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Oil Rents, Policy and Social Development

Lessons from the Ghana Controversy

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Acronyms

ABFA	Annual Budget Funding Amount
ECG	Electricity Company of Ghana
GDP	Gross domestic product
GSS	Ghana Statistical Service
IMF	International Monetary Fund
LEAP	Livelihood Empowerment against Poverty
MLGRD	Ministry of Local Government and Rural Development
MoFA	Ministry of Food and Agriculture
PIAC	Public Interest and Accountability Committee
UNRISD	United Nations Research Institute for Social Development

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Summary

This paper shows that the Ghanaian state expends its resources on four priority areas: loan financing, agricultural modernization, capacity building, and road construction and maintenance. It argues that the emphasis on "roads for prosperity" reflects a strong commitment to economic growth not as an end in itself but as a strategy to achieve broader social development goals. While this expenditure pattern is broadly consistent with institutional processes in the country and is largely transparent, the expenditure of oil rents has negated or made only modest contributions to socioeconomic development. This paper shows that channelling oil rents into an alternative holistic social energy programme will drive sustainable social change through energy security and sovereignty, the creation of green jobs, and the reduction of dramatic levels of actual and perceived income, wealth and gendered inequalities in the country in a way that will make this social change both desirable and feasible.

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1. Introduction

Ghana has been said to be a "petrostate" because oil rents constitute 10 per cent of its GDP (Heilbrunn 2014). This percentage varies; for instance, appendix 3b of the 2014 budget of the government of Ghana (Ministry of Finance and Economic Planning 2013b) suggests that in 2013, the country's oil rents amounted to 8.2 per cent of nominal GDP with an even smaller annual budgetary funding amount (0.6 per cent of GDP in that year). While there is some controversy about whether this percentage is big enough to make Ghana a petrostate (Yates 2015), it is not just the quantum of petro rents that make Ghana a petrostate, important as it is. Rather, it is the oil-supported social and spatial transformation of the country, the potential of current and future rents to attract investment and loans, and the general emphasis on oil as a driver of social change that make Ghana a petrostate worthy of attention. Recognizing this status, the state has put in place new oil legislations, measures and strategies, including an elaborate governance mechanism of its marine space (Chalfin 2015), to maximize the collection and use of oil rents. In *Oil, Democracy and Development in Africa*, for example, J.R. Heilbrium (2014) concludes that, in Africa, Ghana is a paragon of excellence with respect to how it has managed its oil resources, while a recent contribution in *African Affairs* (Kopi'nski et al. 2013:583) declares Ghana to be immune to the usual problems of oil economies in Africa. There is certainly a basis to be enthusiastic about Ghana's experience, in spite of its many downsides (see, for instance, Adusah-Karikari 2015) and compared with the widespread criticisms of the experiences in Uganda (Alstine et al. 2014), for example. In relative terms, Ghana has clear legislation in place to ensure that rents for oil are committed to a nationally agreed programme of social development, an independent body that locally assesses the use of the funds, a press that is freer than the Australian press on the 2014 World Press Freedom Index, a sustained body of policy scholars and a capable national development planning commission. Corruption levels have been low, civil society activity rigorous and international monitoring extensive.[1]

Yet, in the latest nationally representative (Afrobarometer) survey on how satisfied Ghanaians are with the use of oil rents for social development, 7 out of every 10 people interviewed said that oil rents have been either "very ineffectively" or "ineffectively" used (CDD 2014). This Ghana controversy has triggered vitriolic and rancorous exchanges in the latest issue of *Journal of Modern African Studies*,[2] although these generated more heat than light. It is important, therefore, to revisit this controversy, addressing, specifically the following questions: how does the Ghanaian state, Africa's leading frontier oil state, expend its oil rents? Why does it pursue this oil rent–use pattern? How is this expenditure pattern consistent with its own institutional framework and broader national development? And to what extent are its choices congruent with the aspirations of the Ghanaian people?

Unfortunately, the Afrobarometer report does not answer these questions and, with the notable exception of Adam (2014) whose work looks at efficiency, transparency and accountability in the use of oil resources, and my own work (Obeng-Odoom 2015a) centred on the impacts of some of the resulting projects of oil expenditure, the growing body of scholarship concentrates mostly on the ramifications of oil extraction, rather than

[1] See, for example, Gyampo 2011; Gyimah-Boadi and Prempeh 2013; Kopi'nski et al. 2013.

[2] See the review by Yates 2015 and the response by Heilbrunn 2015.

on social policy. Addressing these questions, therefore, fills a gap in the studies on the new oil industry in Ghana and is also of interest at the global level. Most work on oil, particularly in Africa, has focused on the impact of the resource on macroeconomic stability and a number of political challenges, with notable exceptions such as Hujo (2012) and bourgeoning research conducted or commissioned by the United Nations Research Institute for Social Development (UNRISD) for its project, Politics of Domestic Resource Mobilization for Social Development.[3]

This paper makes a contribution to this research theme. It studies the utilization of oil rents in Ghana by juxtaposing how they have been used by the social democratic government vis-à-vis the most pressing present needs of the Ghanaian people. Based on this analysis, the paper argues that there is no congruence between the government's four "priority spending areas" of loan servicing, road construction, agricultural modernization, and capacity building on the one hand, and energy security, which is currently the most pressing challenge of the majority of people in Ghana, according to a survey conducted by Friedrich Ebert Foundation as well as other assessments, including that of organized labour presented during the National Workers' Day celebration on 1 May 2015. Even worse, the government's priority of "roads for prosperity" has created infrastructure whose utilization has led to many untimely deaths (this was aggravated by the usual problems of growing congestion, road accidents, and pollution on the many oil-maintained or created roads) or unrealized dreams of oil jobs (in the form of capacity building that is yet to be accompanied by sustainable oil employment). Using oil rents to develop a sustainable and affordable energy strategy that generates green jobs, is inclusive and triggers productive linkages would be a better priority area for the use of oil rents.

The rest of the paper is divided as follows. Section 2 describes the Petroleum Revenue Management Act of Ghana. Section 3 highlights how the government of Ghana has expended oil rents, showing how this emphasis dramatically diverges from what people require, while section 4 offers an alternative strategy for the use of oil rents and how that is a feasible alternative. The concluding section draws some policy lessons.

2. Utilizing Oil Rents

On 11 April 2011, the Petroleum Revenue Management Act (Act 815) received presidential assent to become the legal "framework for the collection, allocation, and