (upward distortion)
c = Negative deviations (downward distortion)

In order to have a firm basis for conclusion, the Deviations model has to be subjected to a statistical test of significance of which the Chi-square goodness of fit test is the most appropriate here.

Estimation of the Equilibrium Nominal Interest Rate

An important requirement of the Deviations model is estimation of the equilibrium nominal interest rate. In this research we base our estimation on the Fisherian (1907) theoretical formulation of the interest rate and the work of Khan and Edwards (1985) as follows:

Specification (2) states that the nominalinterest rate at any time is the sum of the real interest rate plus the expected inflation rate. The real interest rate (RIR) is also specified as follows:

$$NIR_t = RIR_t + RF_t^e \quad (2)$$

Where:

NIR = Nominal interest rate
RIR = Real interest rate or short-run real interest rate (SRRIR)
RF^e = Expected inflation rate

$$RIR_t = LRRIR - h(SRMB_t - DRMB_t) + e_{1t} \quad (3)$$

In the long-run, when the money market is in equilibrium, and demand and supply of real money balances are equal, the excess supply of real money balances *(SRM$_t$ DRMB$_t$)* is zero, and equation (4) collapses to:

Where:

LRRIR = Long-run real interest rate
SRMB = Supply of real money balances
DRMB = Demand for real money balances
h = Speed of adjustment between zero and one

According to equation (3), the real interest rate (RIR) which is the same as short-run real interest rate (SRIR) deviates from its long-run value (LRRIR) if there is a monetary disequilibrium in the economy. An excess demand for real money balances such that ($SRMB_t$-$DRMB_t$) < 0, will yield a temporarily higher real interest rate; and an excess supply of real supply of real money balances such that ($SRMB_t$-$DRMB_t$) > 0, will yield a temporarily lower real interest rate.

Combining specification (2) and (3), we have:

$$NIR_t = LRRIR - h(SRMB_t - DRMB_t) + RF_t^e + e_{1t} \quad (4)$$

In the long-run, when the money market is in equilibrium, and demand and supply of real money balances are equal, the excess supply of real money balances *(SRM$_t$ DRMB$_t$)* is zero, and equation (4) collapses to:

$$NIR_t = LRRIR + RF_t^e + e_{1t} \quad (5)$$

Specification (5) states that in the long-run when the financial market is in equilibrium, the nominal interest rate is the sum of the long-run real interest rate (LRRIR) and the expected rate of inflation. In this specification (5), the expected inflation rate term (RF_t^e) is a variable, whose coefficient is unity.

The argument is that in the long-run a proportionate change in the expected inflation rate leads to an equal proportionate change in the nominal interest rate, since the long-run real interest rate (LRRIR) is a constant (Khan and Edwards 1985; Dornbusch and Fischer 1994). (The reason why we have such a strong inflation-nominal interest rate link is that in the long-run, the real interest rate is not affected by monetary disturbances which do affect the inflation rate). This therefore implies that, in a perfectly functioning financial market, the coefficient of the expected inflation rate is equal to unity. Thus specification (5) is an equilibrium function with two variables nominal interest rate (NIR) and expected inflation rate (RF_t^e) The long-run real interest rate (LRRIR) is a constant term.

In order to estimate the constant long-run real interest rate (LRRIR) we linearize equilibrium specification (5) by introducing a parameter B_1 as a coefficient of the expected rate of inflation as follows:

$$NIR_t = LRRIR + \beta_1 RF_t^e + e_{1t} \quad (6)$$

Where:
β_1 is a parameter.

By regressing the nominal interest rate on the expected inflation rate, as in equation (6), we get a constant which is equivalent to our desired long-run constant real interest rate and a value for $_1$ the coefficient of the expected inflation rate. A value of $_1$ which is not equal to unity implies an ill-functioning of the financial in the computation. The equilibrium nominal interest rate is then the estimated regression constant (long-run real interest rate) plus the value of $_1$ equals unity, times the expected inflation rate. This amounts to *adding the full value of the expected inflation rate to the long-run interest rate to obtain the equilibrium nominal interest rate*, that is:

$$ENIR_t = LRRIR + \beta_1 RF_t^e \quad (7)$$

Where:
$ENIR$ = Equilibrium nominal interest rate
$LRRIR$ = Long-run real interest rate
$\beta_1 = 1$
This implies:

$$ENIR_t = LRRIR + RF_t^e \quad (8)$$

A comparison would then be made between the actual (observed) nominal interest rates and equilibrium interest rates for the relevant decision to taken. The Chi-square goodness of fit test will be employed to determine the significance or otherwise of the deviations of the estimated equilibrium nominal interest rates from the observed ones.

Econometric Techniques

First and foremost, time series properties (such as stationarity and cointegration tests etc;) of the variables were explored to avoid the spurious regression problem. The Ordinary least squares technique was used in estimating the specified model. The necessary statistical techniques such as the R- bar squared, t-test, F-test were used in determining the plausibility of the estimates. The Chi-square goodness of test was also conducted.

4.3 Sources of Data

The time series data for the study were obtained from the following sources:

(i) Bank of Ghana Bulletins (various issues)
(ii) The State of the Ghanaian Economy, published by ISSER (Various issues)
(iii) Quarterly Digest of Statistics, published by the Statistical Service
(iv) International Financial Statistics, published by the IMF

5. EMPIRICAL ANALYSIS

The empirical results are given in Tables 2 to 4:

Table 2a. Stationarity Test (Augmented Dickey-Fuller, 1981 Test) Results: 1970 to 1987

Variable	Lag length	LM statistic	Test statistic	Critical Value	Intergration
NIR	1	0.3373(.561)	- 3.7534	-3.08.9	I(1)
FR	2	0.3762 (.540)	-4.0145	-3.7612	I(1)

Table 2b. Stationarity Test (Augmented Dickey-Fuller 1981 Test) Results: 1988 to 2000

Variable	Lag length	LM statistic	Test statistic	Critical value	Order of Intergration
NIR	1	0.0824(.774)	-4.2681	-3.7921	I(1)
FR	1	0.1031(.748)	-4.0990	-3.1004	I(1)

From Tables 2a and 2b we see that all the variables are non-stationary (dependent on time). All of them are I(1) and have to be differenced once to achieve stationarity. The variables are however cointegrated, implying that there is a stable long-run equilibrium relationship between them.

Table 3a. Ordinary Least Squares Regression Results of the Nominal Interest Rate Function, 1970 to 1987

Dependent variable is NIR

Regressor	Coefficient	Standard Error	T-Ratio (Probabilty)
CONSATANT	12.5559	1.6275	7.7144(.000)
FR	0.019805	0.027695	0.71509(.485)

R-Squared 0.030970
R-Bar- Squared-0.029594
F-Statistic (1,16) 0.511361 (.485)
DW-Statistic 0.36600
Cointegration Statistic -4.2550140(-3.7612)*
* 5 percent critical value in brackets

Table 3b. Ordinary Least Squares Regression Results of the Nominal Interest Rate Function, 1988 to 2000.

Dependent variable is NIR

Regressor	Coefficient	Standard Error	T- Ratio Probability)
CONSATANT	22.9993	3.02220	7.61061(.000)
FR	0.19224	0.10402	1.8482(.084)

R-Squared 0.18548
R-Bar- Squared 0.13118
F-Statistic (1,15) 3.4157(.084)
DW-Statistic 0.75882
Cointegration Statistic -5.8445(-4.1109)*
* 5 percent critical value in brackets

The regression results of Table 3a and 3b indicate that our estimated long-run real interest rates for the pre and interest reform periods are 12.56 and 23.00 respectively. (It must be pointed out that in this study, our concern in estimating the interest rate function is to get an estimate for the regression constant which is our long-run real interest rate. We are not using the model for prediction (forecasting) or any other analysis. Even though the R-Squared and F-statistic values are very low, they do not affect the precision and reliability of our constant parameter estimates. The Durbin-Watson statistics are also very low, indicating the presence of of positive autocorrelation. However, in the presence of positive autocorrelation, the Ordinary Least Squares (OLS) estimators are still linear, unbiased and consistent (see Gujarati, 1988 p. 363). Furthermore, the variables are cointegrated as indicated by the significant cointegration statistics.)

The next step is to compute the various equilibrium nominal interest rates in order to get the corresponding deviations from the actual rates for both periods. Columns 5, 6 and 7 of Tables 4a and 4b show the computed equilibrium nominal interest rate (ENIR), the magnitude of the deviations (NIR-ENIR) and the associated Chi-square statistic respectively.

Table 4a. Computation of Equilibrium Interest Rates and Level of Financial Market Efficiency 1970 to 1987

YEAR	NIR	LRRIR	FR	ENIR	NIR-ENIR	(NIR-ENIR)2 / ENIR
1970	6.5	12.56 6	3.0	15.56	-8.81	4.99
1971	11.0	12.5 6	8.0	20.56	-9.56	4.45
1972	11.0	12.56	10.8	23.36	-12.36	6.54
197	7.5	12.56	17.1	29.66	-22.16	16.56
1974	7.5	12.56	18.8	31.36	-23.86	18.15
1975	10.0	12.56	29.8	42.36	-32.36	24.72
1976	10.0	12.56	55.4	67.96	-57.96	49.43
1977	10.0	12.56	116.5	129.06	-106.5	87.88
1978	15.25	12.56	73.1	85.66	-70.41	57.87
1979	15.25	12.56	54.5	67.06	-51.81	40.03
1980	15.25	12.56	50.1	62.66	-47.41	35.87
1981	15.25	12.56	116.5	129.06	- 113.81	100.36
1982	15.25	12.56	22.5	34.86	-19.61	11.03
1983	15.25	12.56	122.8	135.36	- 120.11	106.56
1984	18.34	12.56	39.0	51.56	-33.22	21.40
1985	18.46	12.56	10.4	22.96	-4.5	.88
1986	18.5	12.56	24.6	37.16	-18.66	9.37
1987	21.54	12.56	39.8	52.36	-30.82	18.14

Degrees of freedom (n-1) = 17

The critical values at 0.05 and 0.01 levels of significance are 27.59 and 33.42 respectively.

It is quite evident from Table 4a that the financial market was grossly inefficient (distorted downwards) with a magnitude of negative 783.93 and a Chi-square value of 614.25 in the pre-reform period (1970-1987). During the interest rate liberalisation period (1988-2004), we still see a low level of financial market efficiency (downward distortion); with a magnitude of negative 439.62 and a Chi-square value of 245.1 (see Table 4b). However, there has been a fair improvement in the level of financial market efficiency by 43.98 percent. This is because the magnitude the pre-reform level of financial market inefficiency or distortion which stood at negative 783.93 has fallen to negative 439.62 (a decrease of negative 344.73; that is 43.98 percent.

Table 4b. Computation of Equilibrium Interest Rates and Level of Financial Market Efficiency 1988 to 2004

YEAR	NIR	LRRIR	FR	ENIR	NIR-ENIR	(NIR-ENIR)2 / ENIR
1988	21.04	23.00	31.4	54.4	-33.36	20.46
1989	23.13	23.00	25.2	48.2	-25.07	13.04
1990	24.65	23.00	37.1	60.1	-35.45	20.91
1991	26.41	23.00	18.0	41.0	-14.59	5.19
1992	22.66	23.00	10.1	33.1	-10.44	3.29
1993	29.07	23.00	25.0	48.0	-18.93	7.47
1994	29.08	23.00	24.9	47.9	-18.82	7.39
1995	32.37	23.00	59.5	82.5	-50.13	30.46
1996	32.28	23.00	46.6	69.6	-37.32	20.01
1997	33.50	23.00	27.8	50.8	-17.30	5.89
1998	23.30	23.00	14.6	37.6	-14.30	5.44
1999	17.11	23.00	12.43	35.43	-18.32	9.47
2000	27.61	23.00	25.6	48.6	-20.99	9.07
2001	18.22	23.00	32.9	55.9	-37.68	25.40
2002	13.38	23.00	14.8	37.8	-24.42	15.78
2003	12.45	23.00	26.7	49.7	-37.25	27.92
2004	10.35	23.00	12.6	35.6	-25.25	17.91

-439.62 245.1

Degrees of freedom (n-1) = 16;

The critical values at 0.05 and 0.01 levels of significance are 26.30 and 32.00 respectively.

6.0 CONCLUSIONS AND POLICY IMPLICATIONS

The results of the study have revealed that the interest liberalisation policy has not yet succeeded in correcting the financial market inefficiency or distortion in the country, even though the level of the inefficiency in the country has fairly improved by 43.98 percent as compared to the pre-reform period (1970-1987).

The policy implications are that there is the need to intensify efforts to significantly reduce the inflation rate for a corresponding reduction in the nominal interest rate, in order to minimise or eliminate the level of financial market inefficiency in the country. Reduction of high risks associated with lending and borrowing, high bank transaction and other related costs would also help in reducing the high level of the prevailing interest rates (the inflation rate and the interest rates are crucial variables in this regard).

Future Research Direction

A further research may be necessary to examine the extent to which the interest rate reform policy has promoted external integration of the Ghanaian financial market as this may help in formulating policies to prevent any implied capital flight from the country.

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Appendix

Variables and Their Definitions

NIR = Nominal interest rate (it is the average of nominal deposit rate and nominal lending rate).

FR = Inflation Rate. Calculated as the percentage change in the annual consumer price index (CPI), with 1995 as the base year.

FD = Financial deepening (M2/GDP)

RIR = Real interest rate. Computed as the difference between nominal interest rate and the inflation rate.

SRRIR = Short-run real interest rate. This is equivalent to real interest rate (RIR).

LRRIR = Long-run real interest rate

ENIR = Equilibrium nominal interest rate

NDR = Nominal deposit rate. This is the average of annual savings and time deposit rates

RDR = Real deposit rate. Computed as the difference between nominal deposit rate and the inflation rate.

NLR = Nominal lending rate. Calculated as the average of annual lending rates to various sectors

RLR = Real Lending rate. Computed as the difference between nominal lending rate and the inflation rate.

DLRS = Deposit-Lending rate spread. Calculated as the difference between nominal lending rate and the deposit rate.

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THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN SUB-SAHARAN AFRICA

Dr. Samuel Adams

Abstract

The study examined the determinants of foreign direct investment (FDI) in Sub Saharan Africa between 1970 and 2000. Results indicate that trade liberalization has been the main determinant of FDI over the three decades. However, the low level of FDI inflows to the region, suggest that liberalization policies are necessary but insufficient in attracting FDI. Policy makers in the region should therefore focus on institutional reforms and improve the business climate to enhance the region's chances of attracting more FDI. On the other hand, multinational enterprises could exploit the favorable FDI policy environment to negotiate favorable terms of entry and reap the benefits of being first-movers.

Introduction

Foreign direct investment (FDI) inflows to the various regions of the world have grown dramatically in the past two decades. The total world FDI inflows, which stood at $59 billion in 1982, grew dramatically to $648 billion in 2004 (United Nations Conference on Trade and Development [UNCTAD], 2005). By the end of 2004, the total foreign aid (grants) and net official flows (aid and debt) to developing countries were $47.4 billion and $22.6 billion, respectively, while net FDI flows were $165 billion dollars (Global Development Finance [GDF], 2005). As a result, by the end of the twentieth century, FDI had become an important alternative in the development finance process.

However, FDI inflows have tended to concentrate in a few countries. Of the $648 billion of global FDI inflows in 2004, the developing world received nearly $165 billion, of which Sub Sahara Africa (SSA) accounted for only $12 billion, or about 2% global inflows. It is important to note though that FDI inflows had increased to nearly $36 billion by the end of 2006, it was mainly due to high oil and gas prices (UNCTAD, 2008). Bende-Nabende (2002) claims that despite SSA countries offering incentives to investors yet they do not make it to the "short list" when it comes to locational investment decisions for FDI. Africa's situation presents a paradox, as most studies report that the return on investment is greater in Africa than in any other region of the world and yet the region accounts for the least amount of FDI inflows (UNCTAD, 1999). UNCTAD (1999) indicates that the rate of return of U.S. investment in Africa stood at 25.3%, compared to 12.5% in Latin America and 16.2% in Asia.

This paper contributes to the literature on the determinants of FDI in two main ways. First, a regional study helps to reduce any bias associated with having countries that are very different in the regression analysis. Crenshaw (1991), Singh & Jun (1995), Root & Ahmed. (1979), and Kobrin (2005), for example, claim that a broad consensus on determinants of FDI has been elusive because most studies have analyzed determinants of FDI by pooling structurally diverse countries. Further, Sethi et al. (2003) argue that multinational enterprises usually evaluate prospective FDI destinations on a regional basis. Second, the study analyzes the dynamic nature of FDI determinants between 1970 and 2000 as multinational enterprises (MNEs) are known to continuously pursue new strategies to enhance their competitiveness. Thus, the study will help to identify whether the determinants of FDI in the context of SSA have changed in the last three decades.

The rest of the paper is organized as follows: Section 2 discusses the theoretical and empirical literature on FDI. Section 3 describes the data and methodology, and Section 4 analyzes the results. Section 5 presents the implications, direction for future research, and offers concluding remarks.

Literature Review

Theoretical Review

Though many theories of the determinants of FDI have emerged over the past 50 years, no one theory predominates. The theories that have gained prominence in explaining FDI are based on market imperfection and market failure (Hymer, 1976, Knickerbocker, 1973; Rugman, 1981; Dunning, 1981). A brief review of the market imperfection and market failure theories follows.

Hymer (1976) claims that FDI can be used as a means of transferring knowledge and other firm assets, both tangible and tacit, in order to organize production abroad. Knickerbocker (1973), on the other hand, argues that most MNEs follow their rivals into new markets as a strategic response in a process of oligopolistic rivalry (the so-called bandwagon effect or "follow the leader" syndrome). Bird (1999) refers to the bandwagon or contagion effect as "herd behavior" of foreign investors for which there may not be a universal agreement on the underlying macroeconomics. It may reflect the firms' uncertainty and a reluctance to be isolated or left behind. Recently, however, the theory of internalization and the eclectic theory dominate the FDI literature. Internalization theory basically describes the ability of a multinational enterprise (MNE) to use its internal market to produce and distribute products in an efficient manner in situations where a regular market fails to operate (Rugman, 1981a; 1981b; 1983). Buckley & Casson (1976) claim that MNEs internalize their intermediate markets and production processes to reduce market imperfections and uncertainty. Similarly, Rugman (1983) argues that the failure of markets and, in certain cases government restrictions (taxes and regulation) on the use of the market necessitate the need for a firm to use an internal market to monitor and control the use of its firm-specific assets.

Dunning's eclectic theory or Ownership - Location - Internalization (OLI) paradigm of FDI is the most comprehensive and accepted (Eden and Potter, 1993). Ownership advantages refer to firm-specific characteristics (marketing skills, finance, and organization) that may allow a firm to overcome production constraints in a foreign country. Internalization refers to the ability of the firm to manage and coordinate activities internally in the value added chain. Location advantages refer to the host-country factors that lower cost of production, including tax incentives and a skilled and cheap source of labor. The OLI model is therefore a synthesis of many theories based on market imperfection or market failures which seek to identify and evaluate the factors that influence why and where MNEs would want to invest or produce abroad. Such investment could be natural or resource-seeking, market-seeking, efficiency-seeking; or assetseeking (Dunning, 2002; UNCTAD, 1998, 2001).

The main thrust of the FDI theories, as noted by Sethi et al. (2003) is that a firm's knowledge and skills constitute tacit ownership advantages which take time to evolve; however, MNEs are able to manipulate these advantages by leveraging them through worldwide investments. It is important to note, however, that the various theories taken independently do not fully explain the incidence of FDI inflows (Buckley, 1988). For example, ownership advantages do not by themselves justify foreign production; they only suggest that a firm commands a competitive edge that can be exploited in several ways other than through establishment of foreign subsidiaries (Ancharaz, 2003). Consequently, locational or ownership advantages by themselves are necessary but insufficient condition for attracting FDI (UNCTAD, 1992).

Robock and Simmonds (1989) critique internalization theory, indicating that it focuses on the internal motives of the firm and gives little attention to external factors such as government policies that may affect the benefits and costs of internalization. On the other hand, Casson (1983) argues that internalization theory is a general theory of why firms exist and that without additional assumptions it is almost tautological. Casson therefore suggests that to make it a theory of the multinational enterprise, it is necessary to specify assumptions about transaction costs for particular products and for trade between particular locations.

While this review of the theoretical literature is not meant to be a comprehensive comparison and critique of the various of theoretical assumptions of FDI, it does indicate that many economic, social, political and institutional factors have an effect on the location of FDI (See Sethi et al. 2003; Gastanaga et al 1998 and Dunning, 2002 for a detailed review). Many empirical studies have been conducted to give support to the theoretical basis of FDI. A few of the empirical studies on the determinants of FDI are discussed in the next section.

Empirical Review

Over the past four decades, many cross-country empirical studies have been conducted on the determinants of FDI. These studies' samples usually include developing and developed countries, developing countries from all regions of the world, or countries from particular regions of the world. Because the focus of the current study is SSA, only those developing country and regional studies on Africa are reviewed here.

Developing country studies.

Studies on the determinants of FDI in developing countries are many and varied (Kobrin, 2005; Crenshaw, 1991; Nunnenkamp, 2002). The results of these studies are inconsistent. For example, whereas Nunnenkamp (2002) and Kobrin (2005) find that traditional market-related determinants (population, GDP growth, and GDP per capita) are still dominant determinants of FDI, Crenshaw (1991) makes claims to the contrary. Nunnenkamp (2002) employed a correlation analysis to study the determinants of FDI in 28 developing countries between 1988 and 1999. Nunnenkamp (2002) reports that traditional market determinants were the most important of FDI inflows for the four periods of the study (1987, 1992, 1996, and 1999). Nunnenkamp further reports that human capital was significant at the 5% level only in the last period (1999). Consequently, he argues that the study provides little support to the view that nontraditional determinants of FDI have gained prominence in developing countries.

Similar to Nunnenkamp's study, Kobrin (2005) in a cross-sectional study of the investment climate of 116 developing countries between 1992 and 2001, reports that market size is the single most important determinant of a country's FDI inflows. In light of the inconsistencies regarding the determinants of FDI, many authors advocate for regional studies to reduce any bias in sample selection and consequently in the regression analysis. A few of the studies that focused on Africa are discussed next.

Only in the past decade have researchers began to empirically examine the determinants of FDI inflows in Africa (Morisett, 2000; Basu and Srinivasn, 2002; Bende-Nabende, 2002; Asiedu, 2002, 2006). Bende-Nabende (2002) used a co-integration analysis to examine the long-run determinants of FDI in 19 SSA countries between 1970 and 2000, and reports that market growth, market size, and export orientation were significantly positively correlated with FDI inflows. Morisett's (2000) study is more comprehensive (examines both political and institutional variables) in analyzing the impact of business climate on FDI inflows in 29 SSA countries between 1990 and 1997. The study's results show that GDP growth rate and trade openness are significant and positively correlated with the investment climate in Africa. However, he finds that none of the social or political-institutional variables is significantly correlated with FDI.

Similarly, Asiedu (2002) finds that political instability was negative but insignificantly correlated with FDI inflows to SSA between 1988 and 1997. Further, the author finds that a large share of the variation in FDI rate (60%) was explained by the degree of openness, infrastructure development, and the return on investment. However, in a later study with a longer time frame (1984-2000), Asiedu (2006) finds that institutional quality and political stability have a positive significant effect on FDI inflows. What none of the studies on SSA has done is to assess the changes over time in FDI determinants. This is the gap that this paper seeks to fill. The data and methodology employed in the analysis are discussed next.

Data and Methodology

The study analyzes the determinants of FDI inflows in 38 SSA countries using data from the period 19712000. The study was divided into three sub periods (1971-1980, 1981-1990, and 1991-2000) to identify any changes in the factors that are determinative of FDI inflows to SSA. The variables used, their symbols and sources of data collection are summarized in Table 1.

Dependent Variable

The dependent variable is the FDI share in GDP as used in Gastanaga et al. (1998), Globerman and Shapiro (2003) and Kobeissi (2005). Table 2 summarizes the data on FDI inflows between 1971 and 2000.

Independent Variables

The independent variables are classified into four groups: economic; social; political; and institutional factors. The macroeconomic variables used in the study are the rate of inflation and GDP growth. GDP growth is used to measure the rate of expansion and dynamic nature of the market (Morisett, 2000; Torissi, 1985) and the rate of inflation is a proxy for macroeconomic instability (Taylor, 2000).

Table 1: Description and Sources of Data

Variable	Symbol	Source of Data
FDI share in GDP	FDI/GDP	Global Development Network Growth Database and UNCTAD FDI database online
Real Gross Domestic Product	RGDP	World Economic Outlook (2000)
Real GDP growth rate	GROWTH	World Economic Outlook (2000) and Global Development Network Growth Database
Inflation rate	INFLA	World Economic Outlook (2000)
Urbanization	URBAN	Global Development Network Growth Database
Governance	GOV	Kaufmann et al. (2005)
Democracy	DEM	Freedom House (2005)
Trade share in GDP	OPEN	Global Development Network Growth Database
Telephone main lines per 1,000 population	TEL	Global Development Network Growth Database
Natural Resources	NAT	African Development Indicators (2004)
Human development report	HDI	Human Development Report (2005)

Table 2: SSA Foreign Direct Investment Share in GDP (FDI/GDP), 1971 2000.

Country	1971 – 1980	1981 – 1990	1991 - 2000
Angola	0.00	-3.26	7.68
Benin	0.31	1.77	4.64
Botswana	10.50	5.38	0.44
Burkina Faso	0.00	0.07	0.45
Burundi	0.50	0.63	0.90
Cameroon	1.92	0.38	0.12
Cape Verde	0.00	0.07	3.34
Central African Rep	0.66	0.44	-0.13
Chad	0.00	0.27	4.28
Congo, Rep	2.34	1.17	3.18
Cote d'Ivoire	0.93	0.42	1.18
Ethiopia	0.00	0.07	1.06
Gabon	0.74	1.32	-0.94
Gambia	0.00	0.52	6.78
Ghana	0.35	0.32	1.82
Guinea	0.00	0.63	0.81
Guinea Bissau	0.00	0.41	0.57
Kenya	1.09	0.44	0.73
Lesotho	1.04	1.94	7.40
Madagascar	-0.02	0.35	1.33
Malawi	0.77	0.66	0.11
Mali	0.13	0.24	1.72
Mauritania	3.82	1.15	2.23
Mauritius	0.10	0.89	3.31
Mozambique	0.00	0.19	2.34
Niger	1.96	0.68	0.58
Nigeria	-1.15	1.48	2.40
Rwanda	1.40	0.83	0.35
Senegal	0.48	1.19	0.75
Seychelles	6.45	6.02	4.57
Sierra Leone	-1.70	2.83	0.00
South Africa	0.00	-0.03	0.48
Sudan	0.00	0.00	1.61
Swaziland	4.86	4.99	7.95
Tanzania	0.00	0.00	1.60
Togo	3.76	1.09	1.78
Uganda	0.00	0.00	1.38
Zambia	1.59	2.60	2.39
Zimbabwe	0.00	-0.04	0.47

Note. **Data are from Global Network Growth Database and World Economic Outlook (2000)**

The social factors are the level of urbanization, proxied by the percentage of persons living in urban areas and the human development index (HDI), which is a measure of quality of life (an aggregate of three variables: health, human capital and level of development).

Many of the studies reviewed in this study used the level of democracy to measure how citizens are involved in their country's political process. Following Noorbakhsh et al. (2001) and Scully (1988), we use an aggregate measure of civil liberties and political rights as a proxy for democracy. Political rights are based on the degree to which individuals have control over those who govern. The civil liberties ranking measure the rights of the individual in terms of the independence of the judiciary or freedom of the press relative to the state. The two measures are all rated on a scale of 1 to 7, with 1 representing the most free or democratic and 7 being the least free or less democratic (Freedom House, 2005).

Kaufmann et al.'s (2005) governance indicators are used as measures of institutional quality. The indicators are government effectiveness, voice and accountability, political stability and absence of violence, rule of law, regulatory quality, and control of corruption. The scores of the six constructs lie between 2.5 and 2.5, with higher scores corresponding to better governance. The initial correlation matrix showed the six governance indicators to be highly correlated at the 1% level, with correlations ranging from p = .61 to .89. Consequently, following Globerman and Shapiro (2003), we use a summary measure that is their first principal component, denoted as GOV.

Three other variables, natural resources endowment, trade openness, and the level infrastructure development are used as control variables. Natural resource (oil and minerals) endowment is used to control for the fact that FDI inflows have been resource-driven (Morisett, 2000). We use a dummy variable for natural resource endowment: 1 for countries that are resource rich and 0 for otherwise. Trade (exports plus imports) as a percentage of GDP represents the degree of openness of a country's economy and telephone main lines per 1,000 people is used as a proxy for the level of infrastructure development (Globerman and Shapiro, 2003; Lim, 2001; Taylor, 2000).

Analysis and Results

Statistical Analysis

Ordinary Least Squares (OLS) and Two Stage Least Squares (2SLS) regressions were used in the analysis. Following Loree & Guisinger (1995) and Nunnenkamp (2002), the study analyzed three time periods (1971-1980, 1981-1990, and 1991-2000) to examine how the factors that affect investors' locational decisions have changed in the context of SSA.

Findings

The results of the study indicate that openness had a significant positive effect on FDI inflows in all the three periods (columns 1, 2 and 3); consequently, two stage least squares (2SLS) regression was used to test for endogeneity between FDI inflows and openness to trade. Following Borensztein et al. (1998), we use the lagged values of trade share in GDP as instruments. Thus, the average trade share (1971-1980) was used as an instrument for the 1981-1990 openness variable and the average of the 1981- 1990 used as an instrument for the 1991 2000 openness variable. The 2SLS regression results in Table 3 (columns 4 and 5) are qualitatively similar to the OLS regressions of the three periods (columns 1, 2, and 3). The 2SLS regressions show that trade openness is positive and significantly correlated with FDI at the 1% level indicating that trade openness did really contribute to FDI inflows to SSA.

Table 3. Regression Coefficients for Determinants of FDI in SSA (1970 2000)

	OLS 1971 1980	OLS 1981-1990	OLS 1991 – 2000	2SLS 1981 – 1990	2SLS 1991 – 2000
	1	2	3	4	5
INF	-.163 (-.864)	.261 (1.456)	.233 (1.608)	.289 (1.568)	-.204 (1.147)
AGDP	.134 (.700)	.149 (.865)	-.308 (-.263)	.120 (.674)	-.045 (-.286)
GDP	.076 (.227)	.135 (.572)	-.02 (-193)	.130	.035 (000)
URBAN	.060 (.235)	.103 (.495)	-.323** (-2.202)	-.0269 (-.119)	-.266 (-1.516)
HDI	.014 (.057)	-.079 (-.371)	-.079 (-.371)	-.042 (-.180)	-.360 (.722)
DEM	.346 (1.740)	.063 (.311)	.063 (.311)	.208 (1.004)	-.041 (-.186)
OPEN	.459** (2.302)	.544*** (2.739)	.544*** (2.739)	.801*** (3.435)	.760*** (4.095)
NAT	.327 (1.539)	-.215 (-.981)	-.215 (-.981)	-.008 (-.038)	-.095 (-.481)
TEL	-.190 (-.492)	-.140 (-.611)	-.140 (-.611)	-.212 (-.888)	-.081 (-.430)
GOV			.178 (.869)		.061 (.244)
N	26	35	38	31	31
R^2	.540	.28	.354	.432	.381

Note. t statistics in parentheses.
*Significant at the 10% level. **
Significant at the 5% level. ***Significant at the 1% level

The main finding of the study is that openness to trade had the greatest impact on FDI inflows to SSA over the past 30 years. An important observation of this study is that most of the results are sensitive to small alterations in the conditioning information set (preliminary results not shown here).Consequently, the paper finds evidence to support Chakrabarti (2001) and Morisett's (2000) assertion that openness to trade has a greater likelihood to be correlated with FDI inflows than any other variable. The lack of significance of the natural resource variable is surprising, because UNCTAD (1999) indicates that nearly 53.4% of SSA's FDI stock at the end of 1997 was in the primary sector. This might be due to the fact the dummy variable approach employed in this study may not be capturing the actual value of natural resources. The negative coefficient of the urban population is also interesting in the sense that most other studies report either a positive relationship or a significant positive relationship between the two variables. For example, Crenshaw (1991) and Ioannatos (2001) find a significant positive impact of urban population on FDI inflows, but Morisett (2003) finds a positive but significant relationship between urbanization and FDI inflows. It is important to note, however, that unlike Morisett's (2003) work, which studied African countries, Crenshaw's (1991) study involved only developing countries and Ioannatos' (2001) study sample was made up of both developing and developed countries.

The governance variable is positive but not significantly correlated with FDI. In an earlier study, however, Asiedu (2002) reports that the low level of FDI inflows to Africa could be explained by the poor quality of institutions compared to other regions of the world. Unlike this study, however, Ancharaz (2003) in a study of 84 developing countries, reports that institutional quality was negatively correlated with FDI inflows to SSA. The inconsistency in the effect of governance on FDI inflows might be due to the difficulty in the operationalizaton of the governance measure. On the other hand, the lack of significance might suggest that most of the countries in the region have not reached the necessary threshold needed to impact positively on FDI inflows.

Finally, democracy was not found to be significant in any of the regression equations, and hence it can be argued that democracy has not been a key factor in FDI inflows to SSA. This finding supports Morisett's (2000) assertion that while trade openness is significantly correlated with FDI inflows to Africa, social, political and institutional variables have not had an appreciable impact on FDI inflows. The implications of the study are discussed next

Implications and Directions for Further Research

The study's finding that countries that open up their economies are more likely to attract FDI should encourage policymakers to increase their participation in the globalization process as well as regional economic integration. However, the low level of FDI to SSA might mean that liberalization policies are necessary but not sufficient to attract FDI. Trade openness must be accompanied by proactive policies that encourage improvements in physical and governance infrastructure, human capital, and business climate to improve the region's chances of attracting more FDI (Dunning & Hamdani, 1997). This is especially important because MNEs are continuously examining how they can operate their production processes more efficiently (Dunning, 2002; UNCTAD, 1998, 2001).

UNCTAD's (2002) *World Investment Report*, notes that regionalism has become a dominant factor in investors' locational decisions. Further, Nyikuli (1999) claims that not only do regional blocs offer opportunities for investment and trade, but they are also a politically stabilizing factor. Consequently, policymakers in SSA must begin to examine how regional blocs like the Economic Community of West African States (ECOWAS) and the Common Market for Eastern and Southern Africa (COMESA) can be used to facilitate FDI inflows and promote the region's over all economic development.

Obviously, the current regional developments including opening up their economies and implementing favorable policies to foreign investors have implications for MNEs. First, MNEs should not wait for the perfect environment to invest in SSA especially if they are looking for significant first-mover advantages. Clearly, first-mover advantages including the opportunity to build the MNEs' image and reputation, loyalty of first time buyers, best choice of local partners will enhance MNEs' profitability (Ramamurti & Poh, 2004). Second, MNEs should exploit the current favorable FDI policy environment to negotiate favorable terms of entry. As FDI-based development become a commonplace and the competition for FDI increases in SSA, the balance in bargaining shifts in favor of the

MNEs (Narula & Dunning, 2000). Third, the similar social, cultural and economic conditions create opportunities for MNEs planning to invest in SSA to apply standardization strategies to achieve economies of scale. Further, the establishment of investment promotion agencies across the region has not only resulted in competition for FDI but also convergence of regulations on MNEs, which can lower costs and uncertainty (Ramamurti, 2004).

Finally, an even more important reason for MNEs to consider SSA as FDI destination is that the economies of developing countries are gradually becoming linked to private investment (Trevino & Mixon, 2004). It has been shown that MNEs can enhance their own bottom line by investing in the poorest nations of the world (Prahalad & Hammond, 2002). The long term survival strategy for MNEs in the region, however, is to balance their profit expectations and the need to be socially responsible (Meyer, 2004). The impact of MNEs on their environment must be important to managers, as positive spillovers help build the image and bargaining position of the MNE with the host government (Woodward et al., 1995).
Accordingly, through FDI, MNEs can act as agents of social and institutional reforms in host countries, which in the long run might promote and enhance the profitability of the MNEs. Consequently, the way forward for MNEs seeking to invest in SSA is to be proactive and implement strategies that are not limited to their private goals of profit maximization but also promote policies that support the development of the region. Potential MNEs must have an agenda to invest in educational and technological infrastructure to increase the absorptive capacity of the local citizens and enhance the positive externalities that the MNEs bring to the local economy.

In discussing the results of the study it is worth mentioning a few of its limitations. The lack of consistent data across countries in SSA limited the analysis to a maximum of 38 of the 48 countries in the region. Further, the study examined the overall FDI inflows and hence does not give any information with respect to the sectoral distribution of FDI. The limitations and implications of this study offer some important areas for future research. First, the lack of consistent data across countries might mean that cross-country studies need to be complemented with country-specific studies to provide more information on the factors that affect the locational decisions of foreign investors in SSA. Second, the lack of a robust relationship between most of the explanatory variables and FDI suggests the need to employ both qualitative and quantitative methods to better understand the factors that promote FDI inflows. Third, there is a need for more empirical research on the role of MNEs and the linkages that are necessary to promote the growth and development of both the MNEs and the host countries in which they invest.

Conclusion

This study shows that the degree of openness has been the most important determinant of FDI inflows to SSA over the past 30 years. However, the lack of significant impact of the governance infrastructure and human development index on FDI inflows to SSA indicate that the study's results does not support the thesis that non-traditional determinants of FDI have gained prominence in SSA. This finding might explain the low level of FDI inflows to SSA, as most FDI to the developing world in the 1990s have been efficiency rather than natural resource or market seeking.

The main lesson of this paper is that trade liberalization by itself is not a sufficient condition for FDI inflows. Trade openness must be accompanied by policies that encourage improvements in physical and governance infrastructure, human capital, and business environments to improve the region's chances of attracting more FDI. Good governance is not only a prerequisite for growth but also a necessary factor for attracting FDI. On the other hand, MNEs need to exploit the favorable FDI environment to reap the benefits of being first-movers, but even more important, MNEs must be upbeat and implement strategies that are not limited to their private goals of profit maximization but also enhance the positive externalities that the MNEs bring to the local economy. The argument of this paper is that governments' overall development policy matters if the region is to increase its share of global FDI inflows. However, MNEs willing to invest in the region need to complement the development effort for their own long term survival and growth.

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CONCEPTUAL PARADIGM AND RETHINKING PROJECT FINANCE STRATEGY FOR HIGHWAY PROJECTS FINANCING IN GHANA

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Abstract

Project finance (PF) strategy is a finance process for infrastructure projects that integrates a mixture of equity and debt financing from different sources, which derive their return from the revenue steam of the project over a long-term period with equity component consisting of 20% - 40 % whereas the debt component is of 40% - 80%. Most theoretical and empirical studies on project finance strategy focus on adoption of project finance strategy in financing large capital-driven projects such as petrochemical projects, mineral extractions and exploitation of 'green' ventures in developed and emerging economies. Meanwhile, the demand for basic infrastructure projects delivery, more especially, highway projects in developing economies such as that of Ghana are in excesses of what the governments' budget allocations can afford. The paper utilized literature and theory to examine the position of highway construction financing and provides rethinking into possible exploitation of project finance strategy as an alternative means of financing highway projects in Ghana. The paper concluded that revenue-generating mechanisms from the project should be set up characterized by potentially low-risk grading in order to attract PF investors. The originality and value of the study is the integrated and holistic approach of viewing the problem between theoretical and empirical interface. The paper's key contribution to knowledge is the identification of influential variables in a typical PF deal in the context highway projects funding.

Introduction

Spending on road network accounts for between 0.5 and 10 percent of public expenditure and between 10 and 20 percent of the development budget in many countries (Gwilliam and Shalizi, 1999). In view of that, the Ghana Highway Authority (GHA) was initially established under NRC Decree 298 in 1974 with sole authority to plan, implement and maintain all types of roads in Ghana (Kwakye, 2002). This has been superseded by Act 540 of 1997 to reflect changes, which have occurred in the road sub-sector. Now, GHA is charged with the responsibility for the administration, development and maintenance of trunk roads (thus, aggregate distance of 13,400Km) and related facilities in the country. Among its mission is to provide a safe and reliable trunk road network at optimal cost by taking advantage of modern technology in road building and new income-generating methods to facilitate socio-economic development in the country (GHA, 2005). Before 1983, about 60% of the road network was in poor conditions due to lack of funds for road construction and maintenance works with marginal development in recent years (Kwakye, 2002).

This has necessitated various Governments and road sector agencies to develop efficient-driven institutional framework to promote private sector participation in the areas of financing and managing highway projects in Ghana through specialized designed instruments such as; BOT, BOOT, MOT, BOO, MOO, PFS, etc. In this paper, we narrow our scope to PFS and focussed on providing technical analytical framework for considering PF strategy as an alternative means of financing highway projects in Ghana. Analysis on financial domain of road construction which, are usually classified as capital expenditures, financed through borrowing and subsequent debt servicing, are not discussed in this paper and recommended for future research.

Sorge & Gadanecz (2004) reported that project finance strategy is an important method of financing large-scale capital-driven projects in both advance and emerging economics where the demand for financing exceeds the financing supply capacity of the project sponsor. The last three decades have witnessed a boom of studies in the field of project finance whilst researchers in this area are keen and interested in the development of sophisticated and efficient-driven operating environment in developed and emerging economies (Farrell, 2003). Meanwhile, there is unparallel attention given to studies and implementation of PF strategy in developing countries and for that matter Ghana.

In the early and mid eighties, many empirical studies were conducted in developed countries, notably those pioneered by Wynant, (1980) and Nevitt, (1983) which provided holistic view about PF strategy and further development of grounded theories. Subsequently, in the 1990s, another group of studies made excellent reports on PF strategy; prominent among such studies were those engineered by Fadhley (1991) and Shawa (1995). These studies were tailored to investigate the motives and objectives of borrowers, lenders and host countries in adopting PF strategy in financing petrochemical projects in LDCs. Available literature provides enough grounds that PF strategy has been explored in the past and is still evolving with potentially huge acceptance accross many economic sectors in both developed and emerging economies (Reinier, 2003). Despite the tremendous recognition of PF in literature and excellent contribution of PF strategy towards achieved developmental goals and governmental agenda in many developed countries, it is unfortunate that PF strategy has received little or no attention in terms of implementation and research-oriented innovations in every economic sector of Ghana.

However, Ghana's developmental strategy for the next decade or so will continue to address macroeconomic imbalances. Thus, the government focus is geared towards removing structural bottlenecks and creating an environment for sustained and balanced growth with major emphasis on efficient communication networks throughout the country. The goal of the paper is to examine the funding patterns of highway construction projects delivery in Ghana with special reference to project finance strategy. In achieving the set purpose, the following objective to explore PF strategy in both conceptual context and to present a set of stylised facts that will stimulate fresh thinking and exploitation of PF strategy in highway construction projects delivery in Ghana.

Methodology

The paper employed mainly secondary data (i.e. literature review) supplemented by primary data (i.e. interviews with the Ministry of Roads and Transport; and selected local and foreign banks in Ghana). The interviews were kept informal, simple and informative enough in other to derive the best from it. The interviews addressed a number of issues arising from the literature such as the choice of funding and financing methods used for highway construction projects delivery in Ghana, the value of the projects executed, funding agency, constraints and challenges. The analysis on the trends of financing highway construction projects delivery in Ghana contained in this paper is based on the identified database of highway projects that have been signed and executed in Ghana between the periods of 1980 and 2006. Explanation building analytical technique was adopted to analyse and present the research findings scientifically.

Theories and Definitions PF Strategy

The term "project financing" has been used to describe all types and kinds of financing of capital projects with or without recourse, on-balance sheet or off-balance sheet, since its inception by the Americans in the early seventies. However, PF strategy has evolved in recent years to have a more precise definition (Nevitt & Fabozzi, 1995). Notwithstanding, in an attempt to define PF, it is realized in existing literature, that there is no particular definition that adequately covers all the variations in the theories of PF strategy. Over the period, many PF definitions and theories have been originated by different researchers. In this paper, we explored five influential defintions of PF and expatiated on the parameters that stimulate fresh thinking into project finance.

Table 1: Definitions of project finance

Author (s)	Definition
Nevitt, P.K., & Fabozzi, F. (1995)	The financing of a particular economic unit under which the lender partially or wholly relies upon the assets of the unit for collateral and upon the cash flow from the units as its source of funds for the repayment of debt; which the project may take longer period to put in place
Herrick J., (2000)	A finance process for infrastructure projects that integrates a mixture of equity and debt financing from different sources, which derive their return from the revenue steam of the project over a long-term period. Whereas equity component of PF package consist of 20% to 40 %, the debt component is of 40% to 80%
Leslie E. Sherman (2002)	Project financing involves non-recourse financing of the development and construction of a particular project in which the lender looks principally to the revenues expected to be generated by the project for the repayment of its loan and to assets of the project as collateral for its loan rather than to the general credit of the project sponsor.
Farrell, L.M. (2003)	The financing of a project by a sponsoring entity whereby the cash flows generated by the project serve as the source of funds from which the loan will be repaid and where the assets of the project serve as the collateral for the loan
Sorge, M., & Gadanecz, B. (2004)	Limited or non-recourse financing of a new project through the establishment of vehicle (project) company. Sorge and Gadanecz further argued that the reliance on non-recourse debt represents the key differences between project finance and traditional corporate finance.

Analytical Domain for Considering PF Strategy in Funding Highway Projects

Gwilliam and Shalizi, (1999) and Gwilliam and Kumar, (2003) argued that the establishment of a road fund may affect the efficient working of the economy through three main channels. The first channel: fiscal control influences the efficiency with which resources are collected and allocated among activities to maximize total community welfare (Gwilliam and Shalizi, 1999). The second channel, management incentives partly determines the efficiency with which the agents of production use the resources allocated to them (Gwilliam and Kumar, 2003). The third channel, rent-seeking behaviour, can adversely affect both fiscal control and management incentives. Rent-seeking behaviour occurs when individuals or agencies attempt to secure their own specific advantage at society's expense. The relative importance of and balance among these channels critically affects the assessment of the usefulness of project finance strategy as an alternative to traditional road financing.

Fiscal Control and Allocational Efficiency

Public finance economists argue against earmarking because the optimal charge on road users would be unlikely to generate the revenue stream required to finance the optimal stream of road maintenance expenditures in terms of scale or timing (Heggie, 1995). If this is always true, then project finance may be defeated contextually in terms of applicability in highway financing. Nonetheless, in any given time period, any earmarked stream of revenue is likely to generate either insufficient or excessive funding. Too little funding causes the road authority to require continued recourse to the general budget whilst too much funding creates the potential for financing lower-priority expenditures (Gwilliam and Shalizi, 1999).

In the former case, ensuring independence from poor budgetary processes and allocations requires rate-setting capabilities; in the latter case, avoidance of wasteful allocations requires public accountability through strict monitoring and auditing mechanisms. A related point is that current political pressures or the electoral cycle may result in myopic decisions. Vehicle operating costs, which do not enter into the road agency accounts, make up a high proportion of total transport costs (7590 percent); these costs increase progressively as road conditions deteriorate (Harral and Faiz 1988). Expenditures on timely maintenance do not yield such obvious improvements in system performance as do expenditures on new investment. Yet long-term investment funded at the expense of optimum maintenance actually leads to a long-term decline in total available road system quantity and quality. The introduction of explicit road user charges, directed to a road fund in lieu of allocations from the general revenue budget, would contribute to allocative efficiency.

The introduction of explicit road user charges, however, would not automatically eliminate the need to address tradeoffs. In the absence of complete independence between specific road user charges and general taxes, securing funding for roads would entail an opportunity cost in other sectors. For example, in developing countries with low taxable capacity, fuel taxes represent a fairly secure tax source, accounting for 7 to 30 percent of total tax revenues and 1 to 3.5 percent of gross domestic product, or GDP. The loss of control over this source of revenue may particularly damage the central government's economic management abilities.

Introducing an indirect road user charge, in the form of a surcharge on fuel taxes, would limit the government's ability to increase taxes on fuel for general tax purposes. The independence of general taxing capacity from the level of road user charges is likely to be greatest when a group of beneficiaries is well defined and the payment of user charges is directly linked to the receipt of services.

Management Incentives and Operational Efficiency

The life of a highway investment and the benefits accruing from it depend on the maintenance of the facility (Gwilliam and Shalizi, 1999). Most appraisals assume optimal maintenance, although they may not explicitly address what this implies. Failure to provide the required maintenance effort means that the return on the initial investment will be lower (Gwilliam and Kumar, 2003). If normal budgetary practices do not provide the necessary funding for optimal maintenance, then project designers and evaluators should reduce the likely benefit stream (and therefore the expected rate of return) or introduce complementary institutional mechanisms to ensure appropriate maintenance practices.

In the first case, fewer investment projects would meet the criteria for selection. In the second case, establishment of a road fund to ensure funding for road maintenance from road user charges (quasi prices) may be the logical corollary of accepting projects with attractive rates of return, but in contexts where budget practices are poor. The introduction of project finance strategy where the management is assigned to a sponsoring company can improve managerial incentives by increasing autonomy from unwarranted political interference. In many countries, wrangling over the budget delays its approval and disbursement. Even if the total level of road funding is open to competition from other demands, a road fund may enable the executing agency to perform more efficiently by guaranteeing the availability of a secure core of funding. The guarantee of a core of finance may also allow road agencies to extend and improve contracting arrangements with the private sector.

In Ghana, the greater certainty of funding associated with earmarking allowed the introduction of effective competitive bidding. In general, more reliable financial arrangements lead to better use of resources. Operational efficiency may also increase if users willingly pay for maintenance because the road authority channels payments more directly to the provision of a service of value to the users. (The availability of these additional resources, which might not be forthcoming otherwise, can also improve the government's ability to manage macroeconomic imbalances.) Some countries, including many in Sub-Saharan Africa, have experienced a severe crisis in the maintenance of their main road networks. Heavy users, such as truckers and other operators of commercial vehicles, have demonstrated a willingness to levy an additional charge on their "own" use of fuel to finance a road fund with responsibility for maintaining a core network. There is no mystery to this behaviour. Users more than recoup the surcharge if it is dedicated to fund better road maintenance, which in turn reduces vehicle-operating costs.

Rent-Seeking Behaviour and the Distribution of Welfare

At the heart of the problem of traditional road financing was the failure of the associated earmarking arrangements to address incentive and governance issues. Unlike marketable commodities, including deregulated rail and airline services, the typical traditional road fund had no link between the tax rate (or the amount of taxes earmarked) and spending priorities (in light of the level of road use).

Road fund managers had incentives to maximize their discretionary expenditures (including investment in low-priority roads or ancillary activities) rather than to optimize the level of road maintenance. The combination of public scrutiny and periodic monitoring by a competent central bureaucracy may provide some defense against this problem in industrial countries, but that combination is less likely in developing countries with less developed institutional capabilities. Public choice theorists express skepticism even about institutional capabilities in industrial countries, including the political process that translates citizens' preferences into public action. Essentially, they believe that diverse citizens' preferences do not permit aggregation into a well-defined community preference function. They also believe that monitoring costs and informational asymmetries may enable public officials (regardless of whether they respond to organized pressure groups) to project their personal interests onto their function of allocating resources. Moreover, they believe that budget choices do not depend solely on the inherent costs and benefits of services but also on the ability of one set of taxpayers to transfer the costs of programs that benefit them to others. Where individual preferences for public goods differ, separate earmarked funds could potentially increase general welfare if the payments to those funds reflect individuals' relative marginal utilities for different public goods.

Despite the ingenuity devoted to designing ways of getting consumers of public goods to reveal their marginal utilities truthfully, this analysis remains difficult to apply practically. Quasi prices, or user charges, may have welfare advantages because they can be levied approximately in proportion to the demonstrated benefit of consumption. Public choice theorists have pointed out a fundamental flaw in general fund budgeting. That is, heavy consumers of a service that is financed through general taxes would benefit from lobbying for larger expenditures on that service (thereby transferring welfare to themselves). At the same time, non-consumers would argue for lower expenditures. The outcome depends on the respective political power of the parties, rather than the aggregate value attached to each individual service.

The road authority can eliminate this bias by setting prices, such as tolls and vehicle duties, for the beneficiaries of a specific service. Using a fuel surcharge as a quasi price for road use (with appropriate corrections for agricultural vehicles and for fuel not used for road vehicles) is analogous to establishing a special taxing district. These districts are common in the provision of some facilities, such as water, and could be consistent with the government's pursuit of redistribution objectives through its policies on general taxation and the allocation of merit goods. The argument for earmarking as a way of separating allocation and distribution issues may also be applied spatially. The government could implement a program of regional financing for services consumed regionally. This program would avoid overprovision in some regions at the expense of others as the regions compete to maximize their share of the national budget. Of course, the road authority may justify some regional disparities in provision, particularly of road investment, on both efficiency and equity grounds. The government would require operational criteria for the spatial allocation of resources, as have recently been developed for second generation road funds, regardless of whether the funds are earmarked

By Exclusion, Project Finance is Different from Traditional Finance

Off-balance sheet finance and Non-recourse or limited finance are the two fundamental elements that differentiate PF from traditional form of finance (Howcroft, 1986). Ketz, (2003), defines off-balance financing as a form of borrowing in which the obligation is not recorded on the borrower's financial statements. However, this is really a complete misnomer as almost invariably there is such mention of such finance in the accounts.

What is really meant is that the finance is not provided by means of a loan secured against the balance sheet assets of the sponsoring company (Kleimeier and Megginson, 2000). Off-balance sheet financing can employ several different techniques, which include development arrangements, leasing, product financing arrangements or recourse sales of receivables (Ketz, 2003). Off-balance sheet financing does raise concerns regarding the lenders' overall risk, but it improves their debt to equity ratio, which enhances their borrowing capacity. As a result, loans are often easy to arrange and are given lower interest rates because of the improved debt structure on the balance sheet. Off-balance sheet financing is a technique often used by multinational businesses in order to secure additional loans on the worldwide loan market (Shawa, 1995; Ketz, 2003). Similarly, Nevitt, (1983), established that non-recourse finance is a loan where the lending bank is only entitled to repayment from the profits of the project the loan is funding, not from other assets of the borrower, thus a type of debt for which a borrower is not personally liable.

Thus, if there is a default on a non-recourse loan, the lender must recover the amount owed by foreclosing on the property by which the loan is secured. Typically, non-recourse finance is ambiguous because in practice there will be recourse to some assets or revenue, however such recourse is limited (Yassucovitch, 1978). What non-recourse finance meant in concept is that there will be no repayment guarantee of the loan itself whether as a direct repayment obligation of the borrower or of the parent of the company, whose interest is being, financed (Kensinger and Martin, 1988). In order to minimize the risks associated with a non-recourse loan, a lender typically will require indirect credit supports in the form of guarantees, warranties and other covenants from the sponsor, its affiliates and other third parties involved with the project (John and John, 1991; Leslie, 2002).

The Market, Participants and Sources of PF Strategy

According to Beidleman et al. 1991 and Farrell, 2003, the market for project finance involves a supply of public and private sector projects seeking financing and a demand by investors, lenders, financial intermediaries, engineering and construction contractors, and equipment suppliers, for such projects. Financing instruments used in PF strategy include leases, limited partnerships, joint ventures, warrants, conversions, swaps, caps and floors, as well as traditional forms of debt and equity financing. The project finance process includes the actual operation of the facility and expected cash flows (Shawa, 1995; Kleimeier and Megginson, 2000). According to Howcroft, 1986; Altunbaş and Gadanecz, 2003; Sorge and Gadanecz, 2004; potential sources of project financing can be enormous ranging from wide variety of domestic and international sources, including banks (i.e. commercial, banks, development banks, merchant banks) leasing companies, insurance and reinsurance companies, pension funds, governmental bond authorities, finance companies, export credits, private lenders, international financing agencies such as the World Bank Group, DFID, etc.

The financial plan should be designed to select from the various possible options the financing package, which minimizes risk adjusted financing cost consistent with the existing supply and demand conditions in global capital markets (Woody and Pourian, 1992). Similarly, integration of PF strategy into efficient-driven framework should be holistic and embodied with contingent measures to absorb potentially adverse risks that are likely to be exposed to the project at both construction and implementation stages. Thus, a more

Bird Eye View on Typical Project Financing Participants

According to Leslie, 2002, project finance participants vary from industry to industry and may typically include equity and debt participants such as sponsor (whose interest is being financed), Additional Equity Investors, Construction Contractor, Feedstock Supplier, Product Off-taker, Operator and Lender. Each participant has a characteristic motive, thus, to make profit from the investment being it medium-term or long term. The project under consideration must therefore demonstrate adequate revenue-generating potentials.

Risk Spreading is Key to Project Finance Strategy

Project finance can be best understood when seen as a means of risk spreading or risk segmentation (Wynant, 1980) that. According to Howcroft, (1986), Woody and Pourian, (1992), though these risks vary with the type of

Table 2: Participants of project finance

Participants	Characteristics
Sponsor/Developer	The sponsor(s) or developer(s) of a project financing is the party that organizes all of the other parties and typically controls, and makes an equity investment in, the company or other entity that owns the project. If there is more than one sponsor, the sponsors typically will form a corporation or enter into a partnership or other arrangement pursuant to which the sponsors will form a "project company" to own the project and establish their respective rights and responsibilities regarding the project.
Additional Equity Investors	In addition to the sponsor(s), there are frequently additional equity investors in the project company. These additional investors may include one or more of the other project participants.
Construction Contractor	The construction contractor enters into a contract with the project company for the design, engineering and construction of the project.
Operator	The project operator enters into a long-term agreement with the project company for the day-to-day operation and maintenance of the project.
Feedstock Supplier	The feedstock supplier(s) enters into a long-term agreement with the project company for the supply of feedstock (i.e. raw materials or other resources) to the project (e.g., for highway project, the feedstock supplier will supply plant and equipment, cement and concrete products, etc.).
Product Off-taker	The product off-taker(s) enters into a long-term agreement with the project company for the purchase of all the products produced from the project. This particular participant is not typical with highway projects.
Lender	The lender in a project financing is a financial institution or group of financial institutions that provide a loan to the project company to develop and construct the project and that take a security interest in all of the project assets

project under consideration, there are certain risks categories which occur in most projects and they are typically divided into pre-completion and post-completion risks. Among such risks are: reserves, credit, political, marketing, technical, operator, legal, financial, environmental, maturity, etc. According to Farrell, (2003), assessing risk to the lender in project finance is more difficult because these projects are not well-defined commercial entities with credit histories which can be used to quantify risk. Similarly, the expected future cash flows from different projects undertaken by the parent company may overlap and mingle with the cash flows of the project under project finance, which in this case, analyzing them requires a sound knowledge of the underlying technical domain as well as in-depth financial modelling skills (Leslie, 2002; Ketz, 2003).

Concussions, Recommendation and Agenda for Future Research

Investors are profit-driven entities operating in both the micro and macro economic environments towards a common purpose, thus, achieved national developmental goals. Contextually, several reasons can be accounted for using PF package towards investor expectations in both medium and long-term. The possibility of funding projects with 70% and more non-recourse debt is attractive to the sponsors and investors. Thus, project finance allows sponsors and investors to share in potentially large revenues while committing relatively little equity; deconsolidating projects off-balance sheet makes it possible for the sponsors to preserve their corporate debt capacity and keep their cost of funding low.

A further reason for the sponsors to consider project finance is that the risks of the new project will remain separate from their other activities, avoiding any potential risk contamination and enhances sharing of risk among participants. Along with non-recourse debt, another key feature of project financing is the extensive network of contractual agreements that is developed to suit any particular project structure. Again, PF strategy allows sponsors to enjoy the benefits of non-recourse debt and extensive contracting, while minimising the related risks to lenders.

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CREATIVE CONFLICT MANAGEMENT IN ORGANIZATIONS

Akua Frimpong

Abstract

In our relationships at our workplaces, we are involved in all kinds of actions, decisions, and changes that may threaten or confuse others. If these fears and misunderstandings are not quickly resolved, tension will mount and conflict will develop. Conflict itself can be positive and the idea that conflict is bad is very debilitating to organizations because it prevents growth, change, and new directions. It is not only possible but also undesirable to eliminate all conflict in an organization. However, understanding the dynamics taking place in conflict and knowing how to manage it can provide rich opportunities for organizational effectiveness.

Organizational Conflict is a natural by-product of increased societal and organizational complexity. The average community, school, church and organization these days, are composed of people from many different backgrounds, cultures, religions, races, and value systems. These differing viewpoints and behavior increase the likelihood of misunderstandings that in turn lead to conflicts. Organizational conflict has therefore become one of the manager's greatest managerial plaques.

The implication of all of this is that, it is essential that managers understand conflict and how to manage it successfully. If managers do not understand the dynamics taking place in conflict, they will tend to be "reactors" to whatever is happening in this process. Instead of turning it into a process for problem-solving, positive change, new goals, and relationship building.

Conflict management is one of the skills that enable good interpersonal relations among colleagues at work. Although essential when dealing both with superiors and subordinates, conflict management is particularly useful for negotiating and resolving disagreements among peers. Managers with this competence handle difficult people and tense situations with diplomacy and tact, spot potential conflict, bring disagreements into the open, encourage debate and open discussion, and orchestrate win-win solutions. Meaningful work conflict is therefore a cornerstone in healthy, successful organizations.

This article addresses this vital subject of conflict management with a practical approach. The article first introduces the dynamics of conflict; it identifies the types of conflict that can erupt in an organization and how to manage them successfully. First the article defines conflict and identifies some conflict pollutants that are found in organizations. Other sections of the article identify different types of conflict that usually occurs in organizations and then suggests practical approaches in dealing with these conflicts.

Conflict Management Defined

"Conflict is a situation in which two or more human beings desire goals which they perceive as being attainable by one or the other but not both. (Stagner,1967)

"Conflict occurs anytime there is a disturbance in the equilibrium and security of a protective environment.

"Conflict arises when the actions of one party threaten the value, goals or behaviors of another party.

"Conflict is two or more objects aggressively trying to occupy the same space at the same time... two persons trying to have his 'own way' regarding an important decision....'

Inevitability of Conflict
Wherever choices exist there is potential for disagreement. Thus all vital families have conflicts, as do all vital corporations, schools, colleges, and hospitals. Where there are creative, excited people, conflict arises. The challenge is to keep these conflicts open and public so that the team can take responsibility for resolving them. Such differences, when handled properly, can result in richer, more effective, creative solutions and interaction (Drolet, 1992) found that conflict are necessary to satisfaction with an organization's operating system. The stronger the norms that support productive conflict, the higher the level of satisfaction.. But, it is difficult to consistently turn differences into opportunities. When disagreement is poorly dealt with, the outcome can be *contention*. Contention creates a sense of psychological distance between people, such as feelings of dislike, bitter antagonism, competition, alienation, and disregard.

Role of Conflict
It is important that manages are not put off by the negative connotations of conflict. Rather they should accept conflict as a necessary and productive element in organizational growth. This is because institutions and individuals that lack stress fail to progress. While it may not feel good, conflict provides rich opportunities for organizations to grow. One of the assumptions that undergirds this premise about conflict is that human beings are problem-seeking animals who need conflict to survive. Human beings need challenges and problems to enrich their lives. Problems are the spice that enriches our lives.

Conflicts can lead to creative solutions to problems, leadership change that reduces frustration and conflict, the raising of morale, a more positive environment and a more efficient and organized company, and a more thorough study of options and better decisions and direction. When people can disagree with each other and lobby for different ideas, your organization is healthier.

Conflicts provide rich opportunities for organizational growth. Conflict is necessary for effective problem solving and interpersonal relationships.

Types of Conflict
Harvey and Drolet (1994), put conflict into two domains; Conflict Pollutants and Conflict Types.

Conflict pollutants
Marc Roberts (1982), defines conflict pollutants as those factors that clog and choke the climate for effective conflict management. They are elements that are not inherent in the conflict itself, but that distract from and complicate the resolution process. These pollutants need to be understood and cleaned out, otherwise, the conflict will be too toxic to resolve. Marc Roberts identifies nine (9) conflict pollutants that are prevalent in group and organizational settings.

Preference above Principles.
This is simply a contest over style and over choice of a way to proceed. Preferences are options, none of which are imperative. Principles are truths and disregarding them carries important consequences. Too often, organizational conflicts arise over preferences, not principles of management. Disputes over preferences seldom achieve the goals of the organization. They are simply skirmishes about style. And a fight over preference pollute the climate.

Expecting Too Much
This can be referred to as overblown expectations. Change takes place but when we expect too much too quickly, we create a climate for failure. Organizations and

individuals that expect too much of themselves create a climate in which unproductive conflicts flourish. In change theory, we talk of "small wins" (Harvey, 1990). It is important to allow people to change in small increments.

Poor Feedback Skills

Effective feed back skills enable people to hear what you have to say and to do something about a situation. Keeping things positive and proactive is one key to reducing conflict. Giving and receiving feedback requires courage, skill, understanding, and respect for self and others. Effective Feedback skills should describe behaviors, provide direction, and avoid attacking the person individually. When you use effective feedback skills, you increase the chances that your message will be heard and acted upon. You decrease the chances that side conflicts will emerge over the style of your message, distracting attention from the content.

Negativism and Joylessness

Joyful environments are more productive than joyless ones. A highly joyless environment breeds conflict. Keeping things positive and proactive is the key to reducing conflict

Conflict Traps

There are four major conflict traps; health, money, time and clutter. It is argued that people who feel unhealthy are more likely to engage in conflict than others. People experiencing money problems are more likely to fight than others. People who have, or think they have more to do than time permits are more likely to experience conflict than others. And people in small, cluttered environment (a feeling of their surroundings physically closing in on them) are more likely to look for conflicts. All of these are conflict traps because the conflicts that ensue are not over the real issues, but side issues. Avoiding these traps, or at east acknowledging them openly, reduces unproductive conflict.

Mushroom Syndrome

Small conflicts that are left unresolved, unspoken of and unacknowledged, often fester and grow like mushrooms and thrive in the dark. They grow and become very large and unmanageable.

Poor Problem Ownership

The more competent we are, the more our ego makes us think we can solve everyone else's problems When we try to solve someone else's problems, we do two perilous things. First, we rob the other person of the opportunity to grow by solving his or her own problem. Second, you increase the chances that you will become an actor in the conflict yourself. You can play the role of a consultant in helping others but not as a savior.

Solving before Listening

We sometimes try to solve problems or conflicts before we have all the relevant information. We hear the surface issue and deliver an immediate response. To solve conflict effectively we need to understand the problem and know the range of solutions and their consequences.

Scarcity mentality

Many people see life as a finite pie; if someone gets a big piece of the pie, it means less for everybody else. People with a scarcity mentality have a hard time sharing recognition, credit, power, or profit. They have a tough time being genuinely happy for the success of other people. This phenomenon results in conflict, tension and discomfort.

Conflict Types.

The second component of conflict management identifies five types of conflicts.

Value conflicts

Value conflicts are struggles over beliefs, tenets, or principles. They often evolve convictions held on faith, independent of evidence or logic. Value conflicts are not readily resolved. In most cases they cannot be resolved. Differing parties simply learn to coexist within an understanding or appreciation of their fundamental differences.

Tangible conflicts
Conflicts arising over elements that can be measured, divided, counted, or shared. Money is a classic area of tangible conflict. We do not have money to do everything we want, so we conflict over priorities on spending. Other tangible conflicts may concern time, facilities, personnel, benefits and the like. Tangible conflicts tend to fall in the resource domain, and, in reality, are more readily resolved than the other types.

Interpersonal conflicts
These types of conflicts arise from feelings developed from interpersonal relationships. "I've never liked you," or "I've never liked that quality in you", are a common mental script. Interpersonal conflicts arise because of different perspectives about other people, especially minority groups or people who in other ways are different from ourselves. These differences might be on the basis of race, class, background, education, politics, temperament and religion. Our biases and prejudices are capable of producing very strong feelings and divisions between people. Interpersonal conflicts are very common in all organizations and is the second most difficult to resolve.

Territorial conflicts
Either someone is trying to infringe on or take away part of another's territory, or two or more parties are disputing the same territory. The territory threatened may be physical, psychological, or spiritual. These are of two kinds- boundary penetration and boundary expansion. Boundary penetration can take many forms. You believe you have a certain territory, area or role that is being violated by someone. For instance, you think it is your job to make decisions about monetary expenditure and later find out that someone else has made that decision without your consent and knowledge. This referred to as penetration.

Again, boundary penetration occurs when two or more parties propose different goals or solutions that all cannot be accepted or put into action at the same time. In addition, when one party seeks to impose its decisions and goals on another party territorial conflict occurs. When this happens, the decisions of the stronger or more persistent party blocks the fulfillment of the aspirations of the other party. Boundary penetrations are among the most common conflicts.

The second kind of conflict in this category is *boundary expansion*. This is when one party is expecting the other party to step in and assist under certain circumstances and the expected party does not recognized it as his or her responsibility. When both of these boundary conflicts are left unresolved, they frequently lead to interpersonal conflicts.

Perceptual Conflicts
They are the easiest to resolve. They revolve around mutual misunderstanding. Perceptual conflict evolve out of failure to communicate or in adequate information.

Conflict Resolution strategy
Once you know the type of conflict you face, you need to determine an appropriate strategy. We propose some basic conflict resolution strategies.

Problem Solving
This is the most-used strategy for managing and resolving conflicts. Problem solving starts with the assumption that you must carefully define the nature of the problem, search for an array of solutions through a variety of data-gathering approaches and through a consensus, before choosing a mutually acceptable alternative. This approach involves four (4) steps:

a. ***Separate the people from the problem.*** Avoid defining the situation as the test of wills. Focus instead on working side by side on a common goal-resolving the issues at hand. Build trust to defuse strong emotions and to keep conflict from escalating.
b. ***Focus on interests, not positions.*** A negotiating position should not concentrate on the positions of the parties, but a common interest of the organization.

Expansions of resources-When legitimate demands are greater the resources at hand, simply expand or enhance the resources. This is a delightful, satisfying approach in resource-rich environments. In resource scarce times, there may be creative alternatives, entrepreneurial solutions, that do not add resources per se, but recreate their use to derive greater benefit for more people.

Superordinate Goal- this is a strategy that appeals to a higher order belief or value. These are values, beliefs or goals that overarch the conflict of the moment. This strategy is particularly effective in value conflicts when:

a. There are higher values than those under dispute
b. All parties in the dispute have a commonly held higher value

Interdependence Analysis- This works much like Superordinate Goal, the appeal is to a higher value; interdependence analysis builds on the mutual need we have for one another. For example the need for one another.

Compromise- this is one of the more common approaches to conflict management. You give up half a loaf, I'll give up half a loaf, and we will be even. This is the theory of mutual deprivation-one agrees as long as the other party is equally deprived. This strategy works well as long as the dispute entails moderately important goals. On the other hand if the conflict involves a critical organizational issue, compromise gives up too much.

Compromise assumes equal power. A supervisor and employee have difficulty compromising. Compromise also works well as an intermediate solution

Authoritative Command it is one of the most appealing and time-efficient strategies we have. "Do it because I told you to do it!" Authoritative Command however creates little investment in the solution. If people do not participate in designing a resolution, they have little commitment to maintaining it. The authoritative approach also creates win-lose outcomes or even lose-lose. When this happens, a new enemy is created. You move from the role of a helper in the present conflict situation to a combatant in a new one. It leaves the parties without the needed skills to resolve subsequent disputes.

Authoritative command is appropriate under two conditions: When speed of response and resolution are critical and when authority is acceptable to the people involved.

Organizational Structure Alteration- Partitioning of an office space, transferring an employee to another part of the organization, firing an employee, changing job roles, changing reporting structure and creating a new organizational chart to solve a conflict are all ways of altering the organizational structure to eliminate interaction between disputing parties. Changing the structure of organization is a common strategy, but the organization may lose some talented people that are hard to replace or the problem may simply be shifted to another department.

Involving a Third Party. Telling employees to work out their troubles on their own, and get along may work occasionally, but most of the time the conflict is pushed underground to resurface later in more destructive ways.

A better approach is to allow employees to meet with a third party, or *mediator* (which, in some cases, may be a manager), to assist them in their own resolution of the conflict.

There are four levels of potential interveners: facilitator, negotiator, arbitrator or intervener. . Most often, an outside mediator has a greater chance of succeeding. An insider may be part of the problem, may be perceived as favoring one of the stakeholders, and the stakeholders may be hesitant to share confidential information with an insider.

Facilitator. As a facilitator, the third party seeks to clarify the nature of the problem and to elicit ideas and feelings from the disputants. The facilitator often paraphrases and questions their positions, but always with the intent that disputants remain in charge of their own solution. The purpose is to elevate the quality of the analysis and potential solutions.

Negotiator. As a negotiator, the third party takes a stronger role than that of a facilitator. The negotiator mediates differences and forces clarification. This role is designed to equalize power between the disputants by actively providing options and delivering judgments to accomplish a just resolution. While this is an active role, the negotiator recognizes that the solution is still in the hands of the disputants.

Arbitrator. As an arbitrator, the third party has been selected by the disputants to make a decision. This role is stronger than the previous two. In deciding, an arbitrator can pursue either fixed arbitration (where the arbitrator picks one position) or flexible arbitration (in which the third party creates new alternatives). In either form, parties seek a ruling and a statement describing what they are to do.

Intervener. An intervener enters disputes independently. The conflicters have not invited the intervener and often do not welcome the intrusion. In this role, the intervener, who initiates all the action, examines the data and imposes solutions.

If the insider is a supervisor, the mediator role becomes more difficult, as supervisors tend to become overly directive, taking more of an arbiter's role and forcing a decision upon the parties.

The conflict management process is more apt to succeed if stakeholders have respect for the mediator's integrity, impartiality, and ability. Respect for the mediator is an important element in a successful negotiation. It compels stakeholders to be of their best behavior. Although not always the case, over-familiarity with an inside mediator may negate this "best behavior" effect.

An outside mediator should treat issues with confidentiality. Exceptions are such instances as where illegal activities or activities that are detrimental to the health of the organisation have taken place.

All parties should be informed of exceptions to the confidentiality rule ahead of time. Any sharing of information based on the exceptions needs to be done on a need-to-know basis to minimize giving out information that could hurt one or both of the parties. Employees may be less hesitant to speak out when assured of confidentiality.

All four of these roles have utility in conflict situations. However frequent use of the latter two roles (arbitrator or intervenor), the more toxic your organization and the more subsequent conflicts you are likely to breed. On the other hand, the more you rely on the first two roles (facilitator or negotiator), the more control internal members retain and the more investment they maintain in the outcome.

Role Analysis Technique (RAT). Role analysis technique is an excellent strategy for resolving boundary conflicts. It involves the clarification and adaptation of individual organizational roles (Huse, 1975). RAT operates on the premise that most of us are given a job description (often outmoded) on our first day of work. But jobs change and roles change with them. It is expected that somehow workers will "discover" their new roles and do them extraordinarily well. In some cases this results in boundary conflicts. Clarification and adaptation of individual organizational role in boundary conflicts are therefore very effective in solving such conflicts.

Norm Setting. A norm is an operational principle or expectation that implicitly or explicitly governs the actions of a group of people. Conflicts often arise for which you have not generated any norms or in organizations where no explicit norms exist at all. The strategy then calls for generating norms in the midst of the conflict. By its very nature, norm-setting can turn irrational situation into a more rational, focused conflict resolution session. The process of defining norms deflects immediate discussion from the "what," or content of the content of the conflict, to the more objective "how," or the procedures to be followed. It shifts the focus from laying blame for past errors to establishing guidelines for future behavior. These guidelines debar workers from using individual rules that are often in opposition.

Communication and Feedback. Communication and feedback do help when a conflict originates in misunderstanding. A disputant often assumes that another person disagrees with him or her simply because he or she does not understand. Communication do not only ease existing conflicts, but tends to eliminate future conflicts

Smoothing and Avoidance. The meaning of avoidance strategy is obvious- "I simply close my eyes and hope the problem goes away". Avoidance is usually a negative and a non-productive strategy. The conflict does not go away, it goes underground and it gets larger and larger. However, avoidance and smoothing work on such occasions as when the issue is truly trivial, a product of the immediate moment; when the timing is wrong for any other strategy; when the issue can be resolved by someone else and when you are in the midst of other more critical conflict situations.

Matching Strategies with Conflicts

One finds that there is a relationship between types of conflict and resolution strategies. For intangible conflicts, preferable strategies are Superordinate Goal and Interdependence Analysis. For tangible conflicts, Problem Solving, Expansion of Resources and Organizational Structure Alteration are preferable strategies to use. Interpersonal conflicts are best resolved by Norm-setting, Interdependent Analysis, and Human Relations Interventions. Boundary conflicts can be resolved by Role Analysis Technique, Norm-Setting, and Third Party Intervention. Finally, for perceptual conflict Norm-Setting and Communication Feedback are the best strategies to use.

Dealing with Difficult People: The Types and Responses

There are people who do not respond to rational attempts at conflict resolution. According to Harvey and Droit, difficult people come in thirteen types. These are as follows;

The Irrational type. With the irrational type, the problem is not the content o f the issue, but the inability of the person to hear anyone else. This type is impervious to communication. This type is best handled by letting them talk. By expending energy, the irrational type eventually runs out of things to say. Listening well will help discover what the irrational type is after. Questions tend to calm irrational type down. Once the irrational becomes engaged with questions, you can turn the discussion in the direction you want.

The recognition Seeker- The recognition seeker is accustomed to getting attention for negative behavior. This type will do virtually anything to get someone to notice them. To counteract the Recognition Seeker, you must withdraw recognition for negative behavior while simultaneously targeting positive behavior with praise.

The Bully-The bully loves confrontation. He/she wins by intimidation and focuses on the battle at hand. The bully is trying to overpower you. Do not retreat! Once you do, the Bully will be back, ever stronger and more insistent. Keep calm.

Space Cadet. The Space Cadet is in a different world and whatever you say fails to touch him or her. Since a space Cadet can go on forever over nothing it is best to agree and go on. Use their words to restate your position so that they feel their concerns are being addressed. Do not waste a lot of time with the Space cadet.

The Hidden Agenda Type. All of us will have hidden agendas at times, but some people repeatedly hide their intents and needs. Very often, they embroil us in fights over the secret, not the real agenda. In dealing with Hidden Agenda Types, be careful not to lose your agenda to theirs. And do not feel guilty about moving on with the initial agenda.

The Oblivious Type. The oblivious type is impervious to feedback. Although these people do not mean harm, they repeatedly violate the needs of others. They simply do not realize what they are doing. The oblivious Type needs to be confronted head on. If the oblivious type is not uncomfortable to the point of feeling dis-ease, the difficult behavior will continue.

The Whiner. The whiner has had years to practice and perfect that whine. You will never correct it. The whiner calls for an out-of-body experience. Then try to accept the message underneath the whine.

High Ground fighter. The high ground fighter is a conflictor who fights from a morally or publicly superior position. These contenders have sympathy and public relations on their side. You need to think strategically and as fast as you can about the issue

The Wonderfully Nice Person. When you think of difficult people we think of nasty types. The wonderfully nice person can also be difficult. These people overpower you with their niceness-and your guilt. You say "yes" and hate yourself later. Refuse to give in to it. Stick to what you think is important, know what you want, and do not deviate from it.

The Sniper. Snipers will not confront to your face, but only behind your back. They also seem comfortable lying to you. The only option to deal with the sniper is to bring him or her out in the open. Agreed-upon norms make up the accountability factor you want in place with Snipers. Be direct and confront.

The Know It All. The know it all knows everything about everything. These difficult people have read, seen, tried and experienced it all. They are superior, if we can judge from their tone and attitude. The know-it-all has a better way, can do it better, and can offer more suggestions than anyone else, especially after the fact. It is important to test the knowledge base of this type. The know it all may actually be an expert. By focusing on the message, you may find some real expertise. Test that knowledge by giving the Know-It-All small expert tasks to complete. In this way, you are harnessing energy that would otherwise be used for "you should have asked me."

The Passive Resister. The passive resister does not like to be direct, but likes to control through guilt and last-minute comments. Passive resisters share indirection with the sniper. They control best in group settings. The passive resister is a supreme difficult person. This type builds a reputation on his or her consistently negative participation and refusal to participate. As a result, the Passive Resister becomes the center of attention whenever he or she is asked to be involved. The Passive Resister needs to be brought into the discussion, given the opportunity to respond, and asked to declare or refuse to support a group consensus. By bringing the Passive Resister out into the public awareness, you let everyone experience the responses. If the Passive Resister continues to be so, then you must avoid guilt. They have had the opportunity to participate and refused. Let the Passive Resister know that the group is moving ahead, with or without their input.

The Indecisive. Indecisives never seem to reach a decision .More data, more time, and more options. Put under pressure the Indecisives want someone to choose for them. They hate accountability, they simply cannot choose among a variety of alternatives.

To work with indecisive, you should offer only binary choices. An effective manager provides a decisive with just two choices at a time, and then compels him to make a choice. Most of the difficult types will try to shift the problem to you. Insist the problem is theirs and they must solve it. Moreover, do not allow yourself to feel guilty or uneasy about their indecision-that will only lead you to make the decision for them. Provide binary choices and stick to them.

Conclusion

Conflict resolution comes about when conflict is managed and managed correctly. At the base of all conflict resolution is analysis. Analyzing what you are dealing with gives you control and provides you with energy to deal with the conflict and move forward in implementing the plans and realizing the goals of the organization.

Conflicts will crop up. Conflicts should occur. Managers who understand how to use conflict can use it to advance organizational goals and enrich people interaction. Conflict management then become a key building block of strong and effective organizations.

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ABOUT THE AUTHOR

Akua Darkoah Frimpong is a PhD candidate. She holds an MA in Organisational Leadership from Azusa Pacific University, California; an MTh in Theology from Vrije Universiteit, Amsterdam; Diploma in Theology, Trinity Theological Seminary, Legon, and B.Sc. in Agriculture from KNUST, Kumasi.

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ECONOMIC AND FINANCIAL REPORTS

Databank Equity Research

Economic Review for the First Quarter of the Year 2008 and Corporate Results Highlight

GHANA

MONETARY POLICY HIGHLIGHTS

Analyst: Sampson Y. Akligoh

- *The central bank has increased its policy rate, the prime rate, over inflation worries to 14.25%.*
- *Liquidity still remains a threat. Broad money supply (M2+) grew by 37% (y/y), compared to 34.8% during the same period in 2007.*
- *Consumer and business confidence, however, remains robust, with the central bank's index of economic activity [CIEA] up by 27.5% (y/y).*

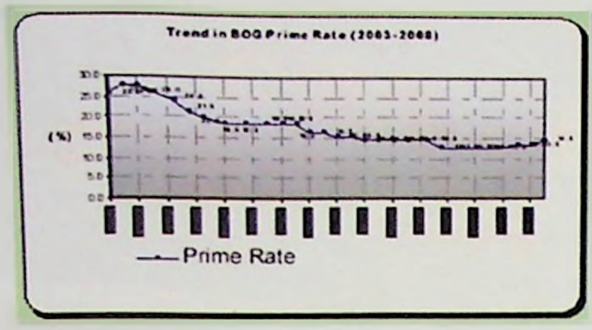
Overview

With the country's inflation worsening to a 2-year record high of 13.2%, we expect monetary policy to continue to focus on reverting the economy to its disinflation process in the subsequent quarters.

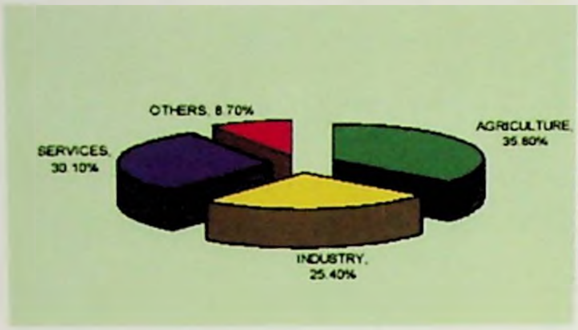
Key Policy Indicators

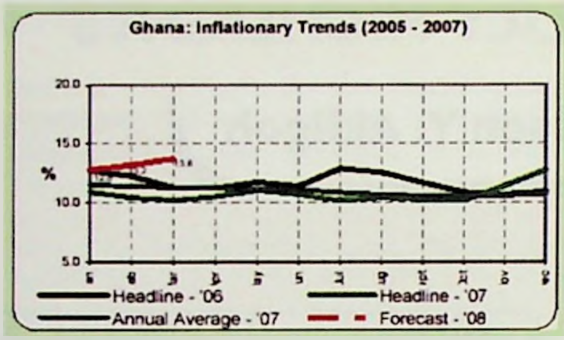
	JAN-FEB 08	Q4 07	2008F
Real Output Growth	na	na	6.5
PRICE DEVELOPMENTS			
Headline Inflation (End Period) (%)	13.2	12.7	11.0
Core Inflation (End Period) (%)	na	9.4	9.5
MONETARY SECTOR DEVELOPMENTS			
Money Supply Growth (M2+) (%)	37.0	7.5	24.4
Credit Growth (Private Sector) (%)	1.2*	14.4	na
Cedi Depreciation US$ (Y-T-D %)	1.3	5.0	4
EXTERNAL SECTOR DEVELOPMENTS			
Trade Balance (US$M) - Deficit	566.7	1,347.4	1,448.6
Current Acc. Balance (US$M) - Deficit	na	541.7	806.0
Overall Balance (US$M) (Y-T-D)	na	-413.1	1,060.2
GIR (Months of Import Cover)	2.9	3.1	3.0
FISCAL POLICY DEVELOPMENTS			
Total Receipts (GH¢ Billion)	0.68	1.19	6.25
Total Expenditure (GH¢ Billion)	0.99	1.54	6.26

Source: MPC Reports, Databank Databases
** Growth rate for February*



STRUCTURE OF GHANA'S ECONOMY





The macroeconomic slippages since the third quarter of 2007 have led to deterioration in the risk outlook of the economy. Clearly, future inflation is expected to remain high in the short-term, the local currency is likely to depreciate sharper in the second quarter of 2008 compared to the same period last year, while the inherent pre-election fiscal expansion will facilitate a higher than expected domestic liquidity during the year.

While the 75 basis points increase in the prime rate is intended to ease current inflationary pressures, we rather expect a lagged impact in the medium-term. Within the short-term we expect the increase to slow private sector profit growth and consumer credit expansion; which could marginally slow gross domestic output growth for the year.

Credit & Money Supply Outlook

We expect credit to the private sector to remain robust into the second half of the year. Private sector credit has already surged by 60.4% in January compared to 46.9% in the same period last year; though 45% of the credit was to consumer loans. With much of the expansion financed by deposits, money creation by Deposit Money Banks spurred up broad money supply (M2+) growth to 37% y/y compared to 34.8% during the same period last year.

Though the prime rate has been increased, we do expect a slower M2+ and credit growth in the short term due to the wide spread between the prime rate and average bank lending rates, currently about 10%.

Inflation Outlook

Fiscal policy is expected to remain relatively loose during the year. Domestic fiscal deficit has worsened to 1.8% of GDP [GH¢291.5 million] as at February 2008 compared 0.2% in the same period in 2007. Domestic revenue is expected to improve, especially due to the introduction of the 'Communications Service Tax', but we also anticipate a slower inflow of budgetary grants during the year. Overall, fiscal policy would be further strained, with higher expenditure growth than revenue; which could worsen public sector borrowing requirements [PSBR].

For the first three months of 2008, the yield on the 91 days treasury bill has increased by 29 basis points to 10.91%, while PSBR constituted 2.4% of GDP valued at GH¢396.4 million. Clearly, this was financed through the domestic auction market, a trend we expect to characterize the entire year. The expected impact of the recent increase in the prime rate on inflation is likely to be weak in the short term.

The underlying cause of the current inflation hikes is structural and depends mainly on global and domestic food price dynamics, and the extent of the economy's exposure to current account imbalances. With current global imbalances coupled with domestic liquidity concerns, we anticipate inflation to remain within the band of 13% and 16.5% during first half of the year. The key to achieving lower inflation outturns within the short-term is minimizing crude oil price volatility, discontinuing fiscal expansion to nonproductive sectors, and maintaining a stronger cedi.

In the long term, single digit inflation can be possible if the economy becomes more resilient to external shocks and post-harvest losses are minimized.

External Sector Outlook

The economy's external sector remains subservient to global commodity price trends, imported inflation, and a weak local currency. Gross international reserves have slipped marginally to 2.9 months of import cover in February 2008, compared to 3.1 months of import cover at the end of December 2007.

Inherently, we expect the current financial market turbulence and increase global inflation to continue to serve as downside risk to external stability. With government forecast of crude oil price at US$88 per barrel for 2008, we expect crude oil imports to continue to strain the current account and reserve positions of the country within the short term as crude oil price has reached a record high of US$100 as at March, 2008.

This should result in a further deterioration of the country's trade deficit from US$566.7 million in the first two months of 2008 to US$640 million on cumulative terms at the end of the first quarter of the year.

Exchange Rate Outlook

With an anticipated further worsening of the country's trade deficit on cumulative terms by the end of the first quarter, and a relatively lower gross international reserve position we expect the cedi to remain weak against its major trading partners within the short-term.

The local currency has already depreciated sharply this year compared to the same period in 2007. For the first three months [ending March 19] in 2008 the Ghanaian cedi has depreciated on cumulative terms against the dollar by 1.53%, and by 2.04% and 7.66% against the pound and the euro. This compares unfavorably to a year-to-date depreciation of 0.48%, 2.37% and 3.47% against the dollar, the pound, and the euro respectively for the same period in 2007.

Policy Outlook & Financial Market Implications

The inherent deterioration in the country's inflation outlook is likely to shift the attention of monetary policy from inducing real output growth in the short-term to fighting inflation within the short and medium term.

Though the recent increase in the prime rate is likely to discourage consumer credit, especially for the purchase of household durables which can be easily postponed by consumers, we do not expect monetary policy to be successful in combating inflation within the short-term. Clearly, the impact of the 100 basis points increase at the end of the third quarter of 2007 on inflation is yet to be fully felt. With increased competition in the banking sector and the wide spread between the prime rate and the average bank base rates we do not expect domestic credit expansion to be significantly slowed by the marginal increase in the prime rate.

Essentially, benchmark interest rate levels for Ghana continue to under price macroeconomic risk, making real yields negative. As a result, we do expect activity in treasury and bonds markets to be very sensitive to the marginal increase in the prime rate. This should leave debt market activity unchanged within the second and the third quarters. We however expect foreign investors who may want to take advantage of interest rate differentials to continue to show interest in the domestic debt market.

Consequently, we expect equity market activity to remain brisk despite the increase in the prime rate. The equity market outperforms inflation in the long-term and we expect investor interest to be sustained in it within the year relative to the fixed income market which currently does not adequately compensate for inflation.

February: Inflation Reaches 2-Year Record High, Now 13.2%!

Consumer inflation for Ghana has soared to 13.2%, the highest outturn in two years. Compared to the January figure of 12.8%, inflation has worsened by 40 basis points. This outturn is in line with global food price inflation hikes and domestic liquidity concerns.

The month of February witnessed a further deterioration in both food and nonfood inflation. Food inflation, which posted the highest increase, was up by 60 basis points to 11.23% (y/y); while non-food inflation surged by 29 basis points to 14.68% (y/y). Miscellaneous goods and services contributed the highest mark-up to non-food inflation, with its index moving north by 3% (m/m) to 215.39 points.

The index for housing and utilities, however, eased by 2% (m/m) to 344.94 points. Eastern Region continued to post the worst inflation figures at the regional level, with a monthly increase of 11% in its overall inflation to 20.44%. Inflation for Ashanti Region further dipped by 11% to 8.86%, the lowest figure at the regional level. Though food inflation for Ashanti was up by 4% to 9.61%, indicating the worsening food price trend in the country [as the region is one of the food baskets for the country]: non-food inflation eased down by 20% to 8.3%.

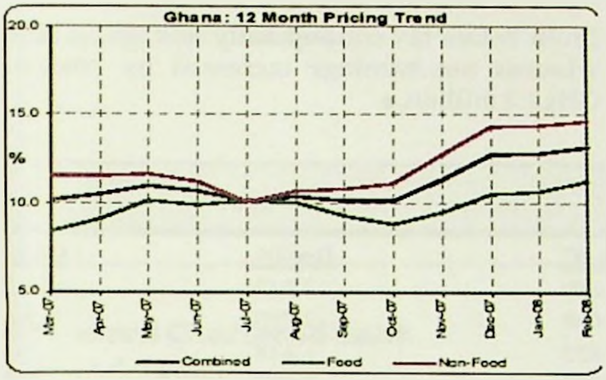
Outlook: Global and domestic food price concerns would continue to serve as downside risk to Ghana's inflation within the medium to long-term. Within the short-term, the sharp depreciation of the local currency compared to last year, the worsening crude oil price volatility, as well as, the general increase in domestic liquidity will also negatively impact future inflation.

Essentially, recourse to the use of the prime rate within the short-term is not likely to significantly ease inflation, but instead stifle output growth. Clearly, both fiscal and monetary policy must respond to the inflation threat to make policy action more effective. Fiscal expansion within the non-productive sector must be discouraged within the short-term, while the central bank must focus on more direct means of reducing the excess liquidity in the banking sector without increasing the cause of borrowing.

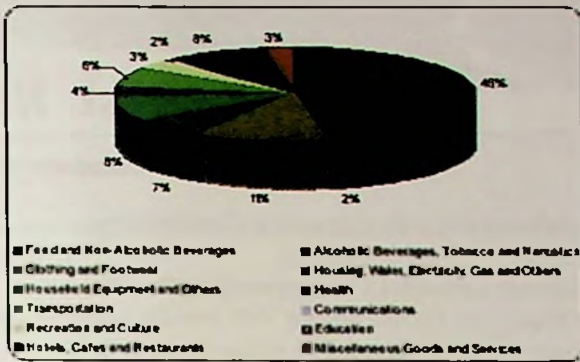
Imbalances in world food supply and demand due to climate change and increased bio-fuel demand is likely to see world food prices soar to new record highs within the medium to long-term, which would continually be transmitted through imported inflation into the domestic economy. Domestic food supply is still suffering from the aftershocks of the northern floods, which combined with post-harvest losses and lack of food buffer will result in higher food prices until the next harvest season in November. As a result, we do not expect food inflation to ease within the short to medium-term.

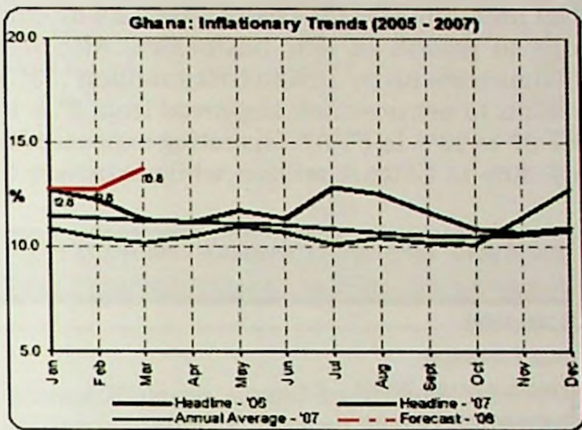
The weak dollar and the sharp depreciation of the local currency against its major trading currencies is likely to worsen inflation outlook in the short-term. On cumulative terms, the cedi has already depreciated against the dollar, the pound and the euro by 1.53%, 3.29% and 7.46% respectively (March 14, 2008), compared to 0.32%, 1.79%, and 0.51% for the same period in 2007. The month of March would witness a further marginal rise in domestic petroleum prices, the initial disbursement of direct cash to selected households as part of government livelihood empowerment programme, an 18% increase in the minimum wage to GH¢2.25, and the payment of about US$70 million as interest payment on the debut sovereign bond offer last year; which is likely to further worsen domestic liquidity and cause further price hikes.

March Inflation: The seasonal outturn for March inflation is expected to be marginally low compared to February. We, however, expect the inherent high domestic liquidity, increased fiscal expansion, the continuing free fall of the dollar on the international market, and the sharper depreciation of the local currency, among others, to negatively impact inflation in March. Consequently, we pegged March inflation within the band of 13% and14.5%.



National CPI Component Breakdown





CORPORATE RESULTS HIGHLIGHT

Analyst: Ntiwaa Kwakye

Enterprise Insurance Company

Strong Growth In Underwriting Profit

Enterprise Insurance's FY 07 results showed an improvement over the same period in FY 06. Net premium was up 42% to GH¢ 12.4 million due to growth in new businesses. Although claims were up by 28% to GH¢4 million , EIC's claims to net premium improved from 25% in FY 06 to 23% in FY 07. Operating expense was up 30% to GH¢6.4 million while expenses to net premium also improved from 40% in FY 06 to 36%. Underwriting profit consequently surged by 67% to GH¢4.7 million. Investment income however dropped by 2% due to declining interest rates on Government securities.

Profit before tax consequently was up by 15% whereas net earnings increased by 20% to GH¢2.2 million.■

Enterprise Insurance Company Limited (EIC)
Results for the Full Year Ended December 31, 2007

GH¢'000	Dec-07	Dec-06	Chg.
Net Premium	17,620	12,447	42%
Underwriting Profit	4,668	2,790	67%
Investment Income	1,422	1,448	-2%
Operating Profit	2,907	2,498	16%
Other Income	388	374	4%
PBT	3,295	2,872	15%
Income Tax	397	394	1%
PATBMI	2,898	2,478	17%
Minority Interest	706	657	7%
PAT	2,192	1,821	20%
EPS (c)	0.09	0.07	20%
DPS (c)	0	0.03	
Operating Margin (%)	16	20	
Net Margin (%)	12	15	
P/E (x)	20	12	

Ghana Commercial Bank

Earnings Lag Analyst's Expectation

GCB's FY 07 financial results released showed a 2% drop in earnings which lagged analyst's expectations by 20%. Net interest income grew by 3% on account of a 10% growth in interest income to GH¢ 12.2 million and a 49% jump in interest expense to GH¢22.3million. Non-funded income was up 19% to GH¢40.5million. This therefore translated into a 7% increase in net revenue.

Operating expenses grew by 22% to GH¢ 99.8million resulting in a deterioration in the bank's cost to income ratio from 67% in FY 06 to 77% in FY 07. Ghana Commercial Bank's charge for bad and doubtful debt surged by 400% to GH¢ 8.3million. This can partially be attributed to the 104% growth in advances from GH¢364.5million in FY 06 to GH¢742.7million.

The bank's FY 07 pre-tax was up 1% to GH¢39.5 million while its bottomline fell by 2% to GH¢ 25.5million due to an 18% growth in the tax paid by the bank.■

Ghana Commercial Bank (GCB) *Results for the Full Year Ended December 31, 2007*			
GH¢'000	**Dec-07**	**Dec-06**	**Chg.**
Net Interest Income	89,822	87,419	3%
Non Funded Income	40,546	34,028	19%
Net Revenue	130,368	121,447	7%
PBT	39,544	39,215	1%
Tax	14,082	11,939	18%
National Reconstruction Levy	-	1,261	-100%
PAT	25,462	26,015	-2%
EPS (¢)	0.10	0.10	-2%
DPS (¢)	n/a	0.06	
PBT Margin (%)	30	32	
PAT Margin (%)	20	21	
PE (x)	12	6	

Standard Chartered Bank Gh. Ltd. (SCB)

A Decline In Profit Before Tax

SCB's FY 07 financial results released showed a 25% increase in interest income while advances grew by 20% to GH¢287.1 million. Interest Expense surged by 67% to GH¢ 30.7 million as deposits were up 20% to GH¢ 534.8 million. Net Interest income was therefore up 11% to ¢64.1 million. Non funded income inched up by 5% to GH¢28.6 million whereas the bank's funded to non funded income ratio deteriorated from 68:32 in FY '06 to 69: 31

Standard Chartered Bank Gh. Ltd. (SCB) *Results for the Full Year ended December 31, 2007*			
GH¢'000	**Dec-07**	**Dec-06**	**Chg.**
Net Interest Income	64,139	57,704	11%
Non-Funded Income	28,593	27,205	5%
Net Revenue	92,732	84,909	9%
PBT	43,174	46,622	-7%
Tax	10,136	13,234	-23%
National Reconstruction Levy	-	2,640	
PAT	33,038	30,748	7%
EPS (GH¢)	1.88	1.75	7%
DPS (GH¢)	N/a	1.30	
PBT Margin (%)	47	55	
PAT Margin (%)	36	36	
P/E (x)	14	9	

indicating the bank's dependence on interest income.

Net revenue thus improved by 9% to GH¢92.7 million. Due to additional costs caused by the redenomination of the cedi, the bank's operating expense was up 20% to GH¢ 47.8 million while its cost to income ratio worsened from 47% in FY 06 to 52% in FY 07. We however expect this ratio to improve in 2008 with the redenomination exercise over. Pre-tax profit therefore dropped by 7% to GH¢43.2 million. A 23% reduction in SCB's tax level and the abolition of the National Reconstruction Levy resulted in a 7% growth in the bank's earnings to GH¢ 33 million. ■

SG-SSB Bank Ltd. (SSB)
Results for the Full Year Ended December 31, 2007

GH¢'000	Dec-07	Dec-06	Chg.
Net Interest Income	34,611	31,531	10%
Non-Funded Inome	23,213	20,208	15%
Net Revenue	52,375	48,023	9%
PBT	15,577	14,320	9%
Tax	3,988	3,630	10%
National Reconstruction Levy	-	790	
PAT	11,589	9,900	17%
EPS (GH¢)	0.08	0.07	17%
DPS (GH¢)	0.05	0.05	0%
PBT Margin (%)	30	30	
PAT Margin (%)	22	21	
P/E (x)	15.37	8.64	

SG-SSB Bank Ltd. (SSB)

A Satisfactory Performance

SG-SSB's FY 07 financial results released showed earnings of GH¢11.6 million, which was in line with analyst expectations. Net profit was up 17% from GH¢9.9 million. EPS for the full year therefore was GH¢0.08.

Net interest income during the period was up 10% to GH¢34.6 million while non-funded income grew by 15% to GH¢23.2 million. The bank's funded to non-funded ratio inched up slightly from 61:39 in FY '06 to 60:40 in 2007. Net revenue consequently was up 12% during the period. Advances jumped 50% to GH¢ 212.44 million while the bank's charge for bad and doubtful debt increased by 47%. Operating expenses grew by 18% to GH¢ 36.7 million resulting in a deterioration of SG-SSB's cost to income ratio from 60% in FY '06 to 64% in FY '07. Pre-tax profit was up 9% to GH¢14.3 million whereas PAT grew by 17% due to the abolition of the National Reconstruction Levy in 2007. ■

Unilever Ghana Ltd

Analyst: Roselyn Adwoa Dennis

Unilever Makes Steady Gains

Unilever Ghana Limited at the close of December 2007 posted good results. The company's turnover grew by 17% to GH¢139 million - a marginal improvement over the 15% growth registered at the close of 2006. Operating profits increased by 37% to GH¢18.2 million during the period under review, translating into an improved operating profit margin of 13%. Albeit, a restructuring cost of GH¢5.03 million [spent on shifting labour and resources from less profitable into more profitable ventures] and a decline in the company's other income, Unilever's bottom line grew by 9% in GH¢11.09 million comparing favourably to a 4% decline in 2006.

Unilever is making positive inroads by steadily building up its core brands and reducing resources channeled into unprofitable business ventures. The company's P/E currently stands at 12.2x. ■

Unilever Ghana Limited
Results for the Full Year Ended December 31, 2007

GH¢'000	Dec-07	Dec-06	Chg.
Turnover	139,054	118,399	17%
PBITD	20,299	15,132	34%
Depreciation	2,112	1,896	11%
PBIT	18,187	13,236	37%
Interest Income/Expense	(136)	(173)	-21%
Other Income	1,322	1,781	-26%
PBT	19,373	14,844	31%
Tax	1,899	3,205	-41%
PATBEI	17,474	11,639	50%
Extraordinary Item	(5,034)	-	nm
PATAEI	12,440	11,639	7%
Minority Interest	1,350	1,490	-9%
PAT	11,090	10,149	9%
EPS (GH¢)	0.18	0.16	
DPS (GH¢)	0.11	0.11	
PBIT Margin (%)	13	11	
PAT Margin (%)	8.9	9.8	
P/E (x)	12.2	9.24	