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Researching the politics of development

ESID Briefing No. 15

The politics of governing natural resources in Ghana: Towards inclusive development?

KEY FINDINGS:

- Ghana's commitment and capacity to govern its natural resources in developmental ways is uneven and fails to reflect after its status as one of Africa's most democratic and well-governed middle-income countries. Whilst it has managed to secure some good deals with foreign companies in the oil sector, it has been outperformed by other new oil-producing countries in this regard, whilst in the mining sector foreign companies continue to benefit disproportionately from mineral extraction.
- This performance is directly shaped by the character of politics in Ghana: its highly competitive system of multi-party politics and continued reliance on clientelism as a means of distributing resources and maintaining power have directly undermined the extent to which natural resources are governed for developmental purposes.
- Ghana has now passed some highly regarded laws to govern the oil sector. However, the prevailing political incentives led to some poor deals being made in a partially regulated environment and to institutional arrangements being ignored, in ways that have undermined principles of sound economic management.
- Revenues from oil have not been invested equitably and effectively. They are spread too thinly across too many sectors and projects, and are yet to respond to inclusive development challenges, including that of deepening regional inequalities. In the mining sector, the modest percentage of revenues directly transferred to mining communities is rarely used productively by local government and traditional authorities, and the role that these actors play in maintaining political support for ruling parties means that they are rarely held to account.
- Civil society organisations have worked hard to institutionalise measures aimed at establishing higher levels of transparency and accountability in the oil sector, but have lacked the capacity and political space to enforce them.

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Ghana's governance of its natural resource wealth is critical to after its development prospects. Natural resources dominate Ghana's economy: in 2013, gold, petroleum and cocoa exports accounted for 70% of total exports. However, and despite being portrayed as a relatively democratic, well-governed and prosperous African country, Ghana has yet to show the capacity and commitment to manage natural resources in ways that support inclusive development.

> *"Ghana's institutions are not always well aligned with how political power actually works."*

This problem is not necessarily one of having the 'wrong' institutions – Ghana has arguably adopted some 'best-practice' policies and institutional arrangements – but rather that its institutions are not always well aligned with how political power actually works in Ghana. In particular, the intense levels of party political competition and the related tendency for the public bureaucracy to become highly politicised and personalised, have reduced both the capacity of government and the commitment of political elites to govern natural resources in the national interest. This perspective helps reveal the limitations of mainstream efforts to promote 'good governance' in the sector, and suggests that policy efforts could be usefully and equally directed towards a stronger focus on building the capacity and supporting the autonomy of bureaucratic actors in the mining and oil sectors.

> *"Policy efforts could be usefully … directed towards … building the capacity and supporting the autonomy of bureaucratic actors."*

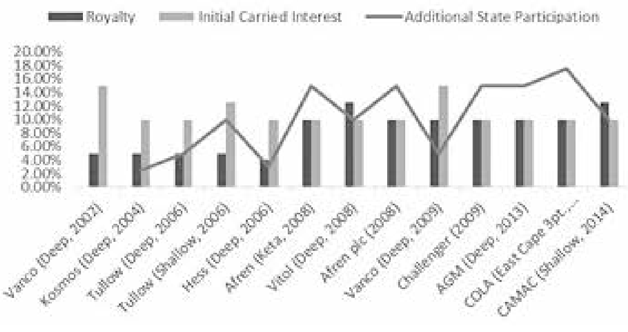
This briefing sets out the ways in which these forms of power and politics, which we refer to as 'competitive clientelism', have shaped the developmental character of natural resource governance in Ghana, with a particular focus on mining and oil. Competitive clientelism occurs where political power is closely contested between opposing factions in ways that tend to reduce the time-horizons of ruling elites and increase their incentives to politicise public institutions and distribute resources according to political rather than technical criteria. This research has involved in-depth investigations and key informant interviews with stakeholders at each level of the relative sectors.

> *"Ghana's capacity to forge favourable deals with international oil companies has been undermined by political interference."*

FINDINGS

Ghana's capacity to forge favourable deals with international oil companies has been undermined by political interference. Ghana's 38-50% take, based on Jubilee Phase One price calculations, is low compared with other new oil-rich African countries such as Uganda, with a 43.5-66 % take. Uganda also has a better cost recovery and revenue sharing percentage than Ghana. Comparative research shows that the main difference was the degree to which political elites had protected the capacity and autonomy of leading technocrats to bargain effectively with oil companies, with the Ghana National Petroleum Corporation (GNPC) adversely affected by party politicking. Recent re-investment in technical capacity and the re-instatement of GNPC's key role in the sector has helped improve the overall take by the state (see Figure 1 below).

Figure 1: Royalty rates and equity share for Ghana's oil agreements



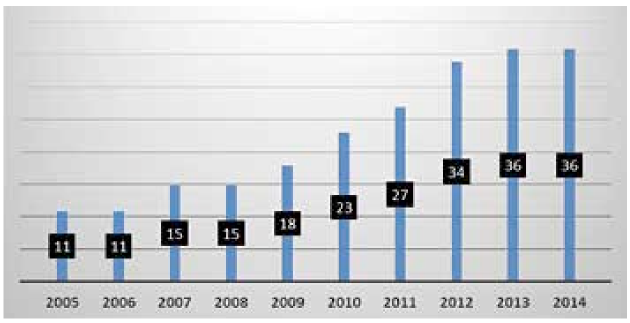
Source: Hickey et al. (2015), p. 24.

Political interference has also reduced the government's capacity to enforce tax laws and renegotiate stability agreements with mining companies to secure good deals for Ghana in the national interest. These stability agreements freeze taxes and other benefits offered by governments to mining companies for long periods.

A better regulated small-scale mining sector could contribute significantly to Ghana's economy

Ghana's emphasis on large-scale gold mining by transnational corporations has led to the neglect of artisanal and small-scale mining (ASM). ASM has expanded dramatically in recent years: its contribution to total gold production increased from 11% of total production in 2005 to 36% in 2014 (see Figure 2 below) and it has

Figure 2: Small-scale mining contribution to total gold production (%)



Source: Minerals Commission.

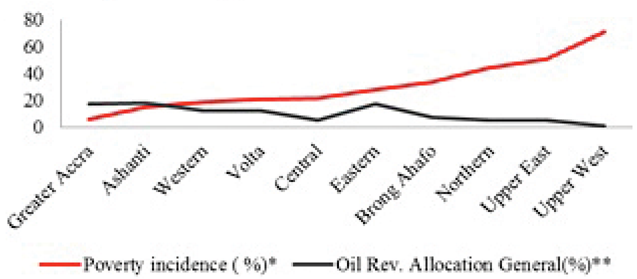
much stronger potential than large-scale mining to contribute to poverty reduction. Ghana's failure to properly regulate the sector is a double loss, involving both lost revenue in taxation and various social and environmental costs.

Ghana's 'best-practice' institutional arrangements are often not enforced because they do not fit with the prevailing balance of power within after its competitive clientelist form of politics. Ghana's Petroleum Revenue Management Act (PRMA) and Public Interest Accountability Committee (PIAC) look good on paper, but there has been a tendency for ruling elites to undermine them in pursuit of shorter-term interests, as with the collateralising of oil revenues and the under-financing of PIAC. In the mining sector, collusion between politicians, government officials, traditional leaders and mining companies has reduced government capacity to enforce new tax legislation that would bring much needed revenue.

Natural resource revenues have not been invested effectively and equitably

Ghana has made an explicit commitment to use oil revenues to catalyse socio-economic transformation and to overcome regional inequalities. However, oil revenues have so far been spread too thinly to achieve structural economic change and expenditure patterns show that the poorer and more deprived Northern regions continue to be marginalised (see Figure 3 below), with allocations frequently driven by electoral calculus, undermining prospects for inclusive development.

Figure 3: Poverty incidence and oil allocations



**This is a seven-year moving average from the GLSS 6 (2005-2013). **Calculation is based on a three-year moving average of oil revenue allocation compiled by the PIAC (2011-13).*

Source: Asante (2016, forthcoming) (based on GLSS 6 and regional distribution of oil revenues, excluding expenditure on the gas processing plant).

> *Oil revenues have so far been spread too thinly to achieve structural economic change.*

> *Allocations of oil revenues are frequently driven by electoral calculus, undermining prospects for inclusive development.*

National elites continue to channel resources through the Mineral Development Fund to traditional authorities, even though there is evidence that the resources are used for personal gain. This mechanism allows political elites to secure the loyalty of chiefs to facilitate access to mineral-endowed land, which ruling coalitions rely on to perpetuate their stay in power. The mechanism is much less effective, however, in fostering local development and inclusion.

Civil society organisations struggle to promote transparency and accountability in the sector

The work of the Civil Society Platform on Oil and Gas in 2010 and 2011 during the passage of the petroleum revenue management law, particularly the establishment of the PIAC, was impressive. Since then CSOs have struggled to enforce transparency and accountability in the sector, undermined both by political obstructions (including the under-financing of the PIAC) and a failure to build a lasting and coherent coalition. These findings suggest the need to move beyond the recommendations of the 'good governance' agenda towards a stronger focus on state capacity and a more politically attuned approach to achieving accountability through civil society coalition-building.

POLICY IMPLICATIONS

- There needs to be a stronger focus on building the capacity, as well as accountability, of public sector agencies involved in natural resource governance. This requires building and protecting technical capacity, but also nurturing closer and more professional relationships between political elites and public sector bureaucrats.
- Civil society organisations have an important role to play in the governance of natural resources. They require further support, particularly in terms of building and sustaining the kinds of coalitions required to successfully navigate such highly politicised environments.
- There is a need to better regulate artisanal and small-scale mining (ASM), rather than focusing so much on large-scale gold mining by transnational corporations. A reinvigorated focus on ASM should include a better understanding of why ASM occurs in the way it does in Ghana, and formalising existing and progressive informal arrangements rather than imposing new ones.

ABOUT THIS BRIEFING

This briefing draws on research undertaken by the Effective States and Inclusive Development Research Centre in collaboration with the Centre for Democratic Development, University of Ghana Business School and the Africa Centre for Energy Policy. It was drafted by Kojo Asante, adapted from ESID Working Papers 54, 49 and a forthcoming ESID Working Paper, with inputs from Professor Sam Hickey (ESID Research Director, The University of Manchester) and Professor Anthony Bebbington (Clark University, USA). The research was undertaken by Professor Giles Mohan (The Open University, UK), Abdul-Gafaru Abdulai (University of Ghana Business School) and Kojo Asante (CDD-Ghana and The University of Manchester), coordinated by Professors Sam Hickey and Anthony Bebbington.

FURTHER READING

ESID Working Paper 54 (2015). 'The politics of governing oil effectively: A comparative study of two new oil-rich states in Africa', by Samuel Hickey, Abdul-Gafaru Abdulai, Angleo Izama and Giles Mohan.

ESID Working Paper 49 (2015). 'Transnational capital and the political economy of Ghana's oil economy', by Giles Mohan and Kojo Pumpuni Asante.

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All available at: **www.effective-states.org**

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