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### ***Transnational capital and the political settlement of Ghana's oil economy***

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## **Abstract**

Ghana's recent status as an oil producer focuses attention on the relationship between domestic politics and transnational actors. While the political settlements literature is useful for focusing on how elite coalitions shape the governance of natural resources it is not explicit about the role of transnational factors in shaping and enabling these coalitions. As such there is a tendency to downplay the significance of transnational-national interactions and national-local dynamics. This paper analyses the changing nature of the political settlement in Ghana pre- and post-oil and the role that transnational actors play in reshaping the coalitions which underpin and reproduce the overall settlement. We find that the discovery of oil has not radically altered the nature of Ghana's political settlement, which remains of a competitive clientelist form within which institutional functioning and policy actors are heavily influenced by the need of political elites to secure success in increasingly tightly-fought elections. These tendencies and the ongoing structural inequalities between transnational capital and the sovereign state have resulted in oil licences being negotiated on terms favouring external actors. Through primary data collected from key informant interviews and case studies we show that power lies with the external actors albeit through the elite brokerage of contracts. Within these bargaining processes we see parts of the Ghanaian state acting strongly and effectively to serve both the interests of domestic elites and transnational capital. The combined effect of competitive clientelism and new sources of foreign capital is that structural issues and longer term planning decisions are largely deprioritised in favour of shorter-term gains.

**Keywords:** oil, Ghana, China, political settlement, state capacity, clientelism, elites

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## **1. Introduction**

### **1.1 Political settlements and their limits**

In terms of governing natural resources, the nature of the ruling coalition at the moment when natural resources are discovered has important implications for how and in whose interests those resources are governed (Soares de Oliveira 2007, Poteete 2009). This importance of political coalitions lies at the heart of 'political settlements' theory. For Khan, a

“political settlement emerges when the distribution of benefits supported by its institutions is consistent with the distribution of power in society, and the economic and political outcomes of these institutions are sustainable over time” (2010:1).

Such definitions argue that societal institutions exist in a relationship of co-constitution with power relations in society. By seeing the structure of developing societies, and the distribution of power therein, as determinant of political behaviour, political settlement theory takes us beyond the institutionalist analysis of the 'resource curse', which emphasises predatory elites, and advocates technical aspects like increased transparency. Politics is central to institutional and allocative processes and so re-engineering such processes is unlikely to alter the underlying distribution of power. In contrast to the normative agenda of the preceding 'good governance' analysis of the development-politics nexus, the political settlements literature is more pragmatic about 'working with the grain' of existing institutional arrangements, as well as appreciating the underlying political economy of such institutions.

While the focus on institutions is useful and recognises the exogenous and endogenous factors that can help reproduce them, the political settlements literature is less able to explain change, so that it can appear deterministic. Missing from much of the political settlements work is the structural and international. Bebbington (2013) adds social mobilisation and policy networks as change agents and here we probe the existing political settlements literature for clues as to how we can more effectively incorporate the transnational and so enrich the political settlements approach. As Watts (2004: 53) noted, “What is striking in all of this resource-politics scholarship is the almost total invisibility of both transnational oil companies...and the forms of capitalism that oil or enclave extraction engenders”. Watts goes on to argue that the discovery and exploitation of oil in Africa has tended to involve a re-ordering of politics and political relations at different spatial levels, namely transnational-national, national-local and within-local. The thrust of this paper, amongst other things, is to explore how transnational capital flows can shape domestic political coalitions and with it the prospects for inclusive development. We do this in the context of Ghana's recent discovery and rapid exploitation of its offshore oil.

## **1.2 Transnationalising political settlements**

While Khan's (2010) exposition of political settlements is rooted in a form of political economy, it is not explicit about either the role of transnational capital in enabling or constraining the agency of elite coalitions, or reciprocally what role national élites play in brokering the entry of transnational capital. That said, in the case studies Khan examines it is clear that transnational factors – whether colonialism, import substitution or foreign direct investment (FDI) – have variously played important roles in the countries he selects. Khan's framework offers a number of 'clues' for incorporating the transnational into more complex readings of elite coalitions. Here we outline these clues and augment them with other political economy readings around three interconnected arguments concerning the structural imperatives of transnational capital and how domestic elites may seek to broker such flows.

First, in terms of the structural imperatives and scalar dynamics of politics, Colas and Pozo (2011) argue for a Marxist geopolitics of resources, in which capitalism requires a 'spatial fix' to stave off crisis; they argue that seeking new territories to valorise capital is central to this. Such expansion integrates distant locations into a single market, but crucially needs sovereign states to provide the necessary 'social infrastructure' to expand accumulation. Such integration and expansion requires elite class alliances to broker market entry, while also creating class antagonism, which has to be contained for continued and relatively trouble-free accumulation. While not taking a Marxist line, Khan (2010: 56) terms these 'intermediate classes', which are not unlike the comprador bourgeoisie of earlier neo-Marxist theory (Leys, 1996) and, crucially for Khan, while they act as political entrepreneurs, they do not "dominate the political scene as *classes*" (p.62, original emphasis). Indeed, for Khan this political entrepreneurship based on informalisation is a defining feature of polities in the global South, because in societies where there is a misalignment of power and formal institutions, power is exercised through patron-client networks (2010: 61). These networks are organised in a pyramidal form, with a patron at the top and followers below. The holding power of elites at the apex is determined to a large extent by wealth, such that securing financial resources is a key to survival, and even to stability. As Khan (2010: 54) observes, patronage networks require "the capture of informal incomes like off-budget resources, land, and other types of rent". It is here that resource-based transnational capital flows are an important source of wealth, given that domestic taxation rarely generates enough income for effective redistribution and mobilisation of lower levels of the pyramid.

Second, Khan's discussion of the role of productive entrepreneurs in shaping institutional and growth outcomes helps us to understand how ruling coalitions may incorporate domestic capital, which may in turn be linked to international capital (2010: 69). Arguably powerful transnational actors have been responsible in part for maintaining the 'transitional' state of being that Khan claims is a feature of developing world polities – no longer pre-capitalist, but not yet fully-fledged capitalist. But such structural accounts run the risk of over-looking the fine-grained and not always uni-directional relationship between external capital and domestic political and economic

forces. According to Khan, the extent to which domestic capital is able to influence the agenda of the ruling elite depends on their 'holding power' within the ruling coalition and their technological and entrepreneurial capabilities. This configuration of power and capabilities may lead to developmental outcomes where domestic capitalists are able to influence the allocation of resources to productive areas and in the acquisition of technology. Whitfield and Therkildsen (2011) argue that the relationship between ruling elites and domestic capitalists is also shaped by the sources of financing the elites rely on for funding public services, economic development and political activities (2011: 24-25). If ruling elites have to rely on inward FDI to maintain economic activity in order to generate state revenue through taxation or to earn foreign exchange, then firms in these sectors will receive the most attention. Here, domestic capitalists may play a role as brokers if elites have to rely on the same sources to finance political activities by using entrepreneurs for 'kickbacks'. In other scenarios, ruling elites may completely ignore or even undermine domestic capitalists if they are concentrated among certain ethnic or racial groups who can be a threat to the survival of the ruling coalition.

Third, much of the value of the political settlements approach is explaining differential institutional effectiveness and with it some of the variance in growth trajectories of different countries. Khan argues, "In some political settlements, particular formal institutions may work quite well, in other variants the same formal institutions may have poor or even negative effects" (Khan 2010: p.8). Inductively we can identify certain institutions that are more effective, many of which connect to transnational actors, such as national oil companies, marketing boards, or central banks (Hout, 2013). These institutions have dualistic functions as intermediaries between transnational companies seeking access to resources and as vehicles for rent capture. As such they are used strategically by elites and are often left relatively autonomous. Hence, it is important to disaggregate 'the state' and to examine state agents in the context of transnational capitalist relations. Capital is fragmented so that state activity and politics cannot be homogenised by reducing them to the needs of a 'unitary' capital (Glassman 1999). Similarly, international capital is never completely 'external', since it combines with fragments of local capital (Ferguson 2006). Each type of firm has different levels of engagement with local capital, the state and society. Bebbington (2013) builds on this when he argues that in the context of extractive industries, "spaces of company operation become governed in ways that are transnationalized and quite distinct from other subnational spaces" (p.19).

Yet our understanding of these processes is still quite black-boxed and we have yet to establish causality between international interests, specific coalitions, and outcomes.<sup>1</sup> In this regard, we use the Ghana case in an iterative way to begin to

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<sup>1</sup> The methodology for this research was qualitative and involved mixed-methods. The oil sector is notoriously secretive and so the methodology was necessarily exploratory and pragmatic. In addition to analysis of publicly available laws, contracts and grey literature we undertook key informant interviews with leading Ghanaian oil specialists in academia, the

build an understanding of how these relationships work within a political settlements framing. This paper argues that, while Ghana's political settlement prior to oil was both competitive and clientelistic, the discovery of oil has not radically altered the nature of this settlement, even though governing parties have changed. That said, we have seen some shifts in coalitions and restructuring of key political and economic institutions that, on paper at least, should enhance the effectiveness of oil governance and revenue management. We begin by outlining briefly the nature of Ghana's political settlement prior to the discovery of oil. From here we set out the key actors, contracts and institutions engaged in Ghana's oil sector, before a substantive section on how the discovery of oil plays into the political settlement and with it the prospects for inclusive development. We conclude with a set of emerging themes and knowledge gaps.

### **1.3 The political settlement in Ghana**

Using Khan's (2010) framework, Ghana's political system can be categorised as one of 'competitive clientelism' (Whitfield 2011a). Khan sees clientelistic modes of politics as the most pervasive form in developing countries, largely because the productive sphere is not developed enough to allow allocation through more formal mechanisms like taxation. In this sense, clientelism is not a vestige of identity-based affiliations, as in some Weberian accounts (see Bayart et al. 1999), but is a rational mode of politics, given the need to ensure the stability and viability of the ruling coalition. The outcome of such a settlement is that "by its structure, the ruling coalition here has a short time horizon and weak implementation and enforcement capabilities" (Khan 2010: 8).

In Ghana the competitive clientelist political settlement prior to oil was characterised by a dominant executive, though one that relies on informal networks to operate, which tempers its dominance. There is a *de facto* two-party system that creates intense competition between ruling and oppositional coalitions, part of which manifests itself in inter- and intra-elite competition, strained relations between party elites and lower ranks, pervasive clientelism, short-termist relations with business, weak institutions despite a few islands of effectiveness, and a fragile idea of the state as the embodiment of national aspirations. We will deal with these briefly, but for a more detailed exposition, see Oduro et al. (2014) and Asante (2013).

First, we find a dominant executive and presidential system where power is highly centralised in the formal sense, but equally dispersed in the informal sense. To understand the relationship between these formal and informal processes of exercising power, we adopt Khan's concept of 'holding power', which is 'the ability of individuals or groups.... to impose costs on others...and absorb costs inflicted on them' in repeated rounds of conflict (2010: 6). In Ghana's political settlement, holding power is dispersed. The post-1992 formal electoral and institutional reforms

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media and civil society. We also undertook structured interviews with Ghanaian bureaucrats in the Ministry of Energy and GNPC, and members of both the Civil Society Platform on Oil and Gas and PIAC.

introduced competitive politics, but failed to democratise authority and provide effective checks on executive power (Throup 2011), thereby retaining elements of the 'dominant leader' political settlement that existed under the quasi-military regime of Jerry Rawlings between 1981 and 1992 (see Whitfield 2011a). As such, state capture, particularly the presidency, remains the ultimate prize under a 'winner takes all' system (Oduro et al. 2014). However, to secure that prize, political actors have to build and maintain coalitions capable of competing in elections and winning power. These factions are motivated and rewarded via an extensive patron-client network, since the benefits from formal institutions are not adequate to satisfy individuals and groups who have the holding power critical for winning elections. So although the President and the Executive have formal power, decision-making is influenced by both formal and informal distributions of power within and outside of the ruling coalition.

Second, this feature of the political settlement of Ghana is further complicated by the nature of electoral competition. While electoral competition exists, there is a *de facto* two-party system in Ghana that remains highly competitive and antagonistic (Morrison and Hong 2006; Fridy 2007; Whitfield 2009; Arthur 2009). The two main parties, the National Democratic Congress (NDC) and New Patriotic Party (NPP), have controlled politics in Ghana since the return to multiparty rule in 1992. The parties mimic the two political traditions in Ghana, i.e. Danquah-Busia and Nkrumahists, that have dominated contestation for state power in Ghana since the 1940s (Morrison 2004). The intense competition between the two parties has increased, with the margin between the winning presidential candidate and the loser having reduced from 28 percent in 1992 to 0.4 percent in 2008. In Khan's (2010) terms, elections "provide a mechanism for testing the organizational power of competing coalitions" (p.68), which in Ghana means political parties. Each round of elections has seen one dominant party 'horizontally excluded' from power. Where an excluded coalition is weak, the dominant coalition can govern relatively stably; but in Ghana the excluded coalition is the opposition party and is of more or less equal strength, which then produces instability in the ruling coalition and with it the short-termism of winning electoral battles.

Third, the intensity of electoral competition means there is also intense inter- and intra-elite competition, as well as increasing elite-follower fragmentation. Since 1992 the NDC experienced a number of incidents of intra-elite conflict, leading to the emergence of three breakaway parties (Gyimah-Boadi 2009). Since 2006, both main parties have also experienced intense factionalism between the ruling political elite and those lower down the hierarchy (CDD 2007). In Khan's terms, there is always a 'vertical distribution of power' within a political settlement and where these lower level factions are relatively powerful, they "can effectively block or limit implementation if their demands are not met" (2010: 65). In Ghana, the intensification of party competition has increased the value of 'foot soldiers' and rendered elites increasingly beholden to them (Whitfield 2011b).

Fourth, a clientelist politics generates increasing rent seeking and corruption (Abdulai 2012). Clientelism is largely organised through competitive elections where social groups are delivered public and private goods on the basis of their support for a political party. This engagement also tends to utilise forms of ethnic mobilisation (Asante and Gyimah-Boadi 2004), although with limited effect, because such mobilisation can damage a party's chances of winning elections if not managed well (Morrison and Hong 2006). Political elites have often dealt with corruption as part of a process of post-regime change that has led to a number of high profile politicians and bureaucrats prosecuted and sometimes jailed. Since the law is used to target political opponents, its application has been heavily politicised and its effectiveness as an anti-corruption tool undermined.

Fifth, there are anti-developmental relations between the state and business, based largely on short- to medium-term goals of primitive accumulation and party financing (Whitfield 2011a). From 1993, the NDC continued the Rawlings' regime's practice of building up domestic capitalists who were loyal to the party as a resource base for party financing and to compete against existing capitalists aligned with the opposition (Whitfield 2011a). This continued in the NPP era, so that both domestic capitalists and the NPP ruling coalition were directed towards short-term extractive goals because of the vulnerability of the coalition (Whitfield 2011b, Kelsall 2012). The domestic capitalist class under Ghana's competitive clientelist political settlement before oil lacked both the technological and entrepreneurial capacity as well as the holding power to influence economic and industrial policy, because of the nature of incorporation within ruling coalitions. Whitfield (2011b) showed how ruling elites interacted with international capital in Ghana through aid and development finance using pro-party domestic capitalists to enter into joint ventures.

Sixth, Ghana has a relatively weak bureaucracy and fragile public institutions. While some institutions of executive restraint - like the Electoral Commission - and also economic technocracy - as with the Bank of Ghana - have maintained relatively high levels of independence (Oduro et al. 2014), most institutions are personalised, politicised and have weak capacity (Booth et al. 2005). That said, the primary oil and gas sector institutions like the Ghana National Petroleum Corporation and the Ministry of Energy have built limited but important capacity for the management of hydrocarbons since their formation (see Hickey et al. 2015).

Seventh, throughout the post-independence period a number of ideas have endured which enabled the hegemony and legitimacy of the Ghanaian state and of ruling coalitions. The dominant idea articulated by both political elites and citizens is the notion of Ghana as a unitary state (Austin 1964; Boone 2003). In terms of natural resources, this idea is manifested in a belief that the state is best placed to exploit minerals and hydrocarbons and to share benefits fairly with its citizens and regions. But such resource sovereignty is set against the preference of foreign capital over local business; traditional authorities acting as brokers between the state, multinational capital and local communities over distribution of benefits; and dispossession of indigenous people and loss of their livelihoods. This structural



context strengthens the power of national level elites who control access to the resources and the distribution of rents.

## **2. Ghana's oil complex**

Before discussing how the discovery and exploitation of oil have affected the existing political settlement, we provide some basic background on Ghana's oil complex. It shows that oil legislation and institutions date back some 30 years and that the state oil company has built up a key role in the political-economy of oil. More recent oil discoveries saw a raft of new legislation playing into a competitive clientilistic settlement where civil society had some purchase. As such, we saw strong legislation governing oil though implementation has fallen short of the goals of the legal frameworks, even as new institutions to govern oil (and gas) have emerged.

### **2.1 Ghana's oil governance before the Jubilee Field discovery**

Until the mid-2000s, Ghana's political class did not show much interest in the oil and gas industry that appeared to be the sole preserve of the national oil company, the Ghana National Petroleum Corporation (GNPC). The Provisional National Defence Council (PNDC) that ruled from 1981 to 1993 supervised the development of the industry. Over this period, Tsatsu Tsikata, who was a close ally of the then Head of State, President Rawlings, headed GNPC and was credited by his GNPC colleagues with the development of all laws pertaining to the sector. In 1992, following the return to democracy, the institutional framework for the oil and gas industry changed with the introduction of new roles for Cabinet and Parliament, yet the real power remained with GNPC under Tsikata. These founding links between GNPC and the NDC have meant that the relationship between GNPC and the government has differed according to which party is in power.

In 2001, a change in government from NDC to NPP led to a realignment of GNPC, which saw its powers and focus reduced to core functions of exploration. Reforms since 2001 have shifted some control from GNPC to the Ministry of Energy and they have worked together to attract foreign investment. It was this move that attracted Kosmos Energy, Tullow Oil and Anadarko to Ghana, who later made discoveries in the Jubilee Field. During this period of early development, the over-riding power of the Minister of Energy and GNPC meant that other regulatory agencies were not given any serious role to play.

### **2.2 Ghana's oil**

Ghana's estimated proven reserves are small when compared to oil discoveries in other countries in Africa, like Angola and Nigeria. Ghana has over 36,000 km<sup>2</sup> and 103,600 km<sup>2</sup> of open acreage offshore and onshore, respectively. The Jubilee oilfield was developed in a record time of three years, compared to industry standards of four years for a field of that size. The field commenced production in November 2010 and output stands at 110,000 bpd. Ghana's total oil reserves are expected to increase, with the approval of a plan of development for two further fields – the TEN project ('Tweneboa-Enyenra-Ntomme') and Sankofa – which are estimated to contain

about 200m and 114m barrels of oil, respectively, plus associated natural gas (see Figure 1).

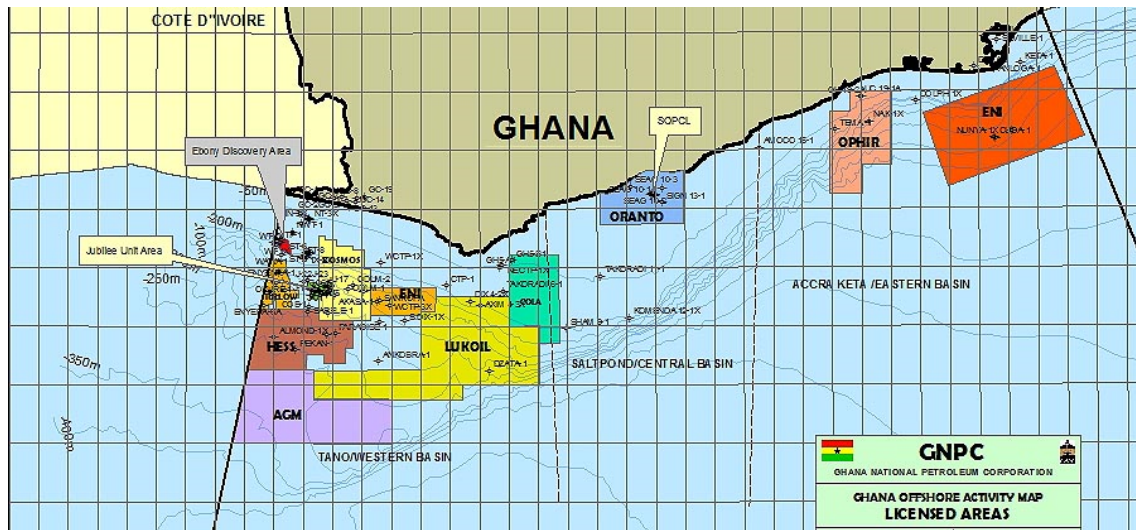


Figure 1: Location of Ghana's oil fields.

Source: Ghana National Petroleum Corporation<sup>2</sup>

It is estimated that Ghana's oil should contribute around 5-6 percent of GDP (Thrupp 2011), which is roughly the same proportion of government revenue as foreign aid currently contributes.

### 2.3 Key actors and legislation

The Jubilee Field is made up of two blocks – the West Cape Three Point (WCTP) and Deep Water Tano (DWT) blocks. Agreements relating to the two blocks have very common provisions, except in a few areas (ACEP 2013). The WCTP contract was signed in 2004 between the GNPC (which holds the Government of Ghana's share), Kosmos Energy Ghana and the E.O. Group; while the DWT was signed in 2006 between the GNPC, Tullow Ghana Limited, Sabre Oil and Gas Limited, and Kosmos Energy Ghana. Although there are some differences in the exploration programmes of WCTP and DWT contracts, the royalty rate was the same, at 5 percent.

According to GNPC, between 2002 and 2008, 12 acreages were awarded to 10 oil and gas companies. In mid-2014, from GNPC documents, 23 companies in addition to GNPC and its subsidiary, ExploreCo, held petroleum agreements with some holding more than one agreement (see Table 1).

<sup>2</sup> Available online:

<http://www.gnpcghana.com/SitePages/ContentPage.aspx?ItemID=29&ItemTitle=Fields>

Table 1: Leading contractors and interests in the upstream oil sector

<b>Block name</b>	<b>Contractor parties</b>	<b>Agreement date (effective date)</b>	<b>Size of acreage sq.km approx.</b>
Deepwater Tano	GNPC; Tullow; Kosmos, Anadarko and PetroSA	19-Jul-06	451
West Cape Three Points	GNPC; Kosmos; Anadarko, Tullow; PetroSA	22-Jul-04	414
Deepwater Tano-Cape Three Points	GNPC; Hess	19-Jul-06	2,009
Offshore Cape Three Points	GNPC; ENI; Vitol	15-Mar-06	694
Deepwater Cape Three Points	GNPC; Lukoil; Vanco	30-Jun-09	5,170
Offshore Saltpond	GNPC; Oranto; Stone Energy	3-Jul-08	1,500
Offshore Accra	GNPC; Ophir, Tap Oil; Azonto Petroleum; Vitol; Afex	24-Mar-10	2,000
Offshore Keta	GNPC; ENI, Mitsui, Afren;	19-Feb-10	4,450
East Cape Three Points	GNPC; Cola Natural Resources, Medea	4-Dec-13	1,560
South Deepwater Tano	GNPC; AGM, GNPC ExploreCo	4-Dec-13	3,482
Expanded Shallow water Tano	GNPC; Camac Energy; Base Energy; GNPC ExploreCo	27-Mar-14	1,508
Central Tano	GNPC; Amni Development Ghana Ltd	27-Mar-14	279

Source: Ghana National Petroleum Corporation<sup>3</sup>

While much existing legislation originated from the PNDC period, at the discovery of oil in 2007 the development of more robust and coherent regulatory mechanisms began immediately, although oil commercialisation outpaced regulatory development and capacity building (see Gary 2009). This search for an appropriate oil governance framework benefited substantially from international actors, who wanted to impart knowledge of best practices but also to participate in the new oil and gas industry.

Since 2007, a number of important laws, policies and institutions have been developed and established, most notably a new regulatory body known as the Petroleum Commission (Act 821 of 2011); the transformation of the Ghana National

<sup>3</sup> Available online; <http://www.gnpcghana.com/SitePages/ContentPage.aspx?ItemID=20&ItemTitle=GNPC%20Partners>

Petroleum Corporation into a state-owned oil company; and the passing of a Petroleum Revenue Management Act (Act 815 of 2011). In addition to the above, two new bodies, informed by the revenue management legislation, have been established. First, the Public Interest and Accountability Committee (PIAC), composed solely of civil society representatives, is intended to operate as a shadow oversight body to all the state bodies and the Investment Advisory Committee that advises the Minister of Finance and Economic Planning on the management of the Ghana's Petroleum Funds. Second, a new state-owned Gas Company has been formed and a local content regulation passed. Additionally, other legislation is in the pipeline, including the Petroleum Exploration and Production Bill and other subsidiary legislation to deal with environmental issues.

The contracting process involves the most powerful actors in the governance of oil. There has been a shift in the relative balance of power prior to and following the discovery of oil. The Ministry of Energy, GNPC, The Cabinet, and Parliament dominated the contracting process before the discovery of oil. The process after oil discovery has seen the introduction of independent regulations in the contracting process, with the establishment of the Petroleum Commission. The Petroleum Commission, established in July 2011, is now the most powerful institution after the Ministry of Energy and is, in theory, the regulator of the upstream oil sector. With the establishment of the Petroleum Commission, GNPC's advisory role, as well as its power to sanction, is juridically passed to the former (Twumasi-Anokye 2013) with GNPC's role limited to commercial operations. The Minister, however, still wields power to give ministerial directives on matters of policy. The effectiveness of the Petroleum Commission is therefore limited. Additionally, in spite of its diminishing role, GNPC remains very powerful because it still retains the country's known petroleum expertise.

### **3. The post-oil political settlement and the emerging governance of oil in Ghana**

In terms of political settlements Bebbington (2013) argues that 'history matters' (p. 20) insofar as new political and institutional arrangements are shaped by previous rounds of political struggle and contestation. This is not a rigid path dependency, but forces us to acknowledge that while politics and institutions can change, their scope for change is limited by what has gone before. In this section we look at how the political settlement set out in Section 1 affects and has been affected by the discovery and exploitation of oil. Here we focus on two main areas. First, we find a deepening of political competition between the two main parties and its manifestation in differing approaches between the leading parties regarding consultation and the use of oil revenues for patronage. Second, we examine the linkages between ruling coalitions and transnational actors, notably IOCs. Here we focus on the contested terms on which this new investment is negotiated, the role party-linked front companies play in brokering inward investment, and the ways in which collateralisation of oil and new contracts are used for short-term political gains.

### **3.1 Deepening political competition**

The discovery of oil in 2007 saw increased inter- and intra-elite competition and fragmentation. The restoration of macroeconomic stability and sustained growth from 2003 to 2007 had intensified an already highly competitive political environment. By 2007, as many as 17 high-ranking members of the NPP, including eight cabinet ministers, were campaigning to succeed President Kufuor and, given his record on the economy, were confident of an NPP victory (Bob-Milliar and Bob-Milliar 2010). In 2008, when the NDC won the elections, political elite sensitivities to the incidence of the 'oil curse' in other oil rich countries, as well as the opportunities for mobilising more support for the ruling coalition, led to an expansion of the NDC coalition. The NDC had positioned itself as a 'coalition of minorities' to counter the dominance of the Akan-led NPP (see Throup 2011; Gyimah-Boadi 2009). The victory of Atta Mills from Central Region strengthened the influence of the Fante speaking faction in the party.

This expansion of both NPP and NDC coalitions left them vulnerable to threats and demands from factions within and without. Thus both coalitions succumbed to core features of the existing political settlement; low elite cohesion, high elite-follower fragmentation, and fighting against excluded factions. In both cases, the Executive and Presidency dominated the decision-making processes. The draft oil and gas policy of July 2008 prepared by the NPP gave enormous power to the President to hire and fire officials that were expected to regulate the sector (Gary 2009). The discovery of oil in the Western Region, which switched its vote in the 2008 presidential elections from the NPP in the first round of voting to the NDC in the second, furthered the case for more inclusion of elites from these regions. Several elites from the region were rewarded with lucrative board appointments, but more importantly often marginalised Akan groups, like Nzemas from Western Region, have now risen in prominence; the Minister of Energy and the CEO of the Ghana Gas Company are both Nzemas. Set against this ethnic inclusion, the NDC government and Parliament rejected a demand by Chiefs from Western Region to decentralise revenue management and provide for 10 percent of the oil revenues to be permanently invested in the region to compensate for what they saw as years of neglect. In response, both the NPP and NDC reasserted the principle of treating all resources as national rather than ethno-regional wealth and in addition centralising control over resources.

#### **3.1.2 Widening consultation, containing dissent**

While the Busia-Nkrumah divide in Ghanaian politics was founded on ideological differences, more recent party ideology has seen a convergence between the two parties. The idea of the unitary state controlling access to resources is common to both, such that a national oil company – GNPC – was central to both parties' strategies. The NPP has favoured a more market-oriented approach to oil production, in the sense that it saw private sector capital as the route to discovery and exploitation, but both parties pushed closed contracting as opposed to more open

and transparent tendering, for reasons that we discuss. Where there has been some difference between the parties is in their inclusion of civil society in oil governance.

As part of their strategies for re-election and regime survival, both party coalitions have forged alliances with civil society and the media, in and out of government, but these have differed. In spite of the high elite competition and contrary to the NPP's record of transparency and broadening of public participation in policy making (Agyeman-Duah 2006; Kpessa 2011; Brierley 2010; CDD 2005), it limited public consultation around the development of policies and legislation to govern the oil sector (Van Gyampo 2011). In addition, parliament had very limited involvement, while CSOs had to rely on leaked documents of the draft policy document on oil and gas to be able to make informed interventions into policy.

The NDC regime, on the other hand, professed to be social democratic, populist and statist. Having been sidelined in the limited consultations around the draft policy, they restarted the process focused on broadening public consultation. The NDC government worked closely with the Civil Society Platform on Oil and Gas (Gyimah-Boadi and Prempeh 2012; Prempeh and Kroon 2012), and also supported the Ministry of Finance and Economic Planning to undertake extensive regional consultations (Amoako-Tuffour 2011).

The Civil Society Platform for Oil and Gas (hereafter The Platform), which began in early 2010, comprises 120 organisations and was highly active in the run-up to the Petroleum Revenue Management Act (PRMA). There is broad agreement that PIAC's inclusion in the Petroleum Revenue Management Bill "was a civil society proposal" (interview, Dr. Steven Manteaw, 1 April 2014; see also Asiamah, 2011; Rundquist, 2013). A notable victory was when the PRMA was before Parliament and MPs wanted to get rid of PIAC. According to one Platform member, 'all hell broke loose' (interview with Platform member, 22 May 2013). On 5 November 2010, The Platform organised a press statement, in which it argued that deleting the clause that sought to establish the PIAC would amount to subverting the will of the people. The statement added that although MPs are unquestionably the representatives of the people,

"they are also members of political parties who may sometimes be whipped to take political positions on matters of national interest. They also need to be checked in between elections and we think that the PIAC is one of the bold measures to provide a non-partisan public oversight on both the Executive and Parliament".<sup>4</sup>

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<sup>4</sup> See 'Press statement on the need for transparency and accountability in Ghana's petroleum laws organized by the Civil Society platform on oil and gas on Friday, the 5th November, 2010'. Available at: <http://www.sierraexpressmedia.com/?p=15796>

The majority of MPs perceived PIAC's establishment as "superfluous",<sup>5</sup> expressing worry that the Committee will be "taking the role of Parliament completely",<sup>6</sup> or that "our Authority is going to be eroded by an Accountability Committee".<sup>7</sup> In the end, however, MPs not only voted unanimously to retain PIAC; they also backed away from a proposed amendment to include political-party nominees on PIAC's Board.

The Platform's tactic for achieving this modest victory was to play on inter-party competition, by tying MPs' approval of the PIAC clause to their electoral fortunes. The Platform adopted a strategy of working through "progressively-minded MPs". The Chairman of The Platform explained that when Parliament moved against the creation of PIAC, their tactic was to hold "a lot of secret meetings" with some "champions in Parliament", mainly from opposition parties:

"We planned that if the resistance increased and the issue is put to vote, our allies in Parliament will insist on a headcount not a voice vote, because if they did the voice vote you won't know which MP voted against or for" (Interview, Dr Steven Manteaw, 11 April 2014).

The rationale of this strategy was for citizens to see on TV whether their MPs had voted against the establishment of PIAC, so that the Platform could "take the battle to their constituency and make sure that they lose the next election, and it worked" (ibid). This strategy worked partly because the Platform succeeded in linking the rather disappointing performance of the mining sector to the limited involvement of ordinary citizens in the governance structures of the emergent oil sector. The Platform's chairman explained:

"we told the citizenry that we messed up with our gold and we left the gold sector to government and Parliament to manage. We were not involved in any way and this is how the gold sector has been messed up. We cannot take chance with oil, ... and this [the PIAC] is our mechanism of being part of the management of the oil revenues" (ibid).

In the end, PIAC was retained and notable innovations like the Heritage Fund and rules preventing full collateralisation of oil were passed into law. However, the opposition weakened PIAC in the PRMA, making it an advisory body to Parliament, rather than a true oversight body. Operationally, as a member of PIAC observed, government 'has very little interest in making sure PIAC is functional' (interview, 24 May 2013). For example, the Ministry of Finance failed to provide the budget for the Committee's operation. Also, given that PIAC has to interrogate government finances, the same PIAC member stated that the GNPC and Ministry of Finance do not release decent data, which makes such a task difficult. He went on to imply that

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<sup>5</sup> Parliamentary Debates Official Report, Fourth Series, Vol. 71, No. 20, Col. 1461, November 22, 2010.

<sup>6</sup> Ibid., Col. 1476.

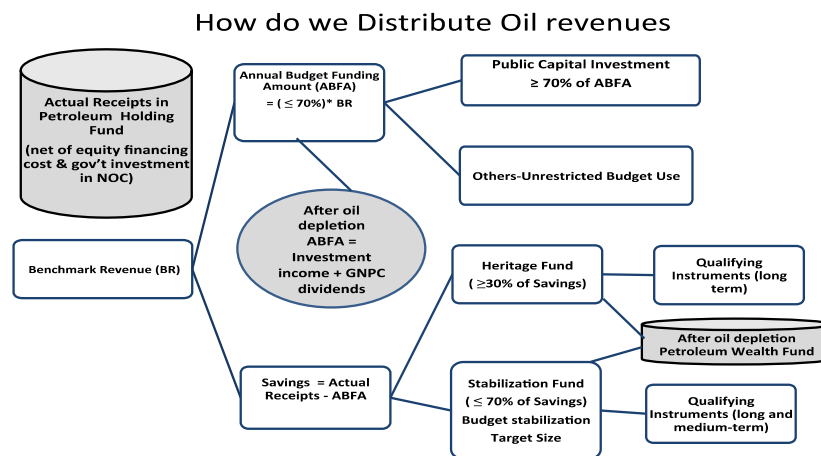
<sup>7</sup> Ibid., Col. 1477.

this was a political issue – “Why would I give you a good gun to shoot at me?” (interview, 24 May 2013).

### 3.1.3 Revenue collection and the politics of allocation

Another area where intensified competition is apparent is around the use of oil revenue, particularly in the run-up to elections. In terms of revenue management, the Government of Ghana has adopted a fiscal expenditure model that uses both the direct financial resources that accrue from royalties, taxes and its equity interest held by the GNPC, and indirect financial resources generated from the collateralisation of future oil (see Figure 2).

Figure 2: A schematic representation of Ghana's fiscal regime around oil



Source: ACEP (2013: 5)

By law, the Minister of Finance has discretionary power to identify and fund four areas aligned to the country's medium- to long-term development plan using a budget line known as the Annual Budget Funding Amount (ABFA), which represents 70 percent of oil revenues after subtracting a budgeted amount for GNPC. The remaining 30 percent of the oil revenue is then shared between the Ghana Petroleum Funds, i.e. Ghana Heritage Fund and the Ghana Stabilisation Fund. The four areas of spending identified for the 2011-2013 period were: 1. Amortisation of oil and gas infrastructure loans; 2. Road infrastructure; 3. Agriculture modernisation; and 4. Capacity building.

One way oil revenue has been manipulated appears to be through the estimates for benchmark revenue, which in turn affects the size of the ABFA. The Benchmark Revenue is calculated from *expected* revenues from crude oil, which are the product of unit prices of crude oil and the quantity of crude oil accruing to the state. The



formula for this is set out in the First Schedule of Act 815. According to PIAC's report (2012: p. vi)

"The forecasting methodology for petroleum revenue as specified in the Act 815 was not strictly complied with .... As a result, there were wide disparities in oil receipts for 2011 between the forecast and the outturn; and the Committee notes this precedent could be exploited to over-estimate the Benchmark Revenue to justify higher allocations to the Annual Budget Funding Amount."

While the response to this from government was due to a lack of historical data to make accurate predictions, the effect was to increase the amount put into the ABFA. According to an interview with a PIAC member, this amounted to "playing tricks" (interview, 24 May 2013). A further interview with a different PIAC member (27 March 2014) discussed the same events.

Interviewer: That is an interesting point, and why did you think it happened in 2012?

Respondent: Usually when the benchmark revenue is estimated high, it means the 70 percent that is going to the budget should also be very high, it gives the government so much money to spend to fund the budget, because these two funds are not readily available for spending by the government as compared to the ABFA....when the benchmark is over estimated, it is done to make money more available to the government to spend.

Having increased the amount to ABFA through overestimation, the issue is where it was spent. In 2012, a crucial election year, the government spent some \$111 million of oil revenues on 'capacity building', one of the four priority investment areas.<sup>8</sup> In 2011, this budget line accounted for well under 1 percent of ABFA, but in the election year it rocketed to 22 percent of ABFA. Although PIAC specifically wrote to the Ministry of Finance asking them

"to explain exactly where those monies earmarked for capacity building really went and whose capacity was built, [and] the programs they were used for, we still don't have reply from the Ministry. The Ministry of Finance has been silent about it" (interview with PIAC's Coordinator, 27 March 2014).

A recent study by the African Center for Energy Policy (ACEP 2013) confirmed this pattern of spending, which indicated that in 2012 higher allocations of the ABFA were made to the Office of the President (11 percent) compared to agriculture (9 percent). In 2013, after the election, allocations to the Office of the President dropped to 4 percent of ABFA.

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<sup>8</sup> See Joy online news, 'Govt claims of using \$111m oil money for capacity training challenged', 18 December 2013, available online: <http://www.myjoyonline.com/news/2013/December-18th/govt-claims-of-using-111m-oil-money-for-capacity-training-challenged.php>

## **3.2 Ruling coalitions, domestic capitalists and transnational capital**

We argued earlier that, using Khan's framework, political entrepreneurs of the 'intermediate class' are important for brokering entry of foreign capital. As such, these actors possess some agency in determining the nature and direction of inward investment and in so doing can augment their holding power domestically. Here we focus on the contested terms on which investment was attracted and how collateralisation and contracting became important sources of revenue for short-term electoral competition.

### **3.2.1 Attracting inward investment**

While 'holding power' is not entirely a matter of financial resources, having deep pockets is certainly a pre-requisite for clientelism (Khan 2010). In this context, attracting foreign investment is a priority and during the first round of licensing there was a clear schism between the political elites, who wanted inward investment at more or less any cost, and GNPC that were pushing for a more favourable fiscal package for the Ghanaian state.

The assumption of office by the pro-market NPP government saw major reforms in the oil sector, including what a leading NPP figure described as "a major shift from the state-centric exploration approach to a market-oriented approach that encouraged private sector participation"<sup>9</sup>. As part of these reforms, the old fiscal regime, which sought to obtain state share of net-oil of between 65 percent and 55 percent, was replaced by a new regime that reduced the government share of net oil to between 55 percent and 45 percent. The NPP holds the view that Ghana's eventual discovery of oil during its reign was 'not by accident', but was primarily the function of these 'sound' policy reforms:

The oil has always been there, but the 19 years of (P)NDC rule could neither create the conducive investment climate nor the managerial direction for the oil to be found. In the short period between 2001 and 2005, the NPP government restructured and refocused the work of the GNPC *and provided the conducive business environment to attract committed investors to our off-shore oil fields* (NPP, 2008: 7; see also NPP, 2012).

For many GNPC officials, however, whereas these reforms undoubtedly contributed to attracting investors that eventually resulted in the Jubilee Field discovery, they have also played a key role in undermining the country's take in the oil find. In a seminar organised to kick-start discussions around the oil sector reforms by the NPP administration, GNPC staff were accused of their 'stringent' requirements that tended to undermine private sector investments in the oil sector. As a top-ranked GNPC official recalled:

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<sup>9</sup> See Joy Online News (11 August 2010), 'The economic prospects of the oil discovery to the nation – Akufo-Addo'. Available at: <http://business.myjoyonline.com/pages/news/201010/53682.php>

“when NPP government came in 2001, there was a seminar that was held at M-Plaza. I remember very well when GNPC was lambasted for being so stringent, so strict, discouraging investors. So don't charge any royalties, make royalties zero, don't have any interest, reduce tax to 15 percent. That was the communiqué that came up. And this was presided by the then senior Minister....and the then Minister for Energy” (interview, GNPC official, 26 August 2014).

He explained further that GNPC openly rejected this stance, although their limited bargaining power meant that they could at best only partially push through their position:

“Can you imagine what would have happened, if GNPC had heeded to the directive, that there shouldn't be royalties, no interest etc. How much revenue would have been coming to the country today? So GNPC have to come back here, go and fight with our Board, and our Board having been appointed by the authorities, they did not also want to go against their political masters, so we had to adopt middle ground, a compromising stand” (Ibid).

One retired GNPC official also recalled how the new government insisted that “we should cancel royalties and tax.... and I said over my dead body” (interview, Petroleum Commission, 26 August 2014). The IFIs and other donors actively encourage such investment regimes, with the World Bank's recent commentary on Ghana emphasising the need to engage contracts for further oil exploration on competitive terms and praising the taxation regime, which “remains progressive, competitive, and flexible” (World Bank 2013, xvi).

These observations suggest the need to understand the limited state take in Ghana's oil find not from the perspective of weak bargaining powers of the national oil company, but more as a product of a rather weak relational capacity on the part of technocrats. Importantly, political interference appears even stronger on issues of oil contract negotiation. For example, when asked who has the final say in terms of awarding oil blocks in Ghana, the views of one Ministry official were brief, but emphatic: “Your guess is as good as mine, when it comes to these issues, politics take centre stage” (interview, Energy Ministry official, 29 August 2014). A top-ranked GNPC official expressed this view more succinctly, stating that:

“I have never doubted my capacity within GNPC. But does the negotiation, and decisions always rest with GNPC? No” (interview, GNPC official, 27 August 2014).

He claimed further that oil companies are very much aware of GNPC's capacity to drive tough bargains in the national interest, and that this explains the preference of some companies to negotiate directly with the Energy Ministry, where capacity is seen to be weaker. Thus, whereas negotiations around oil agreements take place among a multiplicity of government agencies,

“when it gets to the crunch, the companies that know that...the capacity is not at the Ministry...will hijack the negotiation somewhere....a company will come here, in negotiating with GNPC, finds GNPC so difficult, and bypasses GNPC to the Ministries, even at times to the presidency” (Interview, GNPC official, 27 August 2014).

### **3.2.2 Coalitions and fronts**

Another area where brokering the entry of foreign capital and domestic elite politics comes together, and which reflects deepening party competition, is in the use of front companies. As noted, a feature of Ghana's political settlement that has continued post-oil is clientelist politics and rent-seeking behaviour under the *de facto* two-party system. The most high-profile and emblematic example of this was the contractual negotiations with Kosmos, involving the E.O. Group and later ExxonMobil in the period 2004-2011, as well as more recent contractual negotiations with AGM. In 2004, the NPP government granted an oil block licence to the E.O. Group, a Ghanaian diaspora owned company that was perceived to be close to Kufuor. On taking office, the NDC investigated the terms of the Kosmos deal. It focused on the E.O. Group's 3.5 percent share in the Jubilee Field, the majority of which it sold to Kosmos Energy, a small US-based oil firm. The NDC argued E.O. had used its connection with Kufuor to obtain the licence on the cheap and was essentially a front for the President (Public Agenda 2011). Compared to previous Petroleum Agreements, the norm for the industry, and the terms offered to Tullow a year later, the Kosmos contract had relatively low royalty fees and GNPC's participating stake. The calculation was that the Kosmos deal would lose the Government of Ghana around \$3 billion compared to these later agreements. This was defended by both Kosmos and the Kufuor government as a product of the risk carried by Kosmos in exploring an unproven field. A former Energy Minister denied the collusion – “NDC when they came said that we knew that there was oil there and gave it to a company that was associated with our party, absolutely nonsense, nobody would have known, if I knew there was oil there I would have invested there” (former NPP Energy Minister, 10 April 2014).

The investigations triggered a parallel US Department of Justice investigation of Kosmos Energy under the US Foreign Corrupt Practices Act. While the investigations cleared Kosmos and the E.O. Group, it forced the E.O. Group to sell its shares to Tullow Oil, a UK oil firm. As part of agreements reached with the NDC ruling coalition, the E.O. Group could only receive the proceeds of the sale (estimated to be about \$100m cash and \$205m in Tullow shares) after the 2012 elections, for fear that the E.O. Group would use its windfall to sponsor the NPP.

Since the NDC took over, it has also been accused of setting up front men in the issuance of other block licences.<sup>10</sup> More recently, a contract between AGM (owned by AGR of Norway and Minexco based in Gibraltar), GNPC, and ExploreCo was

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<sup>10</sup> ISODEC has accused the NDC of setting up frontmen in the issuance of a block licence to AFREN, the operator of the Accra/Keta Basin.

called into question by the African Center for Energy Policy (ACEP). Contrary to the provisions in the new Local Content regulations that pegged the mandatory minimum participating interest for Ghanaians at 5 percent, the Energy Minister exercised his discretion, also granted in the same law, to lower the equity percentage to 2.5 percent for MED Songhai Developers, the indigenous company involved in the agreement. It emerged that MED Songhai Developers is owned by Joseph Siaw Adjepong, a prominent government contractor and financier of the ruling NDC. Adjepong was a prominent businessman under the NPP who benefited from very large sanitation contracts through his company Zoomlion, but made a smooth transition after the NPP lost power in 2008. With his allegiances shifted to the NDC, his company secured larger contracts under the new regime. In the last few years, his company has been the subject of multiple corruption investigations and its subsidiaries were asked to refund monies to the state after investigations concluded it had received payments for services it had not delivered and overcharged the state for services rendered. This suggests that elite positioning around coalitions can transcend party political lines. The E.O. Group and AGM cases suggest that the existing model of state-business relations in Ghana continues to favor multinational capitalists to domestic ones, except where they are party sympathisers.

### **3.2.3 Short-term gains from transnational actors**

One link between competitive clientelism and transnational capital is the use of short-term semi-legal means to secure resources, either to maintain power or to prepare for opposition. This revolves around collateralising oil and issuing new oil contracts. The most significant case of collateralisation of oil resources in Ghana was a large loan granted by the China Development Bank to develop oil and gas infrastructure. The nominal ideological positions of the leading parties also shaped their choice of international agencies to work with. The NPP persisted with Western countries, while the NDC pushed more 'south-south' cooperation, including with China. Through GNPC, the NDC teamed up with the Chinese state-backed oil company CNOOC to make a \$5bn bid for Kosmos' shares after the ExxonMobil deal fell through. In November 2010, the bid by CNOOC was rejected and so they entered an agreement with BP and made another offer to Kosmos, but this was also rejected in March 2011. Nonetheless, aware that the government would likely hinder any subsequent deals, Kosmos decided to remain in Ghana.

Shortly after the CNOOC/BP bid was rejected, the Chinese changed their strategy and offered the Ghana Government a US\$3 billion Master Facility Agreement (MFA) on a non-concessional basis through the China Development Bank, which has become the leading Chinese bank in oil investment (Downs 2011). This loan facility is dedicated to the Western Corridor Gas Infrastructure Development Project for construction or rehabilitation of roads, ports and oil and gas processing. While Sinopec are building a gas processing plant, UNIPEC, a wholly-owned subsidiary of Sinopec and China's largest international trade company, secured an off-taker contract to lift Ghana's share of crude from the Jubilee Field, in which Ghana is

committed to supply 13,000 barrels of oil daily for fifteen-and-a-half years to pay the \$3 billion.

The MFA has raised a series of issues, not least that the fifteen-and-a-half years collateralisation period goes against the stipulations of 10 years in the PRMA. The PRMA allows for the use of the ABFA as collateral for loans, and this was applied for the first time to the facility from China. The debate over whether to include a collateralisation clause was hard fought and reflects the tension between building up long-term funds for development or using the ABFA for short-term injections of capital for party political battles. Despite strong public support for its position, civil society failed to defeat an amendment to the original PRMA allowing the government to use oil revenues as collateral for loans. Clause 5 of the Petroleum Revenue Management Bill, which was submitted to Parliament for approval, prohibited the use of the Petroleum Holding Fund as “collateral for debts, guarantees, commitments or other liabilities of any other entities”; and for the provision of credit to government, public agencies and private sector entities. But once the bill reached Parliament, an NDC Member of Parliament proposed an amendment to the clause to allow for collateralisation. This proposed amendment received overwhelming support from ruling party MPs, and the debates that ensued followed a strict party-line; while MPs from the ruling NDC argued strongly for, and subsequently voted in favour of, collateralisation, opposition party MPs argued strongly against it.

Supporting the view that Clause 5 be amended to enable Government to obtain oil-backed loans, ruling party MPs frequently pointed to infrastructural deficits and poor access to basic social services across the country, seeing the collateralisation of oil resources as a means of raising more resources for financing infrastructural development. As one MP commented, “whoever will not support collateralisation is not looking for development”.<sup>11</sup> This argument seemed to have largely succeeded in politicising the issue, as other leading NDC MPs continued to depict opponents of collateralisation as ‘anti-development agents’<sup>12</sup>.

These arguments were in sharp contrast to the position taken by opposition party MPs. The Minority NPP, in particular, opposed the collateralisation of future oil revenues, seeing the government’s interest in collateralisation as “nothing more than eating your dinner and lunch at breakfast time” (9 December 2010, Col 2820). One argument was that collateralisation was not a prudent measure of development financing, not least as Ghana's favourable international credit rating already places the country in a strong position to attract loans.<sup>13</sup> A related argument was that collateralisation had the tendency of encouraging governments’ indiscriminate borrowing, which could create problems for the economy in the future. One former Deputy Finance Minister in the Kufuor-led NPP government described this problem as a “moral hazard”:

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<sup>11</sup> *Ibid.*, Col 2813.

<sup>12</sup> *Ibid.*, Col. 2816.

<sup>13</sup> Parliamentary Debates Official Report, Fourth Series, Vol. 71, No. 32, 9 December, 2010, Col. 2812.

“As soon as we use oil to collateralize, there is a moral hazard involved; the lender will be prepared to give us a loan, irrespective of what we are going to do with it. ... On the side of the one who is going to take the loan, because it will be easier to actually contract a loan with that collateralization, what it will mean is that due diligence, social and economic evaluation of that project will not be taken seriously. The tendency is that we will end up ... [using our oil revenues] for frivolous project.”<sup>14</sup>

As the debates ensued without any possibility of an inter-party consensus, the minority in Parliament apparently began to soften their stance by not arguing against collateralisation *per se*, but rather the extent of it. To the extent that his argument apparently persuaded MPs from the ruling party,<sup>15</sup> “Hundred per cent collateralisation in the hands of politicians ... cannot be acceptable”. This issue was eventually put to a headcount vote among MPs<sup>16</sup>, in which the majority NDC obtained 97 votes, while the minority got 87. This gave the ruling NDC the green light to use future revenues from oil as collateral in accessing loans. Significantly, the Minister of Finance largely evades the scrutiny of citizens, because the PRMA does not provide limits on how much the Minister can borrow against future petroleum revenues, thus increasing the temptation to spend revenues outside the transparent and accountable framework defined in the law.

A not dissimilar issue of seeking short-term gains is the rush to secure new oil contracts. Since the first round of licensing for Jubilee there has been a significant improvement in the fiscal terms. While royalty rates for all the agreements signed between 2002 and 2006 varied from 4-5 percent, this has doubled to 10 percent since 2008. Yet the contracting process is still a closed one and there is a tendency for dominant political elites to ‘hijack’ negotiations. Rather than preparing for an open bidding round via competitive tendering, in line with international best practice, the approach of various ruling coalitions across the political divide has been to negotiate in private with individual companies that have shown interest. One close industry observer recalled a statement by a former Energy Minister in a recent workshop that the continuous preference for more personalised and closed-door negotiations of oil contracts is one important way in which “they [politicians] prepare for life in opposition” (interview, civil society activist, 26 August 2014).

For this same observer, it is for this reason that the current ruling NDC administration has been dragging its feet in passing an amended version of the Petroleum Exploration and Production Law. This revised bill contains ‘very progressive provisions’, ranging from transparency in contracting, access of citizens to contracts, to open and competitive bidding processes for oil blocs, though the Minister can still reject the recommendations of the Committee and so effectively return to a closed process. To the extent that the new bill commits Ghana to competitive bidding

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<sup>14</sup> Parliamentary Debates Official Report, Fourth Series, Vol 71, No. 32, 9 December, 2010, Cols. 2803-4.

<sup>15</sup> This is reflected in the partial collateralisation that was agreed upon.

<sup>16</sup> This occurred on 9 December 2010.

processes, the NDC government would seem to be prepared to ensure that it awards as many oil blocs as possible before being caught up by the new provisions of the revised bill. Accordingly, we see that:

“...within a short space of time, we passed so many contracts, about 10 or so contracts within about three months. Some of them have even passed under the certificate of urgency. So the speed with which they are passing these contracts raises some concerns whether or not the intention is not to escape being caught by the open competitive bidding provision in the draft bill” (interview, civil society activist, bid).<sup>17</sup>

#### **4. Conclusion and policy implications**

The Ghanaian case suggests that the discovery and exploitation of offshore oil has not fundamentally altered the country's competitive clientelistic political settlement. Moreover, existing structural inequalities between transnational capital and the sovereign state resulted in oil licences being negotiated on terms favouring external actors. The two cases of E.O. Group/Kosmos and the Chinese loan suggest that power lies with international capital, but that the modes of insertion into Ghana's oil sector differ between US and Chinese firms, despite the existence of standard legislation in Ghana. The cases show that the Ghanaian state is not homogenous, but riven by rivalries, largely party political but also institutional. The E.O. case showed that front companies allegedly brokered the entrance of Kosmos into Ghana, whereas with Sinpoc it was about tying loans to oil access, now and in the future. However, in both cases, elite brokerage secured entry into Ghana's markets, with small factions around the executive negotiating these deals, and statutory bodies such as Parliament and PIAC left relatively sidelined. However, the critical brokerage role played by elites means they are not powerless. Moreover, the unequal relationship between the IOCs and Ghana is changing somewhat, now that the offshore fields are proven and future investment is de-risked. And this may change yet again with falling oil prices – with Tullow, for example, restructuring its loan and taking a hit at the stock exchange (Ghanaweb 2015).

The resources flowing directly from oil or indirectly through oil-backed loans are used by the ruling coalition to hold onto power, which breeds a short-termism and a lack of strategic direction in development policy. Under this system, the new flows of finance and infrastructure become sources of patronage. As a result, we have seen the majority of new infrastructure that is financed from the state's own oil fund or part of the Chinese loan being focused on Southern Ghana, where the oil and gas corridor lies. The upshot is to reinforce the uneven spatial development of Ghana, with its long-standing North-South divide (Abdulai 2012; Abdulai and Hickey 2014). In this

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<sup>17</sup> For similar concerns being raised in the media, see *Business and Financial Times* (25 March 2014), 'Is Ghana throwing away its oil?' Available at: <http://ghheadlines.com/agency/business-and-financial-times/20140325/599372/is-ghana-throwing-away-its-oil-> ; and The Africa Centre for Energy Policy (23 March 2014), 'ACEP's statement on two oil contracts secretly rushed through parliament'. Available at: <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=304049>



way, the idea of Ghana as a unitary state in which the government is the custodian of the nation's natural resources is used to legitimise centralised rent appropriation and also to marginalise sub-national claims for redistribution – whether ethno-regionally, in the case of Western Region chiefs, or in class terms, such as pressures for local content or more equitable spending of the ABFA.

The combined effect of competitive clientelism and new sources of foreign capital is that structural issues and longer-term planning decisions are not implemented, or at best poorly implemented. For Ghana the danger is that the government further collateralises the oil, with the windfall rents shoring up budget deficits that will re-emerge once the boom ends. Most worrying has been the rise in national debt, which sky-rocketed under the NDC from \$8 billion to over \$20 billion. Indeed, the situation has become so bad that in mid to late 2014 the Government of Ghana began negotiations over an IMF bailout to address excessive government spending, chronic inflation, a currency slide, and erosion in investor confidence (Oxfam 2014, Ghanaweb 2014). Moreover, the Government of Ghana has continued to run a high fiscal deficit, particularly in election years where expenditure appears to have been dissipated through corruption, poor project management, and vote-buying.

Playing into this economic crisis is controversy over the \$3 billion Chinese loan. Over the summer of 2014 it was announced that only half of the loan would be used, and that of the 12 projects, only two are currently going ahead. The announcement was greeted by the opposition as evidence of the NDC's poor negotiating skills, while the NDC made assurances that the remaining projects will be funded from other sources. It transpired that the issue was the price of oil that was agreed to pay the loan. Not only has the Government of Ghana paid high commitment fees, but the Chinese were working on a fixed rate of \$85 per barrel, whereas the price at the time was over \$100. The Finance Minister commented that the Chinese are unwilling to renegotiate and so Ghana was losing at least \$15 per barrel through the repayment schedule, while 60 percent of contracts go to Chinese companies. In August 2014 President Mahama visited Beijing cap in hand to renegotiate, though the outcomes are unclear and, given the fall in oil prices, his bargaining power is greatly diminished.

The role of transnational actors – namely the IFIs, Chinese SOEs and western IOCs – is significant in both enabling and constraining (near fatally at times) the scope of the ruling coalitions. Additionally, the IFIs and other donors actively encouraged Ghana's liberal oil regime as a way of attracting inward investment, which ultimately reduced the gains that the country can make from oil revenue, and so increases the intensity of the ensuing coalition-based spoils politics. The IMF were also instrumental in lifting Ghana's commercial borrowing ceiling from \$800 million to \$3.4 billion, which paved the way for the \$3 billion Chinese loan that subsequently turned sour.

Given that the political settlement lens reveals the long-standing structural underpinnings of ruling coalitions and the relative weakness of African producer

states vis-à-vis transnational oil companies, the scope for policy is limited. Ghana has relatively strong legislation around oil governance and revenue, but key powers remain with the President, the executive and key ministers who are politically appointed. That said, the technocrats, particularly within GNPC, have some relational capacity to determine the flow of revenue that could impact on broader development, but equally party politics has at times overridden this capacity. Moreover, formal oversight functions that appear strong on paper, as well as Ghana's wider democratic credentials around an active civil society, are weakened by lack of implementation and forms of filibusterism. Additionally, the spending of oil revenues is politicised as a result of competitive clientelism. Hence, calls for greater transparency in oil contracting and revenue allocation should be welcome, as it helps to make clearer the size of the cake that is being distributed (or not as the case may be), but this does not fundamentally alter the political settlement that makes such cake cutting a necessary feature of coalition survival.

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