

Original Article

# A Comparative Assessment of the Contribution of Foreign Direct Investments and Domestic Investments to the Economic Development of Ghana

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**Abstract:** Generally, countries in West African countries including Ghana have suffered unfortunate developments with reference to the stockpiling of funds necessary to finance investment appetite in order to promote economic development. Due to this, Ghana keeps seeking for sources of investment which includes foreign direct and domestic investments to enlarge the savings-investment gap. Lately, there has been an extreme variation in the degree of both foreign direct and domestic investments especially due to uncertainty and international transformation. This enticed the focus of this study. Hence, this study work comparatively assessed the contributions of both foreign direct and domestic investments to Ghana's economic development from 2020 to 2023. The findings revealed that both foreign direct and domestic investments have a profound effect on the economic development of Ghana. However, the foreign direct investment inflows demonstrated a strong impact in terms of monetary value with the minimal influence of investments made by Ghanaian investors in completely foreign owned projects. The outcome also revealed that domestic investments have a significant impact, in terms of monetary value, on Ghana's economic development with the influence of a component of investments made by foreign investors in entirely Ghanaian owned projects. A recommendation is made for the Government of Ghana to prioritize diversifying the economy and encouraging more foreign and domestic investments in the various sectors to create more financial stability. Consistency and transparency in investment-related policies should be implemented to foster a more favourable investment climate to both foreign and local investors. Public-Private Partnerships should actively be promoted to help in sharing risks and benefits, thereby attracting more foreign and local investors willing to invest in large-scale projects.

**Keywords:** Foreign Direct Investment (Or Direct Foreign Investment), Domestic Investment, Economic Development, Foreign Investment Module, Local Currency Module.

## I. INTRODUCTION

Investments come in different forms which are essential for companies, individuals, governments and countries. However, the primary goal behind all investments remains the same which is to increase the value of the invested fund. In order to overcome the difficulty of insufficient capital establishment meeting up with the demand of local investment, most of these developing economy including the economy of Ghana have resorted to sourcing funds from international financial states through foreign involvement and encouraging internal investments. Investment, within an economy of a country, can be categorized as foreign direct and local investments. The classification of trans-border investment in which a resident in economy I who is interested in investment signifies a deep-rooted interest in and an important degree of influence over a concern resident in economy II can be termed to be foreign direct investment. However, domestic investment deals with investing in a local business which means an individual get to direct his or her finance to a service or merchandise that is available in his or her own nation.

Both foreign direct and domestic investments play an essential role in a country's economic advancement. Direct Foreign investment is detectable to be a root of wealth and a key tool in combating against destitution and deprivation (Dr. John, 2005). It is broadly acknowledged that foreign direct investment will lead to the financial expansion and fusion into the worldwide market (Samuel, 2022). Investing locally allows for the initiation of domestic businesses leading to the reduction of unemployment and enhancing the standard of living of the local residents. Productivity within firms increases as a result of local investments in technology, worker training and infrastructure. Ghana is seen to be a prospective host nation for investments due to substantial political climate and the copiousness of natural resources. The flows of direct foreign investment to Ghana can be described as unrivaled as variable and at worst trivial for the purpose of generating and sustaining economic development (Prince & Victor, 2014). External funds injected into an economy may stimulate the establishment of tangible assets and the



training of members of the workforce may lead to the evolution of expertise within the same economy (Tee, Larbi, & Johnson, 2017). Domestic investments increase production and productivity, stimulate job creation and promote innovation. But the major research question pressing for significant answer is that: what are the actual contributions of both foreign direct and domestic investments to the economic development of Ghana? This study set out to comparatively assess the contributions of both foreign direct and domestic investments to Ghana's economic development in order to avoid presumptions.

## **II. LITERATURE REVIEW**

Many research papers on domestic investment and foreign direct investment in Ghana have been done by a number of scholars over the years. The majority of the research papers were centered on impacts, relationship between direct foreign investment and gross domestic income, antecedents, interconnection between gross domestic income and domestic investment with conflicting significance outcome of direct foreign investment and domestic investment on the financial state of Ghana. But this study is centered on comparatively assessing the contributions of both foreign direct and domestic investments to Ghana's economic development.

### **A. Foreign Direct Investment**

Hill and McKaig (2015) defined foreign direct investment as possession of physical capital by an industry from a country (source) in a different country (host). In the prominent study of Markusen and Venables (1999), they conjectured the interrelation between multinational corporations and local industries. Their study emphasized that the introduction of multinational corporations in the host country creates two effects which include competition and linkage effects. The competition effect states that the entrance of multinational corporations diminishes domestic firms' profitability and escalates competition in the final product sector in the same industry. As a result of this, domestic firms turn to exit in the industry. Nevertheless, at the same instant, the demand for local production of transitional inputs turns to go up due to the approach of multinational corporations. As for the linkage effect, the demand for local production of the transitional inputs will cause domestic firms to increase in the industry where the economic activities in one sector affect other sectors within the same industry. Markusen and Venables (1999) argued that the end result of the entrance of multinational corporations on local firms is unsure after examining both the linkage and competition effects. It should be added that the economies of the host countries benefit from foreign direct investment. For instance, technological gaps are filled in and high-talented labour as well as quality governance is provided (Masron et al., 2012). It also clears the way for workforce expansion, enhances development, increases GDP, fosters contention and enlarges the innovativeness of the host countries (Edrak et al., 2014).

According to Bütthe and Milner (2008), the stream of direct foreign investment is steered by diplomatic elements. On the contrary, by acknowledging the gains of international investment, many policy makers and governments in developing nations are striving to bring in more foreign direct investment flow into their nations (Masron et al., 2012). But Bütthe and Milner (2008) stated that there are other variables which influence the amount of inward direct foreign investment and these include inherent economic development, trade pacts, political balance, and the status of economic deregulation. However, Chen et al. (2010) pointed out that the economies of host countries experience some adverse effects as a result of foreign direct investment such as dependence on finances from external sources, inconsistent stream of direct foreign investment, and threats to local firms. In this study, foreign direct investment is considered as investment made in entirely foreign owned projects in Ghana by foreign investors.

### **B. Foreign Direct Investment in Ghana**

A key element of the investment stream to economically developing nations is said to be a foreign direct investment (Baba, 2013). Nketsiah and Quaidoo (2017) studied the ramification of inflow of international investment on Ghana's economic development from 1983 to 2012. The result indicated that the inflows from direct foreign investment are vital for attaining the country's economic development. The study by Awunyo-Vitor and Sackey (2018) investigated the influence of the inflows of direct foreign investment on Ghana's economic development and the result shows that these inflows promote the production of agriculture in Ghana. Economic and institutional reforms were implemented in Ghana to bring in more foreign direct investment and a multi-party democratic system was also initiated in 1992 to boost the climate for promoting business performance (Barthel, Busse, & Osei, 2011).

In the 1990s, total inflows of foreign direct investment began appreciating whiles achieving about US\$50 million and US\$250 million in 1993 and 2005 respectively, almost US\$450 million in 2006 and US\$649.58 million in 2023. Ghana is currently amongst the leading foreign direct investment receiving countries in Africa. There have been more inflows of direct foreign investment in the country between 2006 and 2016 which is as a result of the enrollment of better investment

programmes by Ghana's government (Yeboah, 2018). Ghana's foreign direct investment goes to general trade, agriculture, manufacturing, building and construction, service, export trade and tourism, as indicated by the Ghana Investment Promotion Center.

### **C. Sources of Foreign Direct Investment in Ghana**

The inflows of direct foreign investment in Ghana are primarily from more economically developed countries and some less developed nations. In respect of direct foreign investment, most of the projects registered in Ghana are from Asian economies such as China, India and Singapore. However, United Kingdom and Netherlands are largest source of investment flows in terms of monetary value within the Ghanaian economy. In Ghana, the top sources of foreign direct investment include United Kingdom, China, India, Nigeria, South Africa, Lebanon, Singapore, Netherlands, Italy, South Korea, Burkina Faso, United States of America and Germany.

### **D. Domestic Investment**

The influxes of inward investment are anticipated to create a supplemental role to their local rivals in stimulating to find solutions to financial hardship in the beneficiary economies. The free movement of capital theory which is also known as MacDougall Kemp Hypothesis, emphasized that the host country will be dealing with an appreciation of the national income due to the rise in the volume of funds generating from the capital influxes (MacDougall, 1975). On the other hand, the dependency theory argues that the inflow of direct foreign investment has utilitarian mindset and consequently, it cannot turn to the advantage of the economy where the investment was made. This theory definitely insists that international firms laying out funds in the host country present the possibility to effect the outflow of funds from the beneficiary country by returning their gains to their domestic economy. From the point of view of dependency theorists, this has the ability to slow down the operation of building up capital stock, thereby hindering the avenue for economic expansion.

In the study by Oyedokun and Ajose (2018), they attached great importance to domestic investment than overseas investment. This was agreed by Ikpesu (2019) where they all proclaimed that domestic investment permits the utilization of a country's capital and financial resources, which seems to be tractable and governed than international funds and investment (Kalu & Mgbemena, 2015). Additionally, the consistent expansion by domestic firms and their productiveness can result in the anticipated return for foreign markets which will further increase the external proceeds of that same economy. Consequently, the total capital accumulation of native country will increase which also serve as an external avenue of investment to other economies (Alfa & Garba, 2012). But it has been asserted the cascading result of foreign direct investment is substantial despite being valuable to host economies by advancing the proceedings of economic expansion (Uremadu, 2008; Nakpodia et al., 2018) This means that developing economy of Ghana cannot bestow to depend entirely on direct foreign investment but it should be subject to both domestic investment and direct foreign Investment for their economic developments. However, investment made in entirely Ghanaian owned projects in the country is considered as domestic investment in this study.

### **E. Domestic Investment in Ghana**

Domestic investment is a major component of capital flow in Ghana's economy. Total inflows of domestic investment have been increasing marginally which is a vital constituent contributing to the total accumulation of capital fund of Ghana. For instance, the inflow of domestic investment in the country in 2020 was US\$250.68 million and US\$3,896.55 in 2023. In 2023, gross domestic investment in Ghana was rated to cover 14.5 percent of the country's GDP. In the previous year, it was estimated to cover 16.2 percent. Furthermore, the ratio of gross domestic investment to GDP was close to 22 percent which was the highest in 2018, taking into consideration the period observed. The indicator sums both private and public domestic investments. According to Ghana Investment Promotion Center, the sectors of the economy of Ghana benefitting from domestic investment include agriculture, manufacturing building and construction, general trade, and service.

### **F. Sources of Domestic Investment in Ghana**

Inflows of domestic investment in Ghana are from private individuals, private institutions and the government itself. The stakeholders involved may employ any of the three (3) types of domestic investment which include public-sector investment model, private-sector investment model and public-private partnership investment model. The public-sector investment model is where government takes superiority in selecting critical sectors, determining investment priorities, and mobilizing resources for development projects. However, the private-sector investment model is also where non-public organizations such as people, corporations, and investment funds allocate their resources to diverse assets, enterprises, and initiatives to earn profits and improve the economic development of the country. In relation to public-private partnership investment model, both the public

and private sectors work together to establish, finance, and manage infrastructure projects or offer public services to improve the economic development of the nation.

### III. RESEARCH METHODOLOGY AND DATA SOURCE

The objective of the study is to comparatively assess the contributions of both foreign direct investments and domestic investments to the economic development of Ghana. In the case of this study, a significant data already exists which is accessible for the purpose of this study to be accomplished. As a result, a statistical descriptive method in a quantitative way was applied to comparatively assess the contribution of foreign direct investment and domestic investment. The principal input of data focused on the fundamental total values of direct foreign investment components, number of registered projects, domestic investment components and sectors of the economy of Ghana benefitting from each of the investments. The investment reports of Ghana Investment Promotion Centre (GIPC) from 2020 to 2023 were utilized as secondary sources of data in the study. The Ghana Investment Promotion Centre (GIPC) is known to be the solitary establishment set up by Ghana's government under the Act, 2013 (Act 865) to advocate, modulate and elevate investing dealings in Ghana.

### IV. RESULTS

#### A. Cumulative Estimated Value of Foreign Direct Investment (FDI)

The cumulative estimated value of foreign direct investment is classified into foreign direct investment module and local currency module. The local currency module represents investments made by Ghanaian investors in completely foreign owned projects. Nevertheless, the aggregate of the foreign investment module and that of the local currency module is equivalent to the total foreign direct investment value recorded in table 1 below. From the table below, the highest foreign direct investment was made in 2020 with the value of US\$ 2796.49 million and then declined to US\$ 1491.32 million in 2019. The investment value increased in the year 2022 but the year 2023 recorded the lowest investment value with reference to foreign direct investment. Additionally, the highest investment in terms of the local currency module was made in the year 2022.

**Table 1 : Breakdown of Values of Foreign Direct Investment (FDI) to Ghana from 2020 to 2023**

Year	Foreign Direct Investment Module(US\$M)	Local Currency Module (US\$M)	Total Foreign Direct Investment Value (US\$M)
2020	2650.97	145.52	2796.49
2021	1298.66	192.66	1491.32
2022	1353.41	235.55	1588.96
2023	649.58	13.60	663.18
Total	5952.62	587.33	6539.95

Source: Author's computations derived from data from GIPC

#### B. Cumulative Estimated Value of Domestic Investment

The cumulative estimated amount of the domestic investment is also classified into domestic investment module and foreign module as a result of funds. It must be noted that the foreign component of the total domestic investment value represents investments made by foreign investors in entirely Ghanaian owned projects. From table 2, it can be recognized that the total domestic investment value from 2020 to 2023 was US\$ 9292.89 million. The highest domestic investment was made in 2021 with the value of US\$ 4810.07 million and the lowest was made in 2020 with the value of US\$ 250.68 million. The highest investment in terms of the foreign component was made in 2021 with the value of US\$ 3929.84.

**Table 2 : Breakdown of Values of Domestic Investment in Ghana from 2020 to 2023**

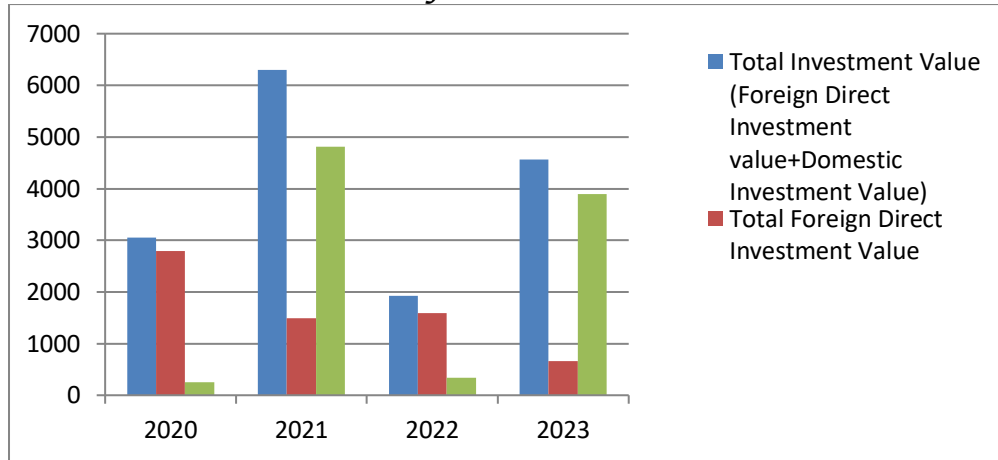
Year	Domestic Investment Module (US\$M)	Foreign Investment Module (US\$M)	Total Domestic Investment Value (US\$M)
2020	250.68	-	250.68
2021	880.23	3929.84	4810.07
2022	260.98	74.61	335.59
2023	3896.55	-	3896.55
Total	5288.44	4004.45	9292.89

Source: Author's computations derived from data from GIPC

### C. Cumulative Estimated Investment Value

The figure 1 below shows the total investment value from 2020 to 2023. The total investment value of each year is made up of the aggregated values from foreign direct investment and domestic investment for that year. As depicted in figure 1 below, Ghana achieved the highest investment value with the amount of US\$ 6301.39 million in 2021 followed by US\$ 4559.73 in 2023. But it achieved the lowest investment value with the amount of US\$ 1924.55 in 2022. In 2021 and 2023, the total domestic investment values were higher than that of total foreign direct investment values by 76.33% and 85.46% respectively. It means that investors were interested in investing in more of completely Ghanaian owned projects. However, the total foreign direct investment values were greater than that of total domestic investment values by 91.77% and 82.56% in 2020 and 2022 respectively. This indicates that more investments were made in entirely foreign owned projects than Ghanaian projects in Ghana.

**Figure 1 : Total Investment Value Verse Total Foreign Direct Investment Value and Total Domestic Investment Value**

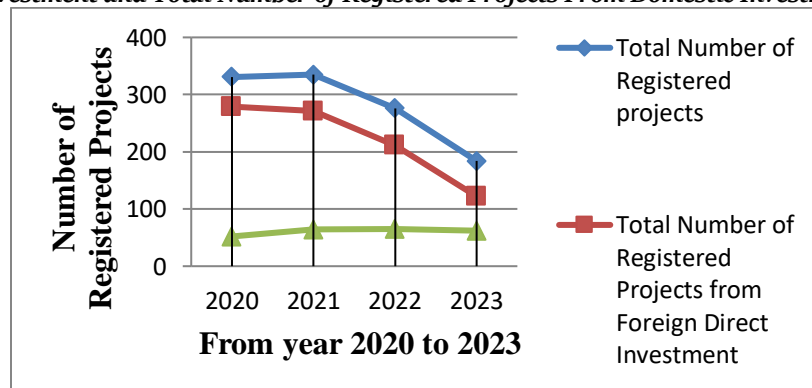


Source: Author's computations derived from data from GIPC

### D. Total Number of Registered projects from both Foreign Direct Investments (FDI) and Domestic Investments

Figure 2 below depicts the comprehensive number of registered projects from 2020 to 2023. The aggregate of registered projects is made up of aggregate number of registered projects from both foreign direct and domestic investments. The figure below shows that the principal number of projects was registered in 2021 with 335 as projects registered. This was followed by 331 projects which were registered in 2020. The lowest projects were registered in 2023. On the other hand, it can be noted that the quantity of projects registered in terms of direct foreign investment was higher than the number of registered projects from domestic investment in each year (2020 – 2023). The year 2022 recorded the principal number of registered projects from domestic investment.

**Figure 2 : Total Number of Registered Projects Verse Total Number of Registered Projects From Foreign Direct Investment and Total Number of Registered Projects From Domestic Investment**



Source: Author's computations derived from data from GIPC

**Table 3 : Sectorial Distribution of Registered Projects From Foreign Direct Investment**

Sectors of the Economy of Ghana	2020	2021	2022	2023
Services	184	139	84	43
Manufacturing	57	50	60	50
Export Trading	15	12	24	10
General Trading	10	36	24	8
Building/Construction	5	11	8	8
Mining	3	-	-	-
Oil and Gas/Petroleum	3	19	6	-
Agriculture	1	3	5	2
Liaison	1	1	-	1
Total	279	271	211	122

Source: Author's computations derived from data from GIPC

The table 3 above shows the various sectors of the economy of Ghana benefitting from projects registered through foreign direct investment. In 2020, 184 projects were registered in the service sector and 57 projects were registered in the manufacturing sector of the economy of Ghana. But the agriculture and liaison sectors benefitted with the lowest registered projects with one project registered in each sector. In 2021, 139 projects were registered in the service sector but it dropped to 84 registered projects in 2022. However, the manufacturing sector benefitted more with 50 registered projects which was higher than other sectors of the economy of Ghana.

The table 4 depicts the various sectors of the economy of Ghana benefitting from projects registered through domestic investment. The service sector benefitted from more registered projects than the other sectors from 2021 to 2023. However, the highest projects were registered in the manufacturing sector in 2020 with 21 projects registered while the service sector benefitted with 18 registered projects. The tourism sector benefitted from few projects as only 1 was registered in both 2022 and 2023 respectively.

**Table 4 : Sectorial Distribution of Registered Projects from Domestic Investment**

Sectors of the Economy of Ghana	2020	2021	2022	2023
Building/Construction	2	5	-	3
Agriculture	2	4	3	4
Export Trading	1	1	2	1
Manufacturing	21	15	10	13
General Trading	8	12	22	15
Services	18	27	27	25
Tourism	-	-	1	1
Total	52	64	65	62

Source: Author's computations derived from data from GIPC

## V. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Stemming from the results of this study, the highest direct foreign investment was made in 2020 with the value of US\$ 2796.49 million and the year 2023 recorded the lowest investment value. But it must be noted the findings show that the inflow of foreign direct investment demonstrates a strong impact in terms of monetary value on Ghana's economic development with the minimal influence of investments made by Ghanaian investors in completely foreign owned projects. Additionally, the highest domestic investment was made in 2021 with the value of US\$ 4810.07 million and the lowest was made in 2020 with the value of US\$ 250.68 million. The significant impact by domestic investment, in terms of monetary value, on Ghana's economic development was influenced by a component of investments made by foreign investors in entirely Ghanaian owned projects. On the other hand, the total investment value made up of the aggregated values from foreign direct investment and domestic investment for each year recorded the highest investment value with the amount of US\$ 6301.39 million in 2021. It was also noted that the quantity of projects registered in terms of direct foreign investment was higher than the number of registered projects from domestic investment in each year (2020 – 2023).

It can be concluded that both foreign direct and domestic investments contributed to Ghana's economic development. The inflow of foreign direct investment was influenced by investments made by Ghanaian investors in completely foreign owned projects. The impact by domestic investment was influenced by a component of investments made by foreign investors in entirely Ghanaian owned projects. The various sectors of the economy also benefitted from the projects registered through both foreign direct and domestic investments. The Government of Ghana should prioritize diversifying the economy and encouraging more foreign investments in the various sectors to create more financial stability. The Government of Ghana should encourage private individuals and organizations to contribute to investment in the country. The government can subsidize the taxes involved in establishing businesses by local traders and organizations for the purpose of creating employment and contributing to the economic growth or expansion of the country. Consistency and transparency in investment-related policies should be implemented to foster a more favourable investment climate to both foreign and local investors. Ghana should actively promote Public-Private Partnerships to help in sharing risks and benefits, thereby attracting more foreign and local investors willing to invest in large-scale projects.

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