

# Ghana and its Oil: Is Democracy at Risk?

by Christoph Buchberger



## Table of Content

1. Introduction	2
2. The connection between democracy and economic performance	3
3. The economic side of the resource curse: The Dutch disease	4
4. The political side of the resource curse: Authoritarianism, Corruption and Conflict	5
5. Is Ghana's democracy at risk?	6
6. Is Ghana able to avoid the dangers of Oil?	6
6.1. Fiscal instability	6
6.2. Macroeconomic instability	7
6.3. Indebtedness	8
6.4. Impact on local communities and the likelihood of conflict	9
7. Is Ghana able to convert the Oil revenues into developmental gains?	10
7.1. Political environment: weak institutions	10
7.2. Political culture and the role of other oversight institutions	11
7.3. Corruption and inefficiency in the public sector	12
7.4. Transparency and Feedback mechanisms	13
8. Conclusions	14
Bibliography	15

## 1. Introduction

Since the introduction of the 1992 constitution, Ghana has made constant progress towards the consolidation of its democracy. After the re-introduction of multi-party democracy, the ratings for Ghana's political system constantly rose and have remained high on an almost-perfect level for the last decade (Freedom House 2011). Also political scientists see Ghana on a good path towards democratic consolidation, although some challenges remain (Abdulai, Crawford 2010). Especially in contrast to the last elections in neighbouring Côte d'Ivoire, Ghana stands out with its set of five consecutive peaceful and successful parliamentary and presidential elections. While the first two still had some flaws, their quality constantly improved over time and still continues to be improved. Although the last elections came very close and highly contested, they still remained peaceful and led to broadly accepted results. Also, the economic situation has improved over the years. Ghana has enjoyed constant growth in the range of 4-8 per cent annually and also the percentage of the population considered poor has dropped significantly. The discovery of Oil resources off the coast in 2007 has yet just added a little extra polish to the shining example of Ghana, has it?

Unfortunately, democratic consolidation is not a one-way road with no turning back. History gives several examples for the breakdown of democracies, the one in Germany in the early 1930ies being probably the most prominent one. It had a variety of causes, for example an underlying undemocratic political culture stemming from the days of the German empire and already existing strong nationalist currents in the population. Yet the constant decline of the democratic system which eventually led to the "Machtergreifung" of the Nazis would probably not have been possible without the devastating effects of the world economic crises starting in 1929 and Germany's tremendous debt burden. Those led to wide spread unemployment and a state of crisis of the society as a whole which clearly devalued democracy in the eyes of the people and made the promises of a "Strongman" so attractive in the minds of the people. Many more examples of democratic breakdown can be found and all too often a weak economy was at the roots of the evil.

Although Ghana has in a lot of ways little in common with the Germany of the 1920ies and 1930ies, it shares some of its economic weaknesses, despite all the progress made so far. Paradoxically, Ghana's hailed Oil discoveries have the potential of causing major economic crisis. Examples like Nigeria show how Oil can hurt an economy and undermine a country's strife for democracy.

Since Ghana declared that it wanted to make a difference in dealing with its natural riches, it has attracted a lot of good advice on how to turn the Oil into the often-cited 'blessing' rather than into a 'curse'. Unfortunately though, most of this advice was geared towards the economic effects of Oil while the political side drew much less attention. Yet the two are interrelated: While it is the economic progress which has a clear effect on the quality of the political system of a country, it is the quality of governance this very political system produces which takes part in shaping the economic development of a country. This article seeks to fill this gap. While the economic prospects still are important in themselves, I will try to highlight the institutional challenges which Ghana faces in avoiding the specific dangers associated with Oil as well as in turning the additional income into a blessing. Essentially, this article is based on interviews with various experts and stakeholders from Ghana, ranging from renowned journalists and civil society organisations to parliamentarians and civil servants, but it also draws from scientific literature, media reports and conference papers.

## 2. The connection between democracy and economic performance

Political Science has established clear links between the economic state of a country and its prospects for democratization. Since the first formulation of modernization theory by Seymour Martin Lipset, this connection is clearly recognized (Lipset 1959). Yet, the exact nature and mechanisms remain unclear and the theory received several refinements over the decades. While Lipset still imagined a causal link between economic development and democracy, the theory received a major specification by Przeworski and Limongi, who discovered that economic development is not causal to democracy, but that it increases the likelihood of its survival once democracy is established. They also identified a threshold: Argentina in 1975 was the richest country in terms of per capita income which ever declined from democracy into authoritarian rule. Above a per capita income of 6,055 \$US no democracy had ever broken down, which still holds true today (Przeworski, Limongi 1997).

The reversal of this discovery means that below this threshold, democracies *do* break down. Although Ghana was just classified as a “lower-middle income” country by the World Bank, it still falls well below this line with an average income of 1,190 US\$ (World Bank 2011). Despite the progress towards consolidation, the possibility of setbacks can’t be dismissed altogether.

During the last years, democratic breakdown has received increasing attention in the realm of political science. Maeda suggests that democracies can experience two distinctive ways of breaking down: the first is lead by the democratically elected leader himself who has become frustrated by the slow workings of democracy, especially by institutional blockades between the president and the parliament. Since the government and parliament are closely linked in the case of Ghana, it is rather unlikely that a stalemate between the two could occur in Ghana. Yet the country should be vigilant to avoid the second mode.

This kind of democratic breakdown is initiated by an outsider who overthrows the democratic government, which has become more and more illegitimate due to bad performance. While a government can perform badly in a lot of areas, Maeda identifies the economic performance as the decisive criterion, captured by the state and the development of GDP (Maeda 2010). Using GDP and GDP growth as indicators for the performance of a government has the advantage of being easily measurable. Its downside is that it is only a rough proxy for the living conditions people actually face. What ultimately matters to the people is not the figures of GDP statistics, but whether they do have access to food, clean water, transportation, healthcare, and education, whether they can expect to live long and agreeable, in safety. Those issues are linked to GDP to some extent, but not solely. They equally involve aspects of governance. Are government institutions capable of providing for the needs of their citizens? Does the government prioritize the same issues as the population does? Those are the issues which determine the perception of the performance of a government and subsequently the legitimacy of a government.

### 3. The economic side of the resource curse: The Dutch disease

Natural Resources – and especially crude oil – are special commodities with some extraordinary effects on the overall economy. One aspect of the so called “resource curse” is an inverse relationship between natural resource dependence and economic growth. In general, countries which are resource poor tend to grow faster than those which are resource rich. Yet it is misleading that resource endowment per se is hurting economic growth, but it is rather the mismanagement of those resources. If not managed well, other economic sectors can get hurt. The inflow of additional revenues from natural resources in the form of foreign currency usually causes an appreciation of the real exchange rate of the currency which reduces the international competitiveness of manufacturing and agriculture. At the same time, imports get cheaper which also hurts locally manufactured products in the domestic market.

This adverse effect is usually labelled the “Dutch disease”, named after the economic crisis of the Netherlands after its discovery of natural gas in the 1960ies. It can essentially take two forms: The first is called ‘resource effect’ and is caused by the movement of production factors, namely labour and capital from a non-booming tradable sector, like manufacturing or agriculture to the booming resource sector. This causes a direct deindustrialising effect. The second form is called the ‘spending effect’. Additional revenues increase the demand for non-tradable goods, such as services or construction. With rising demand, prices in those sectors rise while they stagnate in the tradable sectors which are internationally determined. Again, a shift of labour away from manufacturing and agriculture occurs, which is called indirect deindustrialization (Adam 2010, Corden, Neary 1982).

This might in the end lead to a situation in which GDP is still growing due to the booming Oil sector but the rest of the economy is in decline, negatively affecting the livelihood of the citizens and ultimately the legitimacy of the political system, which has failed to address the basic needs of its citizens.

Other dangers associated with Oil revenues are a rising debt burden which eventually becomes unsustainable. While this might seem paradoxical on the first glance, the explanation is rather simple. Oil-rich countries like Nigeria have embarked on heavy borrowing sprees in the past, in the treacherous hope that the Oil wealth would enable them to serve their debts. The money was often spent on expensive so-called ‘white elephant’ projects with little benefit for the larger economy. With falling Oil prices the countries could eventually no longer serve their debt, with negative effects on overall economic stability and other economic activities, further increasing the dependence on Oil in a vicious circle.

Also, oil-rich states tend to overly rely on the revenues from the natural resource for the funding of the state, neglecting other source of state income, such as taxes. This makes the state budget unnecessarily vulnerable to highly volatile international Oil prices and is closely linked with some of the negative political implications of Oil richness.

#### **4. The political side of the resource curse: Authoritarianism, Corruption and Conflict**

Usually, Oil resources are considered to be detrimental to Democracy, a view that is based on the stable Oil-rich autocracies of the Middle East which long perplexed political scientists. How was it possible that countries experienced ever growing per-capita income and yet remained firmly autocratic, a fact hard to reconcile with original modernization theory? The solution to this puzzle came as the theory of the Rentier state. Rentier states are unlikely to develop stable democracy for three reasons: First, large incomes from natural resources free the state from the obligation to tax its citizens, or at least reduce this burden significantly. This reduces the dependency of the state on its own people and hence its accountability to them. Also, people who do not pay taxes request less representation in politics and care less about state activities, since it is not 'their' money which is spent. Secondly, vast revenues from natural resources enable the government to fasten its grip on political power, by either buying off or suppressing opposition by force. Thirdly, since the state has vast resources to distribute, it is able to create a dependent but loyal class of citizens who themselves have no interest in a change of the political system since this could endanger their own economic wellbeing (Sandbakken 2006).

In a democratic context like in Ghana, the picture is more complex. The third aspect could also strengthen the entrenchment of democracy in society, if the people attribute their benefits rather to the workings of the system than the particular people in power. However, if it is attributed to specific politicians, it can also lead to politics hostile to democracy, like patronage and clientelism. Also, the second aspect could de-escalate and pacify political competition if it means that minority political stakeholders can accomplish political objectives even when in opposition since there is more space for compromise. On the other hand, it could also lead to the silencing of the opposition, severely damaging political oversight and accountability. The first aspect although remains clearly unfavourable for democracy - even in an already established democracy like Ghana - since it leads to the de-politicization of the masses and paves the ground for corruption and the outright plunder of state coffers.

This happens, because revenues from natural resources generally attract less attention from the public. Hence, there is less pressure for accountability and transparency. This creates space for the diversion of funds into private coffers. In addition, the resource revenues represent a 'cake' that has to be shared. Incentives are therefore high to engage in bribery and similar kinds of corruption to secure one's own share of the cake. Therefore, it comes at no surprise that scholars have linked natural resources with high levels of corruption (Siegle 2009).

Corruption, in general, can be defined as the misuse of public power for private gains. It is a reason for a lack in state performance and development but also a symptom of an underlying flaw in state management. Corruption overrides markets and creates new and unintended ones by putting a price-tag on otherwise free government services or goods. Corruption in this field alters official policy goals and almost always introduces vast inefficiency. Since they offer additional incentives for officials to get active, it has sometimes been argued that corruption does not necessarily have bad effects since it can also help to get things done. Rose-Ackerman rejects this view since the tolerance of corruption in one field encourages its spread and growth in others and results in unfair and arbitrary patterns.

The state is harmed, an uncertain business climate is created, long term reform prospects are undermined and government in general delegitimized. Since governments not only provide services but also impose costs such as taxes, regulations and customs, avoiding those costs by bribing officials is tempting. While the costs for the individual person or business are reduced, the additional costs have to be born by the public (Rose-Ackerman 1999, pp. 9–24).

Corruption therefore decreases the quality of democratic governance and if too widespread, makes democratic governance a mere masquerade, further adding to its de-legitimization.

Oil is linked with stable autocracies, but also with civil unrest and wars like in Nigeria and in Angola. How does this conform? Resource revenues tend to raise expectations. People tend to believe that with Oil, their lives will improve almost instantly. Only if resource revenues are large enough to meet those expectations, they can have the stabilising effect (Basedau, Lay 2005). If they are not large enough, the only solution is to assure that expectations are well managed. In addition, it has to be made sure that benefits from the Oil revenues are applied in a socially and regionally just manner, including all segments of society. If certain social groups or regions – especially the Oil producing ones - feel left behind, this can cause unrest. Although Ghana has had a quite peaceful history so far, it is still an ethnically heterogeneous country, providing a potential of friction and polarization. The case of the past elections which came close to escalating into violence should provide for a strong warning that Ghana is not immune against conflict.

## **5. Is Ghana's democracy in danger?**

The two - although closely related and sometimes cross-cutting - important questions which will decide whether Oil poses a threat to Ghana's democracy are whether the country will be able to avoid the dangers associated with the resource outlined above, and whether it is able to convert the revenues into developmental gains for broad segments of the society. While it is not the aim of this article to assess the viability of the chosen development strategy, this article rather looks for mechanisms and structures which are able to govern the Oil boom well and provide feedback and opportunities for adjustment in the process.

## **6. Is Ghana able to avoid the dangers of Oil?**

As indicated above, the economic dangers summarized under the label "Dutch disease" are fiscal and macroeconomic instability as well as high indebtedness. On the political side, it is especially the likelihood of conflict which could prove to be dangerous.

### **6.1. Fiscal instability**

According to Ghana's Petroleum Revenue Management Act, up to 70 per cent of the total benchmark revenue from the Oil of one budget year should be transferred to the annual

budget. The remainder, which is at least 30 per cent or more, should be split between two funds, the Ghana Stabilization Fund and the Ghana Heritage Fund. This means the former will receive at least 21 per cent of the total revenues and the latter at least 9 per cent. The exact percentages are proposed by the Minister of Finance but the last decision remains with the Parliament. The Stabilization Fund is designed to cushion against price shocks caused by the high volatility of the Oil prices or by unexpected drops in the production of Oil. Should revenues drop under a certain thresholds, money can be transferred from this fund to the annual budget by a certain formula. In the beginning this fund will increase in size but only until it reaches a certain threshold defined by the minister of finance. All the money which exceeds this threshold can again be channelled to the budget. The Heritage Fund is intended to serve future generations after the resources have been depleted.

While it is projected that Oil production will reach its maximum very quickly, the stabilization fund will only begin to build up slowly. This will probably create a situation where Ghana already receives considerable amounts of revenue while the fund might not yet be able to buffer major price shocks. Since the fund is the only mechanism geared towards cushioning price shocks, this could leave Ghana very vulnerable, especially during the first years. Also, the percentages of the revenue which accrue to the funds seem to be the result of arbitrary political decisions, but not of thorough scientific analyses of their economic impact. Therefore, it remains unclear whether the funds would be sufficient to buffer major falls in Oil prices

On the positive side, it can be said that the government seems not to rely solely on the Oil revenues for state funding. There are efforts at increasing the efficiency as well as the reach of the tax collection, by merging institutions and reaching out to cover also the large informal sector of the economy. Also the fact that the Oil revenues will probably never make up more than 20 to 25% of the annual budget has to be assessed positively, since this forbids an overreliance on the Oil right from the outset.

## **6.2. Macroeconomic instability**

The major threat to macroeconomic stability is the Dutch disease. Already now there are signs of it: Although the Oil industry offers only marginal employment opportunities, people begin to move out of their jobs in the hope to get one of those scarce but well-paid jobs. More or less trustworthy institutes offering training in one or the other Oil-related field of work are springing up in the region but also in the capital Accra. Already now there is widespread unemployment in Ghana, although reliable figures are lacking. This is especially visible in the Western Region, where a lot of people have moved in the hope for an employment in one of the Oil-related businesses. In addition, 80 percent of the workforce<sup>1</sup> are working in the informal sector as one of the numerous street vendors or coconut and fruit sellers. While they are not considered unemployed in the technical sense of the word, they still have to cope with precarious living conditions without any form of social security. Only slowly has the state started to extend its services to those people. In addition, the International Monetary Fund and World Bank have called for a freeze on public employment, because the state is the largest employer in the formal sector. While it might be true that the state has to spend too much on the salaries of its employees and that

---

<sup>1</sup> Ghana Statistical Service, 2011

covering rising unemployment by increased public hiring might not be sustainable in the long run, the effects of following this line of argument could be equally strenuous for the economy by further increasing unemployment. Additionally, the civil service - already hurt by earlier rounds of lay-offs – could be weakened further if also qualified civil servants are affected by across-the-board cuts.

The Dutch disease is especially dangerous in an economy highly dependent on primary commodity exports, which applies to the Ghanaian one: Cocoa, gold, timber, bauxite and now Oil are the main exports. While the appreciation of the real exchange rate can hardly be suppressed altogether on a sustainable basis, its negative effects can be mitigated by a careful management of the economy. Although the government prioritizes spending on infrastructure, which is comprehensible, this still could fail to show the desired effects if it is done without a clear idea of which industries should be strengthened. What is required is a careful examination of the comparative advantage of exports, commodity by commodity, taking into account their respective elasticity. If prices for a product with high elasticity rise, the demand for this product declines. In contrast, if prices for a product with low elasticity rise, demand will still be high which means it is less vulnerable to the appreciation of the real exchange rate. Investing in those products could be part of the solution: the currency would still appreciate, but the effects would be more than compensated by the increased revenues from the strengthened sector (Buchberger 21/06/2011).

Unfortunately, this kind of analyses seems not to be happening. The effects of the Oil revenues on the real exchange rate are unknown and to make things worse, government seems not to be taking the danger of Dutch disease serious enough. Therefore, the outlook that Ghana is going to avoid Dutch disease is rather bleak, with possible negative effects on the legitimacy of the political system.

### **6.3. Indebtedness**

During the preparations for the Petroleum Revenue Management Act, the issue of collateralization of the Oil revenue – the use as security for loans - heated the minds of parliamentarians, experts and citizens alike. While the minority in parliament as well as most experts and the public spoke out against any form of collateralization, the majority was in favour of it. The final act bans collateralization of the Oil still in the ground and the total revenues, but allows for the collateralization of the amount transferred to the annual budget. While it may be important for Ghana to secure new loans, for example for major projects like the gas processing factory in the Western Region, this brings with it a significant risk of rising indebtedness of the country.

While Ghana had been able to significantly reduce its foreign debt, this trend has already turned around. A lot will depend on the use of the loans. While the law requires that the Oil revenues are only spent on certain development-related areas, it seems to be unclear whether the same applies to the loans. It remains to be seen whether the Ministry of Finance's Debt Sustainability Analyses will be a sufficient instrument to prevent a return to the status as a Heavily Indebted Poor Country.

#### **6.4. Impact on local communities and the likelihood of conflict**

Most of Ghana's Oil production is going to happen offshore. Environmental devastation and land disputes are therefore unlikely to happen to the same extent as in the Niger Delta area in Nigeria, except for a disastrous event like the Deep Water Horizon catastrophe. Yet, local communities will still be affected, since their primary livelihood is based on fishing. The areas around the Oil production vessels are declared no-go areas; therefore, conflicts are likely to evolve. Already now, local fishermen have been arrested on several occasions because they had illegally approached the Oil production areas. With increased processing activities on land, more communities will be affected. A lot will depend on the functionality of institutions to voice and mitigate their grievances. If people are no longer able to earn their living as they used to, comprehensive and fair compensations are needed. Since they often lose capital in the form of fruit-growing trees, fishing grounds or fertile land, those should not necessarily take the form of cash, but the form of alternative livelihoods and new employment and business opportunities.

This could be done by ensuring local content, but so far very little has happened in this direction. While production has started a while ago, the Exploration and Production Bill is still not finalized. In the meantime a majority of jobs in the Oil industry itself are performed by foreigners, since only a few Ghanaians have the necessary knowledge and training. In addition, the few Ghanaians on the rigs report serious discrimination in wages and low job security. Also secondary services, even as basic as catering, are oftentimes provided by foreign companies. Therefore, only a few job opportunities seem to be created in the Oil sector and the surrounding industries.

The government hopes that Ghana will benefit especially from natural gas, which is a side product of the Oil production but can be used for the generation of energy and the production of plastics and fertilizers, providing many new jobs in the industry. Yet the necessary infrastructure is still not in place. Some of the gas is being pumped back into the reservoirs but the remainder is being flared, despite a "no-flaring policy" declared by the government. Since the necessary infrastructure is expensive, it is yet not clear when it will be in place.

The Ghanaian government is expected to earn up to 1.8 Billion US\$ per year from the Oil during the period of the highest production output (Adam 2011). With a population of around 24 million, this means a per-capita revenue from the Oil of about 75 US\$ a year. Although this estimate is rather conservative, based on a production rate of 125,000 bpd and an average Oil price of 75 US\$ per Barrel, one can easily imagine that even with a doubled production rate and increased Oil price, this will not be enough to turn Ghana rich over night. Yet this is what many still expect and they have been encouraged by politicians as well as by the Oil companies to believe so. While politicians hope to outperform their opponents at the ballot box by making the bigger promises, the latter seek to increase the value of their stocks by painting their business outlook in bright colours. Yet both strategies are rather short sighted and result in ever rising expectations. If those expectations are not managed well, the waking-up from the dream will be rather unpleasant and discontent widespread. Although this seems to be broadly acknowledged, actual efforts aimed at bringing down the expectations are limited. Again, a long term development plan would help to maintain regional and social justice and would explain imbalances in short-term spending, correcting misplaced and exaggerated expectations. In addition, it could help to build trust and confidence in the management performance of the government.

It is predictable that only a few jobs will be created in the Oil industry itself and a low level of per capita income will generate from the Oil revenues in the near future. So far, people being attracted by the hope of an employment in the Oil and gas sector most of the time either end up in some kind of low-paid and low-productivity job, such as in the gastronomy or without any job at all. Meanwhile, land prices and rents are rising significantly in the Oil producing region, further driving up living costs. At the same time the wealth of the Oil companies and their mainly foreign employees is highly visible. Although the likelihood of a civil war might still be low due to the rather peaceful Ghanaian culture and few open tensions between ethnic groups, this still is a fertile ground for criminality. Partly due to porous borders with crisis-struck Côte d'Ivoire, weapons are easily available, imported ones but also locally manufactured ones. Observers see the biggest danger in the increase in criminality. While the criminals themselves are not aiming at undermining democracy, a deteriorating security situation could, if government should fail to keep criminality in check.

## **7. Is Ghana able to convert the Oil revenues into developmental gains?**

While some of the following issues have already partly been touched, they deserve more careful examination. Are Ghana's institutions able to assure that the revenues are spent wisely, so that the country reaps the biggest returns possible? While the revenues could be used to ameliorate some of the institutional weaknesses, they have also the potential to aggravate them.

### **7.1. Political Environment: Weak institutions**

Ghana runs a somehow hybrid political system: Nominally, it is a presidential system with unitary executives and legislatures. The president is the head of state and the head of government, like in the United States. Although, unlike in the USA, the parliament is unusually intertwined with the executive since the majority of ministers has to come from the midst of parliament. Also, private members can introduce bills into the parliament, but are prohibited to initiate laws which have implications on financial expenditures or policies. This results in a serious lack of checks and balances. While this kind of fusion of powers is common in parliamentary systems like in the UK, the Ghanaian parliament lacks the special minority rights which are necessary in those systems or a second chamber, like the German Bundesrat or the US Senate which could hold government accountable. In contrast, the Presidents wields a lot of powers, manifest in his right to appoint the judges of the supreme court and the heads of important, nominally independent institutional bodies such as the Commission on Human Rights and Administrative Justice.

Although the opposition in parliament is quite vocal and articulate, this means that parliament is rather weak and has difficulties to perform its oversight role over the executive. This is further aggravated by a general lack of funds and of appropriate professional support by research staff. Most ordinary Members of Parliament do not have an office of their own in Accra, unless they rent one on their own expense. Only Members of Parliament with special functions have their own offices, like the Speaker, Majority Leader, Minority Leader or the Whips. The same is valid for the absence of expert supporting staff,

such as researchers. In addition, ordinary MPs are confronted with a lot of demands from their electoral base. The voters expect immediate effects of their support for one candidate and see them as their first port of call for any grievances, even though they might be better directed to local bodies: “A MP is a philanthropist and a social development agent; legislation is only a minor” (Buchberger 19/07/2011). Answering those requests is very time consuming and makes the work of parliamentarians less effective.

All those constraints taken together lead to a situation where there is an information gap between government and ordinary MPs. This is only partly made up by well-informed senior parliamentarians (of the ruling party) who are well connected because of their careers in their party and the government. Those are channels which are closed to the parties in opposition which therefore have to work all the harder to gather information. Yet there are deliberate attempts to close the capacity gap by field trips, workshops and conferences which also include the input of expert knowledge from the outside. How balanced those efforts are remains unclear, though, since most seem to follow a top-down logic with the ministries briefing parliamentarians, which gives them the initiative to set the agenda.

Nevertheless, there are steps forward. The Public Accounts Committee was able to reduce its backlog in assessing audit reports with the help of GIZ from more than three years to about one year and thereby has increased its own significance. It remains to be seen whether the revision of the constitution currently under way will bring any improvements. Up to then, Parliament remains rather weak and outside observers largely regard it as a mere rubber stamp for government policies.

## **7.2. Political culture and the role of other oversight institutions**

Other institutions originally intended to provide oversight like the audit service are faced with serious resource constraints which keep them from recruiting enough staff or to carry out their programs. In addition, they have to cope with regular interferences in their work from government. Observers criticize that the lack of funding for those institutions is partly due to a lack of political willingness and general suspicion of independent institutions.

A major feature of political culture in Ghana is that everything is highly politicized. This is partly the result of the winner-takes-all character of political contest and the close race between the two major parties. Decisions taken are therefore rarely merely about policies but often political in nature, with only the potential benefits for the next elections in mind. This favours highly visible projects with immediate effects like the distribution of school uniforms while long term planning and tough decisions are postponed or not addressed at all.

A second effect is that appointments of officers are not based on merit but on patronage, namely party allegiance. This applies not only to essentially political jobs such as Ministers and their direct supporting staff, but also to supposedly non-political positions such as the heads of government agencies like the police and the military, or other boards and state enterprises like the District Assembly Common Fund, sometimes even down to the level of heads of hospitals. Although there seems to be little evidence of the outright “sale” of offices, the awarding of position is often used as a reward for loyal party supporters or connected with the request for support during the next elections. This leads to a civil service which itself is highly politicized and has a high turnover rate. With every change of

government, there is therefore a huge loss of technically highly knowledgeable people and since the members of those institutions enjoy no long term security themselves, there is little incentive to engage in any long-term planning. Although there is now a Presidential Transition Bill in Parliament which addresses the issue of an organised succession of governments, it seems unlikely this bill is going to deal with the issue. The current draft focuses on the handing over of assets and offices on the very top level of government. The lower, technocratic layers are not mentioned, so it is likely that the situation will not change significantly.

This is especially visible in the case of the National Development Planning Commission which is supposed to be independent but reports directly to the president. Even though it has existed since the early 1990ies, it has not been able to come up with a long-term development strategy. So far, there have been only medium-term strategies, like the two Ghana Poverty Reduction Strategies and the recent Ghana Shared Growth and Development Agenda which stretch over periods of three to four years and lack a proper baseline analysis to determine the current situation and how to realize the good intentions they contain.

### **7.3. Corruption and inefficiency in the public service**

Since corruption is always happening in the dark, it is hard to estimate its real extent. Although Ghana usually receives rather good grades in corruption rankings like the Corruption Perception Index by Transparency International in comparison with its African neighbours, it is sure that there is still a lot of corruption on every level of the executive (Transparency International 2010). When it comes to corruption in the administration, it is also hard to separate corruption from general institutional weakness since the two are interdependent: Weak institutions allow for corruption and corruption weakens institutions.

At the political level, the bigger danger does not seem to be outright bribery, but again the highly politicized political landscape. Since every decision is taken with the next elections in mind, this applies also to the allocation of projects, which means also projects funded by the Oil revenues. Although regional balance is said to be taken into account, no institutional mechanisms seem to be put in place to ensure this. Therefore, it is very likely that projects will be allocated as usual, not necessarily where they are required the most but where the biggest political pay-off can be expected: They are constructed in an area which is known to be supporting the own party rather than in the neighbouring community which firmly favours the political opponent.

In the administrative realm, especially the awarding of licenses and procurement processes are affected by corruption. Usually, two situations are common where incentives for corruption exist. The first one is a highly competitive bidding process. In this situation, corruption aims at altering the playing field to ensure that the intended contestant wins the contract. This might be done by directly bribing the officer in charge or by setting up figurehead companies which then pick up all the existing bidding documents. By doing this, it seems from the outside like due process is followed, yet whichever contestant wins it is the same background figure which wins the bidding process. The second incentive situation involves the diversion of state funds. When projects are not properly assessed for value-for-money, incentives are there to blow up project budgets, only to stuff the excess funds into one's own pocket.

In addition, also petty corruption is very common and has actually turned into a part of daily life. This applies mostly to civil servants who interact directly with citizens, such as the police, and is partly explained by low salaries and weak institutional oversight. Further cuts in the public service might therefore turn out to be counterproductive.

The efforts in fighting corruption have to be described as rather toothless during the last decade, besides the talk of “zero-tolerance”. Some laws and institutions such as the Procurement Act and the Internal Revenue Agency were introduced, but they are not enforced properly. Others, like the Commission for Human Rights and Administrative Justice are not used. Since also some politicians might profit from especially clientelism and patronage to keep them in power, incentives are low to close the opportunities for those practices. Especially at the top level, accusations of corruption are rarely brought to the courts but charges are being dropped already in early stages of investigation. Even more rarely, top level politicians, like ministers get fired because of corruption charges.

#### **7.4. Transparency and Feedback mechanisms**

In terms of transparency, the situation is currently improving, although deficiencies remain. Only when one of the Oil companies, Kosmos, decided to list at the New York Stock exchange, the contract of this specific company was made available to the broader public. Parliament claims that all the major contracts between the Ghanaian government and the Oil companies were known and discussed by parliament and therefore available through the word-by-word protocols of parliament. While this might be true and civil society could have had knowledge of the contents of the contracts earlier if they had invested more in their research, these protocols can hardly be called easily accessible since they require a close knowledge of parliament’s proceedings to find what you are looking for, a situation which still can hardly be labelled “transparent”. Therefore, many observers would regard a Right to Information Act as a major step forward which would facilitate the work of many civil society organizations and other independent organizations.

In the meantime, at least the Petroleum Revenue Management Act provides for several reporting and audit mechanisms and contains transparency requirements. The expenditure of the Oil revenues has to be publicised in at least two national daily newspapers. A major feature of the act is the Public Interest and Accountability Committee which is designated to monitor the compliance of the government with the act and the proper use of the Oil revenues. It consists also of members of civil society, academia, think-tanks and various professional organisations and receives advance laurels from observers. It is also a new institutionalised feedback and grievance mechanism. This is necessary, since other existing feedback mechanism through the ranks of civil service agencies or local government are regarded as rather not functional due to bureaucratic inertia and low level of capacities, especially at the district levels. The basis is there for this committee to play a very constructive role, yet it remains to be seen whether it manages to realize its potential.

## 8. Conclusion

Like everything in life, there is light and shadow. While Ghana seems to get some things right, others seem to be going wrong. On the positive side, the country is taking into account the high volatility of Oil prices and does not overly rely on those revenues. Also positive are the rather peaceful civic culture which could help prevent open and violent conflicts. In terms of transparency, accountability and feedback mechanisms, the Petroleum Revenue Management Act clearly improves the situation.

Yet there remain challenges: Right now, it is still unclear whether the country is able to avoid the negative economic consequences of the Dutch disease, but the outlook is rather pessimistic. Also, the issue of indebtedness remains, since there are only little save guards against unsustainable borrowing and to assure the proper deployment of the acquired loans. There is little local content and the government is only slowly catching up. In this case, developing the Oil production more slowly would have helped to properly set the stage. With regards to conflict, the high expectations are worrying, since no substantial expectation management is happening which might lead into conflict.

The biggest deficiencies remain in the area of institutional weaknesses. The hope that the parties or the politicized civil service, plagued by corruption and low capacity, will be able to produce a long term development plan which is truly impartial is rather dim. So far, economic planning in Ghana has lacked the necessary substance and thorough scientific analyses and therefore usually resembles a wish list. Yet long-term development planning would be crucial to secure broad and socially just development. Therefore, strong doubts remain whether Ghana will be able to use the Oil revenues to its best benefit.

Although the outlook for the performance of Government is rather mediocre with the resulting threat to the legitimacy of the political system, even a clear fall of the legitimacy does not automatically mean the end for democratic rule in Ghana. So far, no political stakeholder seems to be on the horizon who could upstage democracy and it is still a long way down from the high levels of positive attitude people still show towards democratic rule. In addition, people do not necessarily doubt the legitimacy of the system as a whole when one specific government loses its legitimacy. Only if the political system is not able to produce viable political alternatives, when political parties are too indifferent, also the system will lose its legitimacy. While the two major parties still resemble each other very much in the actual policies when in government, this is partly due to the dependence of Ghana on budget aid by international donors which can in turn shape available policy options. In this environment, it has been hard for political parties to develop a distinctive profile so far. The Oil revenues along with the newly attained lower-middle income status could now open up space for more independent policy choices and actually help to gear politics more towards policy choices than the mere choice of the political personnel.

## Bibliography

- Abdulai, Abdul-Gafaru; Crawford, Gordon (2010): Consolidating democracy in Ghana: progress and prospects? In *FDEM* 17 (1), pp. 26–67.
- Adam, Mohammed Amin (2010): Fiscal Policy Options for Managing an Oil Economy. Edited by Friedrich-Ebert-Stiftung (Parliamentary Briefing Paper).
- Adam, Mohammed Amin (2011): Challenges of Oil Revenue Management in Ghana. A Paper Presented at a Conference organized by the Friedrich Ebert Stiftung At La Palm Royal Beach Hotel, Accra on April 26, 2011. Friedrich-Ebert-Stiftung. Accra.
- Basedau, Matthias; Lay, Jann (2005): Conceptualising the "Resource Curse" in Sub-Sahara Africa: Affected Areas and Transmission Channels. In Matthias Basedau (Ed.): *Resource politics in Sub-Saharan Africa*. Hamburg, (Hamburg African studies, 14), pp. 9–24.
- Buchberger, Christoph (21/06/2011): Political Economy of Oil and Gas. Interview with Mohammed Amin Adam. Accra.
- Buchberger, Christoph (19/07/2011): Political Economy of Oil and Gas. Interview with Samia Nkrumah. Accra.
- Corden, W. Max; Neary, J. Peter (1982): Booming Sector and De-Industrialisation in a Small Open Economy. In *The Economic Journal* 92 (368), p. 825.
- Freedom House (2011): Freedom in the World - Ghana. Available online at <http://www.freedomhouse.org/template.cfm?page=22&year=2011&country=8044>, checked on 27/07/2011.
- Lipset, Seymour Martin (1959): Some Social Requisites of Democracy: Economic Development and Political Legitimacy. In *American Political Science Review* 53 (1), pp. 69–105.
- Maeda, Ko (2010): Two Modes of Democratic Breakdown: A Competing Risks Analysis of Democratic Durability. In *The Journal of Politics* 72 (04), pp. 1129–1143.
- Przeworski, Adam; Limongi, Fernando (1997): Modernization: Theories and Facts. In *World Politics* 49 (2), pp. 155–183.
- Rose-Ackerman, Susan (1999): *Corruption and government: causes consequences and reform*: Cambridge University Press.
- Sandbakken, Camilla (2006): The limits to democracy posed by oil rentier states: The cases of Algeria, Nigeria and Libya. In *Democratization* 13 (1), pp. 135–152.
- Siegle, Joseph (2009): Governance strategies to remedy the resource curse. In Irakli Khodeli (Ed.): *From curse to blessing? Using natural resources to fuel sustainable development*. 1. ed. Malden, Mass.: Wiley-Blackwell [et. al.], pp. 45–56.

Transparency International (2010): Corruption Perception Index 2010, checked on 11/10/2011.

World Bank (2011): Ghana - Data. Available online at <http://data.worldbank.org/country/ghana>, updated on 25/07/2011, checked on 27/07/2011.