Ghana Office

The Oil Economy and the Resource Curse Syndrome: Can Ghana make a difference?

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Ghana was the first sub-Sahara country to gain independence from the British and was at the forefront of decolonization in Africa. After many years for military rule, Ghanaian embarked on democratic dispensation in the early 1990s and is now regarded as one of the most stable democracies in Africa. Ghana discovered oil in commercial quantities in July 2007 by a consortium of foreign oil companies at an exploration well in the West Cape Three Points, Ghana has found oil. But the country is now facing a new challenge of not just how to manage an oil economy but more importantly how to avoid the “resource curse syndrome” with which sub-Saharan Africa has a bad reputation for. Indeed, Ghana is not new to natural resources exploitation , gold mining for example has being taking place in Ghana for over hundred years, yet poverty and corruption remain the key development challenges. In this paper, we will address three main questions: what do we know about the resource curse? What has Ghana done to avoid the resource curse syndrome? And how can the resource curse be overcome?

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1. Introduction

"Oil discovery cannot and should not be a curse to society. It is its poor management that usually turns oil resource into a curse rather than a blessing"[1]

Before Jeffrey D. Sachs and Andrew M. Warner published their article entitled "Natural Resource Abundance and Economic Growth in 1997, the "resource curse" thesis had engaged the attention of both academics and development practitioners (Wheeler, 1984 and Auty, 1993 cited in Rosser, 2006). In their paper, Sachs and Warner concluded that "resource-poor economies often vastly outperform resource-rich economies in economic growth" (Sachs and Warner, 1997:1). While there seems to be nothing innate to petroleum that should warrant such widely shared negative consequences, the fact remains that most producers of oil have fared poorly in the last three decades, especially in comparison with analogous countries that are not oil-rich (Humphreys al et, 2007 and De Oliveira, 2007). Indeed, few states[2] have had unambiguous positive experiences with petroleum, which suggest that there are clear governance prerequisites for effective absorption of petro-dollars such as a strong democracy and the rule of law. Rather than a blessing, much of the literature suggest that resource abundance in increases the likelihood of resource rich state to experience negative economic, political and social outcomes including poor economic performance, low levels of democracy and bad governance and conflicts and civil wars (Rosser, 2006). While the relationship between resource abundance and poor socio-economic outcomes have been questioned (see Stijns, 2001, Herb, 2003 and De Soysa, 2000), the resource curse thesis is underpinned by three main hypothesis: resource abundance, particularly oil and gas, results in poor economic performance (economic governance); resource abundance, results in low or weak democracy, rent seeking behavior of the by political elites and weak institutions (political governance) and resource abundance is associated with conflicts and civil wars (Rosser, 2006). In the following section, we discuss economic and political governance, since the third hypothesis is outside the scope of this paper.

[1] A participant at an International Conference "Fuelling the World-Failing the Region? New Challenges of Global Energy Security and Resource Governance and Development in the Gulf of Guinea, organized by Friedrich-Ebert-Stiftung, 25th-26th May, 2010, Abuja, Nigeria

[2] The best examples are those of Norway and a number of regions of developed countries such as the province of Alberta (Canada) and the state of Alaska (USA). Botswana, Chile and Indonesia have also been mentioned as countries that have wisely managed oil wealth.

2. Literature Review: What do we know about the resource Curse?

- ***Economic Governance***

The question of poor economic performance of resource-rich countries is as a result of poor economic policy or economic governance. Many studies have presented evidence to suggest that natural dependency reduce economic growth. For example, Sachs and Warner (1995) found that economic dependence on oil and mineral is correlated with slow economic growth, controlling for other structural attributes of the country. In 2001, Sachs and Warner, extended their previous and concluded that countries with great natural resource with tend to grow more slowly that resource-poor countries (Sachs and Warner, 2001, also see Prebisch, 1950). Other studies that find a negative effect of oil, especially, on economic performance, include De Oliveira (2007), Ross (2001, 2003) and Smith (2004). Finally, Atkinson and Hamilton (2003) found that savings rates are on average lower in resource abundant countries that in resource poor countries. Indeed, proponents of this view argue further that poor economic growth caused by a) Price volatility of primary commodities and b) the "Dutch Disease"

a) Volatility of Prices for Oil

Indeed, the price of oil does not follow a smooth path, whether upwards or downward. But it experiences large short- and medium-term swings around a long-term average. The world market prices of oil and natural gas are more volatile than any other mineral and agricultural commodities. Because oil price is highly volatile, oil-rich countries experience macroeconomic instability. This is a function of petroleum's status as a political commodity only obliquely dependent on the realities of supply and demand, making price variation difficult to predict. Such volatility should mean that the budgets of oil-rich states are thought with unpredictability in mind but, in reality, what little economic planning there may be is normally pursued within the framework of unrealistically high revenues. It is against this backdrop that some have argued that since primary commodities are inherently risky, a diversified country may indeed be better off than a country that specialised in oil or a few other primary commodities. Therefore, diversification out of primary commodities into manufacturing is considered self-evidently desirable for resource rich-countries.

b) The Dutch Disease

The Dutch Disease refers to some possible unpleasant side effects of a boom in oil or other mineral and agricultural commodities. The name Dutch Disease {due to the Economist magazine} was originally inspired by negative effects of natural gas discoveries by the Netherlands in the late 1950s, Kremers, 1986. The phenomenon arises when a strong, but perhaps temporary, upswing in the world price of the export commodity leads to:

- a real appreciation in the local currency (taking the form of nominal currency appreciation if the country operate a floating exchange rate or the form of money inflows and inflation if the country operate a fixed exchange rate);
- an increase in the price of nontrade goods (goods and services such as housing that are not internationally traded), relative to traded goods (internationally traded goods other than the export commodity);
- a resultant shift of labour and land out of the non-export-commodity traded goods(pulled by the more attractive returns in the export commodity and in the non-traded goods and services;
- a current account deficit; and
- the contacting of unmanageable public debt burden

In many oil exporting countries, the crowded-out non-commodity traded goods are in the manufacturing sector, the effect is deindustrialization effect and a decline of agriculture in favour of cheaper imports, and provides a general disincentive for local productive activities. However, because oil sector is an enclave activity with skilled and very limited labour need and few linkages to the non-oil domestic economy, the petroleum industry fail to provide alternative employment for the newly urban masses. The result of the Dutch Disease is thus a steady decrease in non-oil productive activity and, in the face of the eclipse or lack of non-oil fiscal base, growing dependence of the state coffers on petroleum rent.

3. Governance and Institutions

Most scholars have suggested that members of the political elites are the main problem as they engage in ‘rent-seeking’ (Auty, 2001, 2009). According to Robinson et al (2002), such rent-seeking behavior is most likely to lead to negative economic outcomes when resource booms are perceived to be temporary because political elites will focus of maximizing the rents that they can extract in the short-term. Similarly, Ascher (1999), argue that resource abundant countries have the tendency to increase government spending in response to increase availability of royalties. Others have sort to explain the resource curse in relations to the quality of institutions. Thus, of the various channels through which oil could be a curse to the long-run development, the quality of institutions and governance is perhaps the most widely hypothesized. For instance, Leite and Weidmann (1999) find that natural resource dependence has a substantial statistical effect on measures of corruption in particular. Others have found negative running via inequality and education (Gylfason and Zoega, 2002 and Gylfason, 2001). It has also been argued that petro-dollars has tendency to weaken the social contact between citizens and their government.

The political consequences of oil wealth have been shown to be equally negative and, indeed, it is primarily its impact on institutions, mentalities and the quality of governance rather than macro-economic trends that one must look at in order to account for the predicament of petro-state. The oil economy is managed under a shroud of secrecy; production levels and revenue are not in the public domain and breed corruption. For example, according Global Witness, Angola could not account for an average of US$1.7 billion per year from 1997-2001, which is more money that the government spent on education and health during the same period (Global Witness, 2004). Therefore, it can be said that for developing countries with comparatively weak institutions and democratic systems, political dimension and political impact of the resource curse are even more relevant and potentially devastating (Roll, 2010).

In the light of the forgone discussion, is all hope lost for poor countries with rich natural resources? Not quite. Chile and Botswana stand out as success stories on continents where the resource curse has otherwise wreaked havoc. But the rarity of these exceptions, not only confirms the rule, but also serves to clarify what it takes to avoid the misery-inducing consequences of wealth based on natural resources: democracy, transparency, and effective public institutions that are responsive to citizens. These are important preconditions for the more technical aspects of the recipe, including the need to maintain macroeconomic stability, prudently manage public finances, invest part of the windfall abroad, set up "rainy-day funds," diversify the economy, and ensure the local currency does not reach too high a price. In the next section, we shall these general policy prescriptions in the context of Ghana, as the country begins oil production in the last quarter of 2010.

4. Ghana as an oil Economy: What has been done?

Legal Framework for Oil and Gas Exploration

Ghana has a long history of oil and gas exploration dating back to the 19th century when the first oil wells were drilled around Half-Assini in 1896 in the onshore Tano Basin. But earlier exploration did not yield any meaningful discovery, with the exception of Saltpond field which was discovered in 1970. The current phase of oil and gas exploration began with the retrieval of seismic data in the shallow water area of the coast of Ghana in the early 1980s. The government in 1982, embarked on the restructuring of the energy sector and this resulted in the enactment of three laws:

- The Ghana National Petroleum Corporation (GNPC) Law (PNDC Law 64) of 1983;
- The petroleum Exploration and Production Law (PNDC Law 84) of 1984;
- The petroleum Income Tax Law (PNDC Law 188) of 1987.

With regards to oil, the framework for managing the upstream petroleum industry in Ghana is established and given legal backing by two main statutes, PNDC Law 64 and the Petroleum Exploration and Production Law, PNDC Law 84, supplemented by the Petroleum Income Tax Law, PNDC Law 188 of 1987. Flowing from the Petroleum Exploration and Production Law is the Model Petroleum Agreement (MPA)[3]. The benefits from any discovery are spelt out in the Petroleum Agreement before its execution. Furthermore, the MPA also make provision for the employment and transfer of management and technical skills to Ghanaians in Article 21.

The Jubilee Oil Field

In July 2007, Ghana Joined the club of oil producing countries in the Gulf of Guinea with the announcement of a consortium of International oil companies lead by Tullow that it had discovered oil in commercial quantities around the Cape Three Point, offshore in the western region of Ghana. Tullow said its mahogany -1 well, drilled into a structure straddling the West Cape Three point and Deepwater of the Tano blocks, found 95 meters of tacked oil zone in a 270-meters gross hydrocarbon column. Kosmos a US firm also made a second discovery of the Odum-1 well in the West Cape Three Point basin, 13 Kilometers east of the Mahogany-1 well. These two discoveries were renamed the Jubilee Field and an agreement has been reached between the parties to operate as one unit to reduced cost. According to the production parties, the Jubilee Field contains at least 700 Million Barrels recoverable reserves. Production from the Jubilee field is scheduled to begin in December 2010, with output expected to reach 120,000 barrels per day (b/d) in 2011 — and possibly 250,000 b/d by 2013 if a second floating production, storage and offloading vessel is deployed. According to Moss and Young the fiscal benefits[4] to the state in the Jubilee field is about 38.2% of daily oil production with a development cost of US$3 billion for a filed life of 20 years (also see Moss and Young, 2009). Based on these assumptions, government could between $US 800 and $US 1billion in 2012 and an average of $US I.5billion from 2013 to 2030.

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[3] Model Petroleum Agreement is a petroleum exploration agreement executed between the Government of the Republic of Ghana, GNPC and an International Oil Company (IOC).

[4] Fiscal Benefit: royalty of 5%, GNPC carried Interest 10%, additional interest of 3, 75%, and Corporate Income tax of 35%. (Moss and Young, 2009)

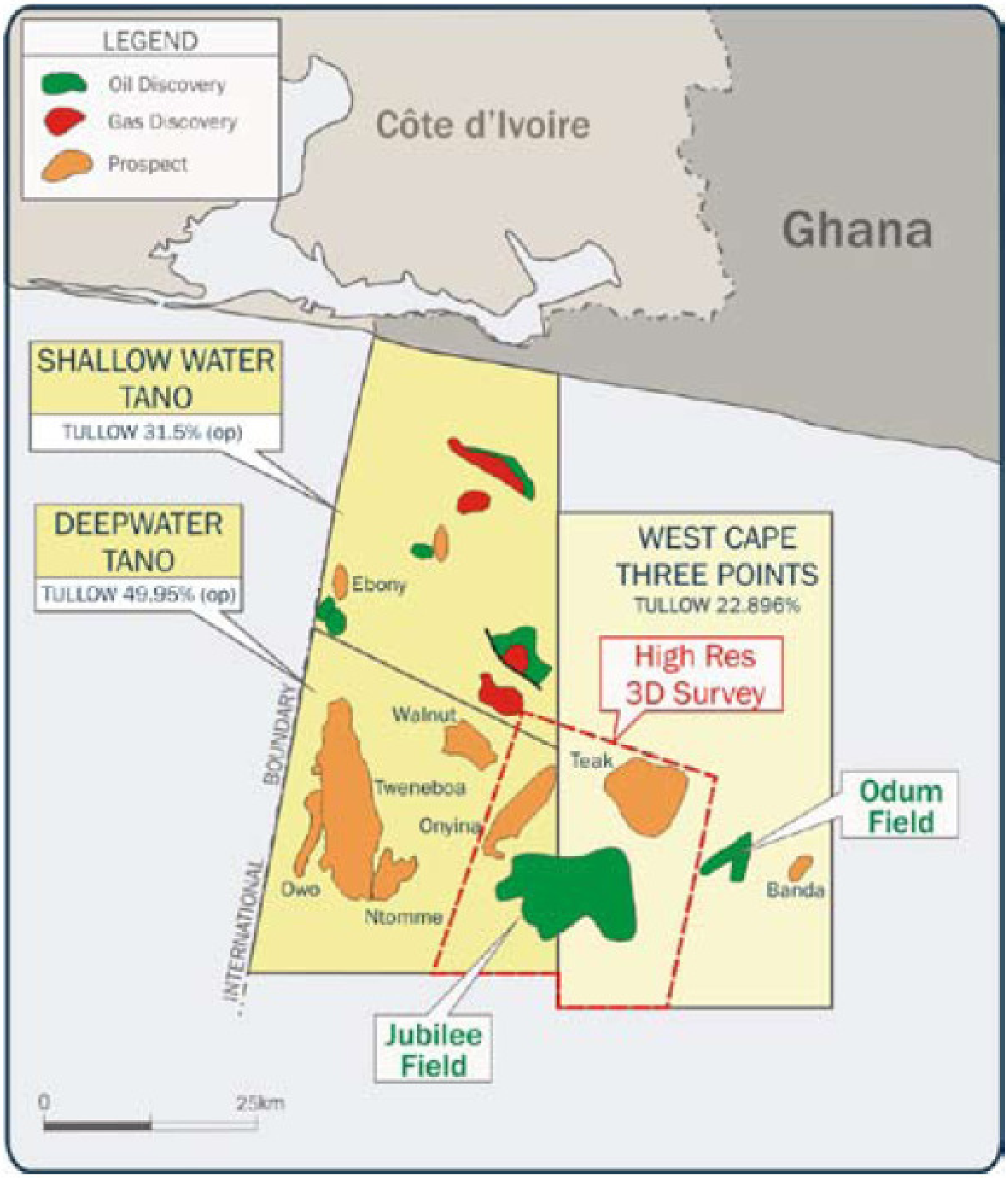

Figure 1: Map of Ghana's offshore oil and gas discovery. Green indicates confirmed oil fields and red indicates confirmed gas fields. Orange indicates prospective fields (Source: Tullow Oil).

Economic and political Governance Indicators

Many have argued that Ghana is in a stronger position to prevent from halting its economic growth and damaging civil society than many of its neighbours were upon oil discovery. Indeed, Ghana has a maturing, but still young democracy that can serve as the foundation to improve the accountability and transparency of the country's petroleum industry and government institutions currently in place to regulate the industry. Using the most common political and economic measures (peace and stability, democracy and governance, corruption, macroeconomic stability, poverty reduction and social contact), Ghana has been highly successful, especially relative to other developing countries or its own West Africa neigbours (Moss and Young, 2009). For instance, in 2008, the country underwent a peaceful transition of power in a closely contested presidential election. Furthermore, there is a democratically elected parliament that actively debates national issues, a free and vibrant press with over 30 daily newspapers and an engaged civil society. But natural resources and oil in particular, have been closely associated with deterioration in many of these very same outcomes (Moss and Young, 2009).

5. Avoiding the resource curse: Is Ghana learning the right lessons?

As mentioned earlier, the announcements of Ghana's oil discovery received mixed reactions. While some sections of the public think that it is good thing, others think that given the experiences of oil producing countries in Africa, if care is not taken, the oil discovery could turn out be a curse rather than a blessing. The reason for this skepticism stems from Ghana's history in the mining sector, in which 100 years of mining gold and other minerals have not translated into significant transformation of the Ghanaian economy. To address the concerns of skeptics and to avoid the resource curse, the government of Ghana since 2008 has indicated that it will ensure that Ghana's Oil resource will be managed efficiently and transparently. Among the policy and legislative initiatives that was to be implemented before Ghana starts oil production in the last quarter of 2010, include:

- Established a Petroleum Regulatory Authority to regulate upstream and midstream petroleum activities and designated GNPC as a National oil company with commercial focus,
- Long-term National Development Vision;
- Local Content and Local Participation in Petroleum Activities : Policy Framework;
- Ghana Petroleum Revenue Management Proposal, May 10, 2010;

The need to address the above policy and legal issues before oil production cannot be over emphasised, however, as at June 2010, none of the above policy and/or legal instruments were in place. Indeed, while Ghana may be doing everything to avoid the resource curse; it appear that the country is not learning the right lessons, as she is poise to start oil production before putting in place the institutional and legal framework for oil and gas governance. For instance, while the Petroleum Regulation Agency Bill has been before Cabinet since February 2009, not much progress has been made to get the bill passed into law; there is no public discussion about the long-term national development vision to ensure efficient and effective management of the oil resources. Notwithstanding this, the Ghana Petroleum Revenue Management Proposal and the local Content Policy Framework are significant policy initiatives that require critical analysis.

Ghana Petroleum Revenue Management Proposal, May 10, 2010

The literature on the resource curse is explicit on why resource-rich economies perform poorly against resource poor economies, including macroeconomic instability, Dutch Disease (local currency appreciation), over spending and uncontrollable budget deficit, weak institutions, corruption and lack transparency in the disbursement of oil revenue. In order to address these challenges, the Ghana Petroleum Revenue Management Proposal, hereafter refer to the Petroleum Revenue Management Act. The second schedule of the citation of the Act sets out the framework under which petroleum revenues in the Republic of Ghana shall be collected, allocated and managed with responsibility, transparency and accountability for the benefit of all citizens in accordance with Article 71 of the Constitution (Ministry of Finance and Economic Planning, 2010:1). The Act attempt to achieve three interrelated objectives, including: macroeconomic stability and growth, partially define the fiscal regime and transparency and accountability. The Petroleum Revenue Management Act: its objectives and main features are shown in Table 1(see appendix 1). While much of what is contained in the proposed Ghana petroleum revenue management bill is in line with best international practices in managing oil wealth (oil fund, fiscal rules regime, transparency and accountability), executive control and wider range discretional powers is given to the Minister of Finance in the proposal in relations with the management of the petroleum funds is a matter of concern because in the pass established funds for special proposes such as Ghana Education Trust Fund were known to have been used for purposes either than what it was set up to do.

Local Content and Local Participation in Petroleum Activities-Policy Framework

Although significant revenues are expected from the Jubilee Field oil production, various analyses suggest the expected revenue will have little impact without the participation of Ghanaians in the oil and gas sector. A "Local Content and Local Participation in Petroleum Activities - Policy Framework[5]", which has been approved cabinet, indicates that it is the desire

[5] The policy objective of the local content will be achieved through the following: mandatory interest of a citizen of Ghana in petroleum exploration, development and production (at least 5 per cent); provision of goods and services by national entrepreneurs, training and technology transfer, employment and training of citizens of Ghana, local capacity development, gender in oil and gas, a legislation of local content and local participation and implementation and an oil and gas business development and local content fund(Ministry of Energy, 2009)

of government that the control, as well as, the benefits in the oil and gas discovery and production will remain with Ghanaians. According to the document, the vision of government is to achieve "full local participation in all aspects of the oil and gas value chain of at least 90% by 2020." An objective of the policy is to increase capabilities and international competitiveness of domestic business and industrial sectors. When properly managed, the oil and gas sector can contribute to rapid economic growth through industrialization, diversification and economic transformation. Notwithstanding this, there is an urgent need to national constraints in the areas of finance, human resource capacity and requisite enhanced technology in order to ensure maximum benefit for Ghanaians.

6. Discussion: issues, prospects and challenges

As mentioned above, Ghana has taken a number of measures aim at ensuring that her oil discovery brings with development and general prosperity for all citizens. In this section, we discuss the various proposals for revenue management and local content, identifying issues which need to address.

Economic Growth, Macroeconomic Stability and the Dutch Disease

The question whether Ghana should save or spend her oil income deserves a critical examination. This question has arisen because of two extreme views: the “conservative” strategy and the “big push” strategy. While proponents of a conservative spending strategy argue that government spending oil windfalls often lead to the Dutch Disease effects, where the local currency appreciate and thereby reduce the competitiveness of the non-oil sectors, advocates of the big push strategy maintain that developing countries such as Ghana often run fiscal and trade deficits in development periods of rapid economic growth and therefore revenues from newly found oil resources therefore provide a opportunity to increase government investment to support economic growth. Ghana’s Petroleum Revenue Management Bill proposed that seventy-five of oil revenues determined on a sustainable basis should be transferred to national budget annually and remaining twenty-five to petroleum fund. Harnessing these opportunities and tuning the oil windfalls into an opportunity to accelerate economic transformation requires a strategic that balanced spending and savings.

According to Breisinger et al. (2009), smoothing in oil revenue allocations into the fiscal budget by saving part of the flow in the Petroleum Funds is not only preferable for growth and stability, but more importantly for equality, since the negative effects on agriculture are significantly moderated. In addition, using oil revenues to increase agricultural productivity and raise competitiveness has the potential to offset the negative impacts from the Dutch disease. But even before Ghana starts pumping oil, the economy already has some symptoms of the Dutch Disease as the Centre for Policy Analysis (CPA) pointed out “this steady and creeping appreciation of the cedi comes with associated risks of choking off the growth and employment potentials of non-oil sectors, particularly agriculture and manufacturing” (Financial Intelligence, 2010). Again, over the last decade, the share of manufacturing in industrial GDP declined to 29.8% in 2008 from 31.0% in 2007. In a similar vein, manufacturing share in GDP continued its decline since 2005, from 8.1% in 2007 to 7.9% in 2008 (ISSER, 2009: 143)

Notwithstanding this, the importance of spending a considerable amount of the oil revenues soon for productivity enhancing investment cannot be over emphasised, especially in education and health, economic infrastructure manufacturing, agriculture and rural areas. At the same time, saving a certain amount of the oil revenues is critical for smoothing the macroeconomic impact and creating a buffer for future world commodity shocks.

Long-term National Development

One reason why Botswana has been very successful in the management of its diamond resources is the country’s adherence medium or long-term development planning which shows the general direction of the economy. However, in Ghana the issue of a medium or long-term development framework to guide the direction of expenses from the oil fund is ironically missing in the oil revenue management policy discourse. Within the framework as contained in the petroleum revenue management proposal, the country quest to set up oil fund would be driven by adhoc and discretionary mechanism rather a long term development framework. According to the Ghana Petroleum Management Bill, from the Petroleum Account, an annual budget funding would be transferred to the national budget. Thus, the path to growth is to be driven by performance of the national budget and not a long term development strategy. Clearly, it appears policy makers in Ghana have neglected this issue which is critical for the efficient management of the oil wealth. Indeed, there is an urgent need for Ghana to formulate a long-term development framework. A case for written development strategy is legitimate and strong if Ghana is to avoid the resource curse syndrome.

Natural resources and Income Inequalities

Inequalities in income and wealth distribution are another face of resource-rich countries. Even before Ghana begin oil production in the last quarter of 2010, inequality already poses a significant development and, indeed, income inequalities has worsen between 1991/92 and

2005/06 according to Ghana Living Standard Survey 5. For example, the adjusted Gini Coefficient for consumption per equivalent adult increased substantially from 0.353 in 1991/92 to 0.394 in 2005/06. Apart from income inequality in Ghana, there is also wide regional disparity in income[6] and the distribution of economic growth and this likely to get worse by the oil discovery. Thus, where oil and gas is produced, inadequate national policies to streamline income and wealth distribution my result in huge disparities between incomes of persons working in the petroleum industry and those employed in other sectors. That said, such inequalities have for a long time been and continue to be problematic in Botswana for instance, despite the country's successful management of her diamond resources. Do the current policies being fashioned out by Government anticipate and deal with such a possibility? While the Petroleum Revenue Management proposal recommends "block grant" for deprived regions of Ghana to ensure fair distribution of the oil wealth, issues of income inequalities and disparity in regional economic growth and development are not on the political agenda.

Fiscal Policy Regime: Fiscal Rules and Fiscal Discipline-what does current proposals say?

One of the basic problems associated with poorly managed resource-rich countries is "fiscal indiscipline", which manifest itself in the form overspending, excessive budget deficit and unsustainable public debt to GDP ratio. To address these, Ghana's Petroleum Revenue Management Bill partially defines the fiscal regime, including a transparent formula for the transfer of oil revenue, beginning from 2011 to the national budget each year (see first and second schedules), prohibits use of petroleum reserves accounts as collateral for public debts and a ceiling on the amount of oil revenue that can be used for recurrent expenditure in the budget. These proposals are in line with international experiences with fiscal rules, suggesting that fiscal rules are enabling instruments for a country to manage its oil resources in a transparent, prudent and on a sustainable fiscal path. However, current government proposal do not provide a framework for sustainable public debt management. The public debt as percentage of GDP stood at about 60% at the end of the third quarter in 2009[7]. For instance, to manage Brazil's public debt, a complementary legislation to the Fiscal Responsibility Law (FRL) set limits for national debt levels (Bank of Ghana, 2008). Furthermore, it is important to also establish strong institutional arrangements, for example an independent body back by legislation to enforce sanctions where applicable. Fiscal rules per say are not sufficient in themselves but need to be supported by good institutions as well as prudent expenditure and financial management measures that limit government spending and improve revenue generation.

[6] According to the GLSS5, the annual per capita income of the three northern regions (northern, upper east and west) are below the national average of GHC 397.

[7] Ghana Economic Watch, vol. 3, July-September 2009.

Ghana Petroleum Funds and its Management

Establishing a commodity fund has now become a standard prescription for natural resource producers. The Ghana Petroleum Revenue Management Bill proposed the establishment of Petroleum Funds, namely the Ghana Stabilisation Fund and the Ghana Heritage Fund. While the later implies the accumulation of assets, which can be invested in saving for future welfare, the former help to smooth global commodity price shocks. The risk associated with extreme volatility in the world oil prices underscore how the stabilisation fund will help Ghana to copy with future oil shocks. The bill also proposed to establish an Investment Management Committee[8], who shall be appointed by the President on the recommendation of the Minister of Finance and Planning to oversight the management of the Petroleum Funds. Furthermore, the proposed bill also gives excessive discretional powers to the minister over the use of the fund, making easy for politician to raid the fund at the least opportunity. The role of Parliament is also limited the receipt of Annual Report on the Ghana Petroleum Funds and upon request for the Minister to answer questions in relation to the funds.

Clearly, these provisions not only undermine the independency of the Management Committee but more importantly, the funds will be controlled by politicians whose records of managing similar funds other countries has been questioned (see Chad and Nigeria). Indeed, it must be noted that the mere creation of a commodity fund, itself, does not necessarily do anything to insure that politicians will not raid the fund when it is flush (see Frankel, 2010). That said, two standard recommendations are that the funds be transparently and professionally managed, and that they be given clear instructions that politics should not interfere with the objective of maximising the financial wellbeing of the country. For example, while Chile has established two panels of experts whose job it is each mid-year to the make judgements in respect of commodity fund, in Sao Tome and Principe, the Oil Revenue Law created a new independent oversight body, the Petroleum Oversight Commission which is made up of governmental and civil society members.

Given that institutional weakness is a reality in Ghana, a useful reinforcement of the Chilean idea would be to formalise the details of the procedure into law and given the members of the panel legal independence. For instance, there could be a requirement regarding the professional qualifications of the members and laws protecting them from being fired, as they are for governors of the independent central Banks.

[8] The Investment Management Committee shall comprise of seven (7) members, to be selected among persons of proven competence in matters of finance, investment, economics business management or law, including…. The President shall appoint a member to be the Chairman of the Management Committee on the advice of the Minister and the Governor (Ministry of Finance and Economic Planning, 2010:16)

Transparency and Accountability

Strengthening transparency in oil revenue management s a critical condition to mitigate asymmetries of power and information between different stakeholders, including civil society and promote accountability in the oil sector. In March 2009, President Atta-Mills announced a full disclosure of all present and future oil contacts in an attempt to increase transparency and accountability in sector. The inclusion of the oil sector as part of Ghana's Extractive Industries Transparency Initiative (GEITI) programme-which requires companies to publish all payment to the government and the government to publish all payment receive from extractive companies is expected to significantly enhance the government of oil revenue for development. Proposals for "EITI++" expand transparency both backwards to licensing and forward to the expenditure segments. The EITI framework is expected to be helpful in Ghana's case, and some of the lessons learned from its experience in the mining sector can be applied to oil. Notwithstanding this, the state oil company, the Ghana National Petroleum Corporation, has made some disclosure to the public but key details remain secret, including the oil contacts as well as the development plan for the Jubilee field. Thus, transparency could be improved as Ghana adopts and implements a Freedom of Information Act; and stipulates/enforces accountability mechanisms regarding: (i) the publication of reports on revenue and their use, and (ii) the disclosure of bidders' Identity and bidding documents." Similarly, Ian Gary, writing for Oxfam/ISODEC in a 2009 report titled Ghana's Big Test, states that "…needed institutions, regulations, and transparency measures should be in place early on to avoid the corrosive and corrupting effects of oil booms seen elsewhere in Africa."(Oxfam/ISODEC, 2009 :)

Governance and Institutions

The role of institutions in determining the effects of natural resource has been widely recognised in the literature. The distinction between strong and weak institutions is determined by the extent to which institutional arrangements encourage production to take place in an economy against allowing corrupt practices that inhibit economic efficiency. It has been widely argued that Ghana as compared to oil other African oil producers can benefit from a strong institutional basis. However, in Ghana, institutions cannot be treated in isolation as their role is tied to their relationship to informal neo-patrimonial forms of governance. For example, a 2007 World Bank report shows how the political incentives produce high levels of clientele and patronage politics (World Bank, 2007). Thus, the political system in Ghana is characterised by tensions between institutional, rules-based forms of governance and more traditional neo-patrimonial forms. The later can be defined as the continued rewarding of supporters appeasing of political opponents through the allocation of resources with the framework of a modern state structure. The extent to which institutions continue to operate along the formal rules-based forms as opposed to along neo-patrimonial lines will determine the incentives under which political actors operate and thus ultimately the overall impact of oil on a country.

Local Content and Local Participation in the Petroleum Industry

The importance of a local policy to economy in terms of job creation, income generation, business expansion and industrialisation drive cannot be overemphasised. For example in Brazil, Petrobras through its local content strategies with the government agency Sabre have resulted in the participation of 2,300 small and micro companies, a major drive to massive industrialization. However, implementing Local Content Policy does not spontaneously maximize benefits in the oil and gas sector, if the policy is not suited with a comprehensive national development framework. Thus, government needs to simulate the development of small and medium scale enterprises (SMEs). This is very crucial if Ghana is to become a technology hub in the West Africa region. It is against this background that we welcome the establishment of Oil and Gas Business Development and Local Content Fund to support education, training, and research and development in oil and gas.

However, one issue that needs critical attention is with the body that would manage the disbursement of the Oil and Gas Business development and Local Content Fund. The fund which would is to be managed by the Ministry of Energy. The effectiveness of the administration of the fund is very uncertain in the current proposals because in the pass similar funds have not been properly managed by government agencies. Ideally, it would serve the country good if an independent neutral body is charged to see the use of funds from the Oil and Gas Business development and Local Content Fund as it exists in Norway and UK. Nigeria as well has accepted the need for an independent body to register and pre-qualify the companies to avoid some of the pitfalls often associated with local content policies.
To achieve maximum benefits for Ghanaian, it is also important to say that the Oil and Gas Business development and Local Content Fund, the Petroleum Act and other regulatory and legal frameworks must efficiently be harmonized to ensure consistency in the interplay of supply chain activities by local and international companies in the oil and gas sector.

7. Summary and Recommendations

The idea that oil is a “curse’ is only partly true. It is clear that many resource-rich countries perform poorly economically, while others do well. Nonetheless, the economic performance of oil economies has fallen far short of potential, and sometimes disastrously so. One reason is that large earnings from oil and other natural resources can have adverse effects on other sectors of the economies. The problem arises when oil earnings are used for consumption rather than for public investment. The solution lies in a long-run growth-focused investment strategy. With the correct investment strategy non-oil export sectors can benefit from increased natural resource earnings, and indeed it is possible to reverse the infamous “Dutch Disease” by generating growth in the non-oil sectors such as agriculture and manufacturing. Therefore the Natural Resource Curse should not be interpreted as a rule that resource-rich countries are doomed to failure (e.g. Chile, Norway and Botswana). The question is what policies to adopt to increase a country’s chance of prospering. Since policy makers in Ghana are working around the clock to ensure Ghana’s oil wealth will be managed a transparent manner to the benefit of all citizens, it is fair to say that the Petroleum Revenue Management Bill in particular fall short of bets international practices. This paper concludes with a list of recommendations designed to address aspects of the resource curse and thereby increase Ghana’s chance of economic success. Some of the recommendations for policy makers in Ghana are:

- Government to develop and implement a long term national development strategy with diversification of the economy as its main focus;
- Emulate Chile: to avoid excessive spending in boom times, allow deviation from the target surplus only in response to output gaps and long-lasting commodity price increases, as judged by independent panels of experts rather than politician. Enact a fiscal responsibility law;
- Ghana Petroleum Funds should be transparently and professionally managed, with rules to govern the payout rate and with insulation of the managers from political pressure by placing the fund under parliamentary oversight;
- Recognised the oil wealth can increase income and regional inequalities and design policies to address inequalities;
- Increase public investment in education, training and skills development, heath, economic infrastructure, manufacturing, information communication technology, agriculture and rural development;
- Established an independent board to manage the disbursement of the oil and gas business development and local content fund,
- Embark on oil and gas related industrialization, including support to small and medium scale enterprises to enhance jobs creation.
- Need to strengthen the capacity of parliament to discharge their oversight role in oil and gas related issues.

Appendix 1

Table 1 Petroleum Revenue Management Act: its objectives and main features

Objective(s)

- To ensure intergenerational equity in the management and use of Ghana's oil wealth;
- To cushion the economy from the impact of unanticipated petroleum revenue shocks and safeguard macroeconomic stability;
- To established a prudent fiscal policy regime;
- To ensure transparency and accountability in the management petroleum revenues for the benefit of all Ghanaian.

Key features

1. Establishment of Petroleum Reserves Accounts: Ghana Petroleum Account, the Ghana Heritage Fund and the Ghana Stabilisation Fund.

2. Prohibited use of Petroleum Reserves Accounts –

a) The assets of the Ghana Petroleum Reserves Accounts shall neither be used to provide credit to government, public enterprise, private sector entities, or to any other person or entity, nor as collateral for debts (commitments and guarantees) or other liabilities of any entity

b) There shall be no borrowing against the petroleum reserves.

3. Disbursements from the Ghana Petroleum Account- (1) Disbursements from the Ghana Petroleum Account shall only be made:

- for fixed collection expenses
- for management expenses of the petroleum Reserve Accounts; and
- to the national budget and the Petroleum Funds

(2) Not later than September 1st each year, the Minister shall determine:

a. the benchmark revenue using the formula set out the First Schedule and

b. the estimated sustainable income according to the formula set out in the Second Schedule.

(4) For the period 2011 to the year when there shall be no more petroleum production, the annual budget funding amount from petroleum revenues shall not exceed seventy-five percent (75%) of the benchmark revenue as calculated and certified according to the First Schedule

4. Transparency and Accountability of Petroleum Receipts[9]

5. Management and Investment of Ghana Petroleum Funds[10]

- The Investment Management Committee

6. Public Oversight Committee. There is hereby established a Public Oversight Committee to advise parliament and receive and respond to complaints about claims of malfeasance, waste and corruption about petroleum revenues use and management and make recommendations for appropriate course of action or redress

Source: Ministry of Finance and Economic Planning, 2010

[9] For the purpose of transparency and accountability, all records of petroleum payments or receipts, in whatever form shall simultaneously be published by the Minister in the Ghanaian Gazette and in two national daily newspapers, no more than 30 working days after the end of the applicable quarter and this shall be on individual company payment basis. All information required to be made public shall be published online on the websites of the Ministry responsible for Finance and the Parliament of Ghana effective the publication date

[10] The Minister shall be responsible for the overall management of the Ghana Petroleum Funds and shall be responsible to oversee the transfers into and disbursements from the Ghana Petroleum Funds.

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