Can Ghana avoid the oil curse?

A prospective look into natural resource governance[1]

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May 2009

The confirmed discovery of substantive oil resources in Ghana in 2007 has provoked urgent policy debates over the optimal use and distribution of oil revenues and, most importantly, the effective management of oil wealth to improve development outcomes. Despite the current economic downturn, global demand for energy is likely to make oil wealth a significant source of income for Ghana, at levels projected to exceed mining revenues. A comprehensive look into good practices of natural resource management would have to explore issues related to government contracts, investment legislation and revenue management. This policy briefing focuses on the latter to explain how domestic political factors may influence development outcomes through the management of natural resource revenues. The briefing builds on policy lessons from the management of two other natural resources in Ghana, gold and cocoa.

1. Ghana: Country Overview

Ghana offers a unique development puzzle. While it is estimated that the country is among the top ten exporters of gold in the world and the mining sector contributes to close to 33% of the total value of exports, nearly 80% of the population is still living in poverty, on less than $2 US per day. In terms of its quality of governance however, Ghana appears to have avoided some of the traditional "curses" associated with resource-rich, aid-dependent countries: The rankings of the country's democracy indicators exceed those of other Sub Saharan African (SSA) countries.

Freedom House, a think tank, classifies Ghana as a free country where the citizens can choose their leaders democratically, fundamental civil and political freedoms are assured and the rule of law is generally respected.[3] Although there are some latent concerns about ethnic fragmentation, the country has managed to sponsor a non-violent multiparty democracy around eight political parties. Peaceful elections have been held since 1992, and the most recent 2008 Presidential

[1] Policy Briefing prepared the UK's Department for International Development (DfID). Not intended for wider circulation without previous consultation with the authors. The authors would like to express their gratitude to Emmanuel Kuyole, Coordinator for Africa, Revenue Watch Institute and Giulia Mascagni for valuable contributions to this brief.

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[3] http://www.freedomhouse.org/template.cfm?page=22&year=2005.Despite high Freedom House scores, Ghana does not have a Freedom of Information Act yet.

election yielded a narrow victory for John Evans Atta-Mills from the National Democratic Congress over the New Patriotic Party.[4]

Ghana's decentralization process began in 1988 with a gradual delegation of political power, administrative prerogatives and fiscal resources to District Councils.[5] The 1990 District Assemblies Common Fund (DACF) introduced a mechanism to ensure the transfer of 7.5% of the national budget to districts. To date, the Ministry of Local Government and Rural Development has taken over the implementation of the decentralization process from the cabinet, and today, sub national entities comprise 10 Regions and 138 Districts.

2. The Politics of Natural Resource Management: Gold and Cocoa

Ghana is the second largest African exporter of gold after South Africa, and the second largest cocoa producer in the world after neighboring Cote d'Ivoire.[6] Its natural resources contribute to a higher GDP per capita compared to other SSA countries, although aid dependence and poverty remain major problems.

The mining sector in Ghana contributes about 33 % to the total value of Ghana's exports (5% of GDP), and the government is entitled to a free-carried equity interest of 10% in mineral ventures. Any further participation is to be agreed with the holder. Royalties vary from 3-6% of the gross value of minerals produced. The Minister of Lands and National Resources (MLNR) is in charge of granting exclusive mineral rights.[7] Additional taxes and royalties are extracted from the mining sector and are adequately distributed between the Consolidated Fund and the mining districts.

As it is in the mining sector, the state is highly involved in the cocoa market, both for exportation and regulation of the internal market. Despite some partial liberalization to allow for 25 private licensed buying companies, management issues converge around the government controlled Cocoa Board (Cocobod). The Cocobod is the governing body that defines a floor price–the price effectively paid to all farmers everywhere in the cocoa belt–and its former purchasing subsidiary (the Produce Buying Company) remains the predominant company to which farmers sell their cocoa.[8] In 1994, Ghana adopted a formula-based revenue sharing system to regulate intergovernmental transfers and ensure that political considerations do not influence decisions on the allocation of resources to the regions. Yet the extent to which the allocation of resources is effectively protected from politics remains an open question as legislators have influence over policy decisions made by Cocobod and the Ministry of Lands and National Resources.

3. Budgetary Coalitions and Natural Resource Governance: Prospective Scenarios

The 2007 discovery of proven oil reserves is likely to generate government revenues greater than those received from gold and cocoa. The International Monetary Fund (IMF) forecasts

[4] http://www.thinkghana.com and CIA World Factbook.
[5] See the 1988 Local Government Law.
[6] See http://www.revenuewatch.org/our-work/countries/ghana.php and http://www.odi.org.uk/resources/odi-publications/project-briefings/3-ghana-cocoa-marketing-liberalisation-price-competition.pdf.
[7] For a summary of the types of mineral rights that can be granted under the Minerals and Mining Act, see: http://www.ghana-mining.org/ghweb/en/ma/mincom/mcminingnews.html. See also http://www.ghana-mining.org/ghweb/en/ma/mincom/mcminingnews.html.
[8] http://www.odi.org.uk/resources/odi-publications/project-briefings/3-ghana-cocoa-marketing-liberalisation-price-competition.pdf

government revenues from oil and gas could reach a cumulative $20 billion between 2012 and 2030 (IMF, 2008). Ironically, the prospect of a future oil bonanza comes at a time when the country still struggles with the management of mining activities. Current challenges in the mining sector include weak existing legislation for the oversight of mining activities, weak capacity of local mining communities to effectively use royalty payments for poverty reduction, and the proliferation of ethnic and regional conflicts of interest.[9]

From a political economy perspective, the prospect of new oil discoveries in Ghana appears to have motivated competition between national and sub national governments over sharing of the windfall revenues from oil exports.

Compared to other economic extractive sector commodities, oil has a “centralizing effect” (Le Billon, 2005) that is likely to reinforce national government's control and influence over the extraction and allocation of oil revenues. This is further informed by Ghana's modest experience with fiscal decentralization; central government transfers to sub-national entities have not surpassed the 7.5% of government spending. While the government has withdrawn the petroleum bill submitted to Parliament by the previous administration, it is worth emphasizing that this bill did not envisage fiscal decentralization of oil revenues. The oil sector is currently structured around the Ghana National Petroleum Company (GNPC) and would allow limited or no involvement of sub-national governments in managing oil revenues. However the government has announced that it will review the legal framework of the sector and encourage public participation in decision-making with regard to oil development.

Despite growing political pressures, a scenario of greater decentralization and transfer of oil revenues to sub national entities appears to be impractical. The experience of revenue sharing in Ghana's mining sector has not yielded visible positive outcomes. Rather, it has overloaded the capacity of local governments to deliver better services to all. A similar lesson can be extracted from a comparative view of revenue sharing schemes in countries like Peru and Nigeria. In the absence of strong state institutions, further decentralization of revenues could sponsor the formation of political “fiefdoms” in the hands of opposition parties for short term political gain. The opposite scenario would suppose a greater centralization of oil revenues and decision making power in the hands of the executive. An advantage is the strengthened capacity of the central state to plan and use of scarce resources to provide an efficient and equitable distribution of the oil wealth across different sectors. A centralized approach to revenue management, can also, however, pose important challenges for harnessing oil revenues for development. GNPC's role in the oil sector needs to be redefined to avoid conflicts of interests. GNPC currently serves as a regulatory authority for the oil industry, but it also holds investment interests in exploration and production in the Jubilee field. An additional problem of centralization is the potential for escalating demands and conflict with sub-national authorities and ethnic and regional groups seeking a greater share of the oil wealth.

An alternative governance model of *centralized power sharing* could find lessons in successful policy experiences in Ghana. The proposed scheme will seek to reconcile the demands of intense ethnic, regional and political groups that defend the interests of their constituencies, with a managerial concern over strengthening the state and planning for improved revenue allocation and service delivery. Political stakeholders will take part in the revenue sharing process through joint governing bodies, such as the Cocobod board, or through more institutionalized mechanisms like the adoption of budgetary earmarks for the allocation of oil revenues, and the creation of

[9] http://www.odi.org.uk/resources/odi-publications/project-briefings/3-ghana-cocoa-marketing-liberalisation-price-competition.pdf

stabilization and savings funds (Currently, the GNPC has adopted guidelines for greater transparency in the use of funds but no clear guidelines for the allocation of oil revenues.) Different stakeholders, such as political parties and opposition groups, will also create and enforce checks and balances from the judiciary and the legislature to ensure greater accountability and transparency from the central government in the management of oil revenues.

In equilibrium, a *centralized power sharing* mechanism could offer the political incentives and rewards for the long term management of oil revenues. Political groups could promote better government investment in their localities while keeping an internal check on the government's management of scarce natural resources at the national level.

Strengthening transparency in oil revenue management is a critical condition for mitigating asymmetries of power and information between the different stakeholders–including civil society–and promoting accountability in the oil sector. In March 2009, President Atta-Mills announced a full disclosure of all present and future oil contracts, in an attempt to increase transparency in the sector. The inclusion of the oil sector as part of Ghana's Extractive Industries Transparency Initiative (GEITI) program–which requires companies to publish all payments to the government and the government to publish all payments received from extractive companies–would significantly enhance the governance of oil revenues for development.

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Further information

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Cocoa:
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