

January 2015

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## Recommended Citation

Kumah-Abiwu, Felix; Brenya, Edward; and Agbodzakey, James, "Oil Wealth, Resource Curse and Development: Any Lessons for Ghana?" (2015). *Faculty Research and Creative Activity*. 5.

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# Oil Wealth, Resource Curse and Development: Any Lessons for Ghana?

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## Abstract

Ghana's new status as an oil-producing country has invigorated the scholarly debate on the resource curse theory, which assumes that countries with vast natural resource wealth like oil, diamond and gold are likely to experience slow economic growth and development as compared to countries with scarce natural resources. Although the development literature is well endowed with cases of countries with huge natural resources that have experienced slow economic growth, the literature is also clear on few other countries with enormous natural resources that continue to experience high economic growth due to strong political institutions and democratic practices. Norway and Botswana are two good examples. This paper employs the resource curse theory to examine the central research question of whether Ghana's democratic institutions and governance practices can help the country escape the resource curse. While Ghana's democratic institutions appear to provide a solid foundation for its new oil wealth, this paper argues that Ghana can only escape the resource curse if oil sector governance practices are accorded the same or higher attention as democratic governance practices. Clearly, the central argument by the authors to shift the debate toward oil sector governance is particularly important to the ongoing discourse on Ghana's oil wealth.

**Keywords:** Ghana, resource curse, development, oil wealth

## 1. Introduction

Ghana's development outlook changed in 2007 after a large quantity of crude oil was discovered along the western part of the Gulf of Guinea, which was later named as the Jubilee field (Gyimah-Boadi and Prempeh, 2012; McCaskie, 2008). By December 2010, Ghana became one of the newest oil-producing countries (Panford, 2014; Gary, 2009). The country's "black gold" or oil windfall as Gyimah-Boadi and Prempeh (2012) have noted, is quite modest by regional and global standards, but the projections put the overall oil-resource potential at about 4.5 billion barrels. Figure 1 shows the exploration fields.

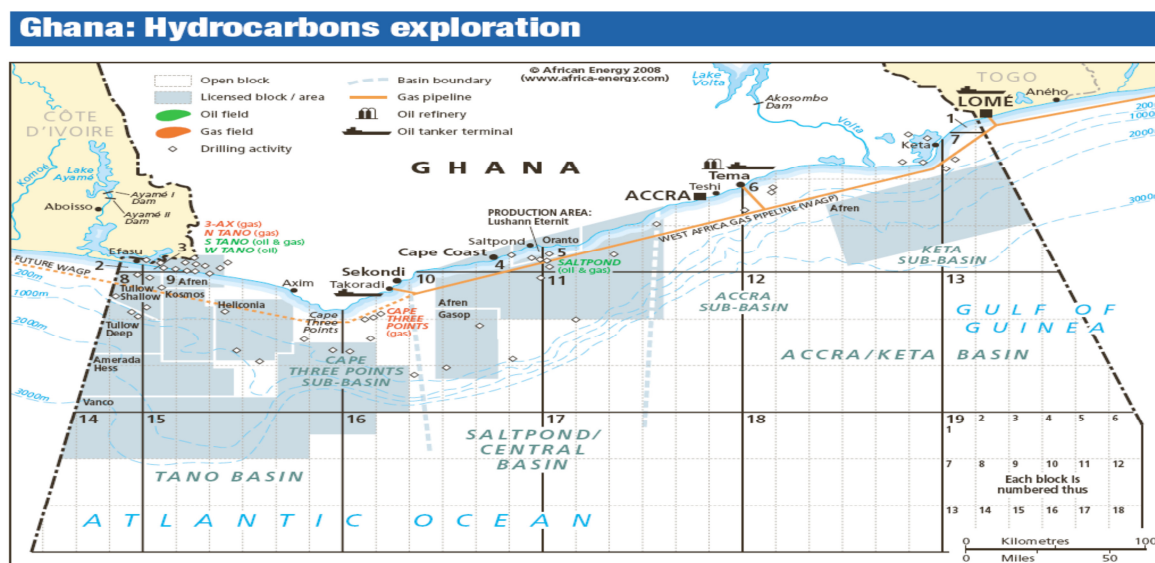


Figure 1. Hydrocarbon Exploration Fields. Source: Gary (2009)

Operated by a consortium of foreign oil companies led by the Anglo-Irish Tullow Oil and US-based Kosmos Energy as well as the Ghana National Petroleum Corporation (GNPC), the Jubilee field alone, as the International Monetary Fund (IMF) estimates, will generate about US\$1 billion revenue a year for the next

twenty years (cited in Gyimah-Boadi and Prempeh, 2012, p.95) or a cumulative of US\$20 billion over the period of 2012-30 (Gary, 2009, p.3). With billions of dollars expected to flow into the country, the euphoria surrounding the discovery among ordinary Ghanaians and the political class led by former President John Agyekum Kufour was one characterized by renewed vision for the country's socio-economic transformation. President Kufour was, for example, reported to have noted that "the country's new 'black gold' will be the boost that Ghana needs to become an 'African tiger'... Oil is money, and we need money to do the schools, the roads, the hospitals" (Gary, 2009, p.5). The more exciting part of the "pomp and pageantry" as Obeng-Odoom (2014, p.659) describes the announcement of the initial discovery is the fact that other major discoveries were made since 2007. The Owo field discovery by Tullow Oil, the Dzata field by Lukoil, the Banda-1 well by Kosmos Energy and the recent discovery (Akasa-1 well) by Anadarko Petroleum Corporation (Obeng-Odoom, 2014; Asafu-Adjaye, 2012) are great news for the country.

In the midst of the excitement, some Ghanaians such as scholars, policy makers, and civil society groups were however skeptical of any future positive prospects the oil might bring to the country's development needs. The questions being raised by the skeptics on the oil wealth and Ghana's future development are quite legitimate and cannot be totally dismissed. Perhaps, these skeptics are well aware of the resource curse dilemma, especially with the obvious case of oil wealth and the challenges of governance, security and development issues in Nigeria (Mahler, 2010; McCaskie, 2008). Other well-known cases like Iran and Venezuela are not excluded. Basically, the resource curse thesis assumes that countries with vast natural resources like oil, diamond and gold are more likely to experience slow economic growth and development as compared to countries with scarce natural resources (Sachs and Warner, 1995; 1997). In other words, resource-poor countries tend to outperform their resource-rich counterparts in terms of growth and development with the exception of few outlier countries such as Botswana and Norway (Van der Ploeg, 2011; Sachs and Warner, 2001).

Given Ghana's long-term quest for socio-economic development since independence, it is not surprising that the debate on the resource curse has been intensified within the scholarly and policy communities since Ghana's oil was discovered. Clearly, the debate focuses on the future oil revenues, its management and how these revenues might impact the country's development agenda. This study is also inspired by the ongoing debate on Ghana's new oil wealth, the resource curse dilemma and socio-economic development. Grounded on a systematic analysis of the existing literature, the study employs the resource curse theory to examine the following research questions: 1. Is Ghana likely to escape the resource curse or would it embrace the blessing of oil as with few outlier countries? 2. What steps are likely to help Ghana escape the curse? If so, are there any lessons for Ghana?

The article is structured into four main sections. The first section provides an overview of Ghana's development strategies since independence. The second explores the tenets of the resource curse theory with a discussion of the Nigerian case. The third section has two goals to accomplish. First, it underscores the importance of Norway as an outlier country and second, it highlights the lessons Ghana can draw from the Norwegian experience. Botswana has been given some attention as well. The final section provides policy recommendations on how Ghana can escape the resource curse with emphasis on oil sector governance.

## **2. Ghana's Development Strategy**

Ghana's development strategy has largely been characterized by an agrarian economy that exports raw materials from pre-colonial, colonial to the modern era (Agbodeka, 1992). The country witnessed a development plan based on the export of gold and slaves, especially in the 15<sup>th</sup> century when the Portuguese arrived in Ghana and found gold and named the place the Gold Coast. This era was followed by the export of cocoa, gold, metal ores and ivory in return for incense, gunpowder, and European clothing among others after the British colonized the country by the 1900s (Agbodeka, 1992). Although Ghana's development trends have undergone many changes since the 1900s, the country continues to depend on earnings from the exports of cocoa and other mineral resources for its development needs. Dzorgbo (2001), for example, observes that cocoa exports alone accounted for about half of the GDP earnings of Ghana in the 1950s and this trend continued into the 1960s.

Ghana's development strategy took a major turn when the Convention People's Party (CPP) government of Kwame Nkrumah embarked on huge socio-economic development and industrialization projects in the 1950s and the 1960s. In fact, Nkrumah himself noted that the aim of the seven year development plan was to speed up the rate of growth of the national economy through the socialist model of development (Nkrumah, 1964). In other words, President Nkrumah's idea was to transform the Ghanaian economy through rapid development of the state and cooperative sectors with socialist ideas of socio-economic development (Nkrumah, 1964). Nkrumah's development strategy was also shaped by the emphasis on import substitution policy initiatives during the period under review. It could therefore be argued that Ghana's broad development agenda under Kwame Nkrumah's government was not only driven by his socialist thoughts, but one could also interpret his strong flair for the socialist model of development as his attempt to eradicate the last vintage of the capitalist inspired colonial legacies.

The literature has also underscored the debate on how Nkrumah financed his massive development projects. For many, the huge foreign exchange earnings from Ghana's exports helped the industrialization program as well as the huge physical and social infrastructure projects that were undertaken in the 1950s and 60s. Others argue that Nkrumah's gigantic projects were supported by the large reserves that the country inherited from the colonial administration. In fact, Arku (2006, p.335), for example, notes that Ghana's total reserves were not only estimated at about \$532 million in 1955, but the country was comparable to other middle ranking countries like South Korea by the mid-1950s. In effect, Ghana was thus ready to take-off in socio-economic development, but these expectations were cut short when the country started to experience socio-economic decline by the late 1960s (Arku, 2006).

The country's development strategy took another interesting trend in the post-Nkrumah era, especially under the Acheampong regime. The regime adopted an import substitution policy and self-reliance development strategy that relied on local production for consumption and export, but the strategy did not survive after the government was removed from power in 1978 (Dzorgbo, 2001). Although the late 1970s and the early 1980s were similar in terms of the country's socio-economic difficulties, the mid-1980s changed Ghana's development landscape because of the huge economic recovery/structural adjustment programs (ERP/SAP) adopted by the Rawlings regime. Not only were the neoliberal ERP and SAP programs financed by the Bretton Woods institutions (IMF/World Bank), but these programs helped Ghana to stabilize its ailing economy. Various poverty reduction strategies were also implemented (Osei, 1999; Agyeman-Duah, 1987; Boafo-Arthur, 1999). While the social effects of the ERP and SAP programs were very painful for many Ghanaians due to the privatization of dysfunctional public institutions and the cuts in social services (Agyeman-Duah, 1987; Rothchild, 1991), this paper shares the views of other scholars that the ERP/SAP's intervention programs helped Ghana to achieve the high economic growth rate of the 1980s. No wonder, Ghana became one of the model success stories of the IMF/World Bank's economic intervention programs in Africa (Boafo-Arthur, 1999).

Ghana's economy faced other challenges in the 1990s with high inflation, slow growth rates, high unemployment and weak health and social welfare systems (Dzorgbo, 2001). In addition, the huge national debt led Ghana to seek assistance under the Heavily Indebted Poor Countries (HIPC) program during the administration of President Kufour. As expected, the HIPC economic assistance helped the country saved its hard earned foreign earnings. Ghana continues to struggle in getting its macroeconomic policies right, especially on public sector deficits, to the extent that the country is currently seeking another economic bailout from the IMF.

As noticeable from the preceding discussion, Ghana is not new to depending on natural resources for its revenues. The country is well-endowed with natural resources such as gold, diamond, bauxite and manganese among others. The agriculture sector continues to account for a significant portion of the country's GDP. The sector also employs large number of the Ghanaian workforce, mainly small landholders engaged in subsistence farming activities. The emerging services sector is another area that is adding value to the country's economic growth. Gold and cocoa production and individual remittances also account for major sources of foreign exchange earnings for the country (Leith, 2003).

Ghana's recent oil discovery, as earlier stated, is also expected to boost the economic performance of the country in the next few years. While the oil wealth is expected to help improve the country's economic outlook, the new "black gold" appears to be raising more questions than answers. For instance, there are key questions being asked on how beneficial the oil can be for the country and whether the oil wealth will do the "magic" of providing the needed development that the gold and other natural resources have failed to do for the country. In the case of the oil wealth, this paper argues that Ghana could use the oil, thus if properly managed, as another tool or strategy for the country's development needs. But the question to consider is whether this seemingly bright revenue outlook can be translated into improving the wellbeing of many Ghanaians. In other words, is Ghana likely to embrace the blessing of oil for its socio-economic development or a curse from the oil wealth? The next section examines the resource curse thesis as the theoretical grounding for the above question.

### **3. The Resource Curse Theory**

The resource curse theory could be described as one of the leading theories in the fields of political and economic sciences during the past several decades. The theory has been advanced by many notable scholars such as Auty (1998), Sachs and Warner (1995; 2001), Ross (2001; 2006), Frankel (2010), Larsen (2006) and Rosser (2007) among others in explaining why countries with rich natural resources such as oil, natural gas and other valuable minerals tend to experience slow growth and development as compared to countries with poor natural resources. Although the literature is clear about the positive connection between vast natural resources such as coal and iron ore and economic growth, especially in the late nineteenth century cases of Britain and Germany, the opposite trend where countries with rich natural resources, especially oil-producing countries tend to experience slow economic growth, despite their rich resources continue to puzzle many scholars (Sachs and Warner, 1997, p.3).

The literature on the resource curse theory or the paradox of plenty as some scholars (Karl, 1997; Carneiro, 2007) have described it has been explained from various perspectives. For lucidity purposes, this article re-categorizes the explanations in the empirical literature into two main perspectives. The first perspective is the economic-driven one. The second is the political/governance-driven perspective. The economic-driven perspective has been advanced by experts in economic science and political economists, but with different interpretations regarding the key explanations for the slow growth of these countries. One of the key explanations is the Dutch disease. According to Sachs and Warner (1997), the Dutch disease occurs when an economy is pushed away from competitive manufacturing sectors to agriculture or natural resource sector(s) experiencing the boom (e.g., oil). For these scholars, the shift in emphasis to the boom sectors tends to create policy-oriented outcomes that could be undesirable for economic growth. First, the shift affects the distribution of employment and second, the resource-rich countries do experience currency appreciation in value relative to other major currencies due to the large inflows of revenue into the economy. Exports from these countries become expensive and uncompetitive with adverse consequences for local industries (Ayelazuno, 2014; Okpanachi and Andrews, 2012).

Global volatility of market prices of natural resources has also been identified as another major economic-driven explanation for the slow growth as far as the resource-rich countries are concerned. As Sachs and Warner (1997) have noted, the “resources per se are not a problem, its just that they tend to have more volatile world prices, and volatility is the problem” (p.9). For others, the slow growth in resource-rich countries could be explained from the rentier state phenomenon (Rosser, 2007; Obeng-Odoom, 2014; Ross, 2001). Advocates of this perspective argue that the over reliance by states on revenues from natural resources, especially oil, tends to develop what Rosser (2007, p.41) describes as the capacity for distributive functions in areas of social welfare, education and health. In other words, the capacity of the state to mobilize domestic resources through taxation and other policy initiatives for private sector led growth are mostly ignored. Simply put, the consequences of citizens not paying taxes, as Obeng-Odoom (2014) has also observed, create the condition where citizens become powerless in holding their public officials accountable for their actions (Busse and Groning, 2013; Rosser, 2007).

Michael Ross’ (2001) earlier work which explores the empirical question of whether oil hinder democracy or not set the tone for the political/governance-driven explanation for the resource curse thesis. Drawing on a cross-national data from 113 countries between 1971 and 1997, Ross’ study demonstrates his basic assumption that oil impedes democracy or democratic advancement in poor countries with rich oil wealth and mineral resources such as Nigeria, Angola and other oil-rich countries in the Middle East and Central Asia (Ross, 2001, p.356). What then explains the connections between natural resources, democratic erosion and the slow economic growth? The attempt to answer this question has attracted various scholarly interpretations in the resource curse literature.

One school of thought connects the causal mechanism of natural resources to shrinking democracy to the effects of the rentier phenomenon. As previously noted, the rentier effects do occur when a country earns huge revenues from natural resources to the extent where lower taxes are imposed on citizens (Rosser, 2007). Sharing Ross’ (2001) perspective, Busse and Groning (2013) argue that the lower taxation or the taxation effects (Ross, 2001, p. 332) associated with rentier activities limit the ability of citizens to demand accountability from their governments. Patronage and corrupt practices are also closely linked to rent seeking activities where revenues from these resources are often used to suppress alternative political voices (Busse and Groning, 2013). The literature also reveals how resource-dependent governments overspend on national security at the expense of improving economic growth, democratic consolidation (Kumah-Abiwu, 2011), especially in transitional democracies (Ross, 2001). Beside the broad economic and governance effects on resource-rich nations, Ross’ (2001) piece (*Does Oil Hinder Democracy*) serves as a clear reminder of the likelihood of these countries degenerating into armed conflicts and civil wars due to their dependence on natural resources (oil, gas and diamonds) for their revenues.

As the literature has shown, many resource-dependent economies, especially developing ones with oil wealth are not only faced with the challenges of slow economic growth, but these countries are potentially in danger of experiencing state collapse due to possible armed conflicts as evident in Ross’ works (2001; 2006). Countries such as Nigeria, Angola, Libya and Venezuela are well-known examples of petro-states (Watts, 2007) that appear to fit the framework of the theory. While it is essential to acknowledge some levels of political and economic changes in the resource-dependent countries since the 1980s, there is no doubt that huge gaps continue to exist between their goal for development and the large revenues often generated from their oil sales. Ghana’s giant neighbor (Nigeria) serves as a good example at this point. Again, the pertinent question of interest is whether Ghana can escape or embrace the resource curse? In other words, where would Ghana fit in relation to the resource curse theory?

Before we attempt to explore these questions, it might be useful to first examine the Nigerian case as a lesson-drawing (Rose, 1991) for Ghana. Indeed, Richard Rose’s theoretical ideas on lesson-drawing would be

useful to our discussion. But one caveat about Rose's (1991) interpretation of lesson-drawing must be clearly stated at this point. Generally, Rose's conceptual ideas on lesson-drawing, if applied in the rigid form to the Ghana-Nigeria discussion might be problematic since his ideas are based on the circumstances in which an effective program or policy can be transferred from one policy jurisdiction to another. In essence, good or effective policies are the ones expected to be "copied" or to draw lessons from. It is therefore difficult to argue that the Nigerian case in terms of their energy policy options and management are successful or effective to the extent of providing lesson-drawing purposes for Ghana. To put it differently, Ghana can debatably not be in any good position to draw lessons from Nigeria if Rose's rigid interpretation of what lesson-drawing is applied in this case.

Although Ghana might not draw lots of positive lessons from the Nigerian case, like with similar other cases across Africa, one would expect that lesson-drawing as a theoretical concept could still be helpful to our analysis, especially with the outlier countries like Norway and Botswana. Regarding the Nigerian case, this paper argues that Ghana's lesson-drawing should be discussed within the context of what Ghana needs to avoid from the Nigerian experience rather than what it can positively learn from Nigeria.

### 3.1 Nigeria and the Resource Curse: Lessons for Ghana

Nigeria is often described as the leading case in Sub-Saharan Africa when it comes to the discussion on oil wealth and the resource curse theory (Sala-i-Martin and Subramanian, 2003; Mahler, 2010). Broadly speaking, Ghana and Nigeria differ in their political and socio-economic structures and the way these structures are organized, but this paper agrees with Okpanachi and Andrews (2012) that the differences between the two countries are moderate as against the widely held view about their major differences. In effect, the commonalities between the two countries should help Ghana learn to avoid the Nigerian experience.

For advocates of the commonality argument, Ghana is certainly not sheltered from the likelihood of going on a similar path as Nigeria. But critics of the so-called commonality idea argue otherwise. For them, Ghana's oil discovery may not necessarily lead to the Nigerian experience due to Ghana's exceptional democratic governance, active civil society groups, critical and independent media that can demand accountability from government and political leaders (Okpanachi and Andrews, 2012). In fact, Gyimah-Boadi and Prempeh (2012) have also made a similar observation that the democratic dividends that Ghana has achieved over the past several years present the country with many advantages unlike Nigeria and Equatorial Guinea when their oil was discovered. In the words of Gyimah-Boadi and Prempeh (2012):

Ghana's pre-oil record of exceptional democratic progress is widely acknowledged... Since democratic government was restored in 1993, the country has held five free and fair elections and twice transferred power peacefully from one party to the other (in 2001 and 2009). Over the course of the last two decades, Ghana has developed a stable and highly competitive two-party political system. (p. 95)

In fact, the slogan that *Ghana is not Nigeria* has become popular with some Ghanaians who are optimistic about the expected blessing from the oil wealth rather than the curse as the case with other countries (Gyimah-Boadi and Prempeh, 2012). Certainly, Ghana's deepening democratic system is expected to add some value to the future management of oil revenues vis-à-vis growth and poverty reduction strategies for the overall development of the country. On the contrary, Okpanachi and Andrews (2012) have reminded scholars not to be over-optimistic about Ghana's escape from the resource curse. Their observation is based on the fact that the existing socio-economic and environmental conditions in many mining (e.g., gold) communities in Ghana could be comparable to the Nigerian case (e.g., Niger Delta). These conditions represent a test case for Ghana regarding the future management of oil revenues and poverty reduction strategies in oil extraction communities. What steps can Ghana take to avoid the Nigerian experience? A good starting point in our attempt to answer this question is to briefly discuss the Nigerian experience.

Nigeria has been part of the exclusive club of oil-producing countries for several decades unlike Ghana's recent entry in 2010. Crude oil was discovered in large quantities in 1956 and production started in 1958 (Idemudia, 2009). As the largest oil-producer in Africa for decades, Nigeria has not only got the potential to build and sustain robust socio-economic growth and development, but the country has unfortunately missed many opportunities to experience rapid socio-economic growth for the past several years (Mahler, 2010; Watts, 2007). As Sala-i-Martin and Subramanian (2003) have noted, Nigeria's economy performed much worse on measures of income distribution and poverty levels. Between 1970 and 2000, the poverty rate (less than \$US1 per day) increased from 36 percent to about 70 percent. This figure translates from about 19 million people living in poverty in 1970 to 90 million in 2000 (Sala-i-Martin and Subramanian, 2003, p.4). A similar report issued by the International Monetary Fund in 2013 reveals the high levels of Nigerians living below the poverty line. The official unemployment rate is even worse with the figure rising from 15 percent in 2003 to about 24 percent in 2011. Besides, the country placed 157 out of 187 on the 2011 UNDP's *Human Development Index* (IMF Report, 2013, p.4).

As many scholarly works (Sachs and Warner, 1997; Mahler, 2010) have underscored in the resource curse literature, Nigeria appears to fit the key elements of the resource curse thesis. In this case, Nigeria's inability to successfully translate its vast oil wealth into high economic growth and development, has unfortunately positioned the country within the central domain of the resource curse theory. In addition to the Dutch disease, the rentier state phenomena and the global price volatility, Mahler (2010) argues that high levels of corruption and patrimonialism are to be blamed for the country's woes. On Sala-i-Martin and Subramanian's (2003) part, the Nigerian experience with the resource curse can also be attributed to massive systemic waste of oil revenues, weak institutions and poor governance practices. Clearly, the preceding analysis has revealed evidence of the resource curse in Nigeria. Other oil-producing countries such as Angola and Equatorial Guinea among others are not excluded. Can Ghana, as Okpanachi and Andrews (2012, p.431) have noted, learn from the *don'ts lessons* of Nigeria? One can certainly not diminish the significance of the so-called *don'ts lessons*, but this paper argues that Ghana can maximize its lesson-drawing from the outlier countries such as Norway and Botswana.

### 3.2 Examining the Outlier Countries: Norway and Botswana

Unlike many oil-producing nations in Sub-Saharan Africa, North Africa/Middle East and those in Latin America that have shown evidence of the resource curse, Norway is perhaps the most celebrated country that appears to defy the theory. Botswana is another good example, but not with oil resources. While the lessons from Norway and Botswana are generally important for Ghana, this section of the paper will draw more from the Norwegian experience because of the commonality of oil resources to the two countries (Norway and Ghana). Norway is indeed taking the centrality of our discussion, but Botswana, which is perhaps the only well-noted outlier case in Africa (Limi, 2006) will also receive some attention in the next section.

According to Larsen (2006), Norway trailed its Scandinavian neighbors (Denmark and Sweden) in economic growth prior to the late 1960s. In short, "Norway had been the poorest country of the three" (p.606), but the story of Norway changed when oil was discovered in 1969 and production started in 1971. Today, Norway is not only one of the largest oil exporters in the world, but a high performing economy with many (Larsen, 2006; Holden, 2013) attributing its success to the oil discovery. As the literature has revealed, resource-rich countries have generally been shown through empirical research to experience slow growth rate and development due to the phenomena of the Dutch disease, rent seeking activities and the effects of global volatility of commodity prices (Sachs and Warner, 1997; Rosser, 2007). Norway's case, however, appears inconsistent with the theory, which has subsequently attracted the attention of researchers to better understand why Norway has escaped the resource curse. What then explains the success of Norway in avoiding the resource curse? Is Ghana likely to escape the curse like Norway? If so, what are the lessons for Ghana?

### 4. The Norwegian Model: Any Lessons for Ghana?

The Norwegian success in translating their oil wealth into high economic growth has underscored the argument that nature's gift of resources are not necessarily the problem, but the management of these resources and the political settings in which the resources are managed are key elements for success or failure (Holden, 2013). The Norwegian experience or what Thurber et al. (2011) describe as the *Norwegian Model* is based on a unique administrative design to ensure transparency and high performance in the management of Norway's oil wealth. This design involves three distinct government/administrative agencies. The first is the national oil company (NOC-Statoil), which is involved in major oil operations in the country. The second is the sector ministry (Ministry of Petroleum and Energy), which deals with policy issues and coordinates with the political class in setting goals and strategies. The third body handles regulatory, technical and advisory roles (Norwegian Petroleum Directorate-NPD). This agency (NPD) is also responsible for compiling data on all the oil operations in the country (Thurber et al., 2011, p.3). For Thurber and colleagues, as shared by Holden (2013), the separation of the functions in the management of the oil resources shaped Norway's enhanced oil sector governance.

Essentially, the *Norwegian Model* underscores a fundamental principle that democratic institutions matter. In fact, the empirical works by Mehlum et al. (2006), Holden (2013), Cabrales and Hauk (2010) have emphasized the centrality of the institution argument. As Holden (2013) captures it, quality institutions as defined by good and reliable public bureaucracy, zero tolerance for corruption, good governance, and protection of property rights have the impetus to boost economic growth and development. What this means is that good political institutions and democratic governance tend to create the necessary incentives for effective oil sector governance leading to high economic growth. For the advocates of this assumption, Norway's long tradition of democratic rule, well-functioning state bureaucracy (Holden, 2013) and good policy practices led to its success with nature's gift of resources (Thurber et al., 2011).

Botswana's success story as one of the outlier countries in Africa is worth considering at this point as well. As observed by Limi (2006), Botswana depends largely on natural resources, especially diamond for its foreign exchange earnings. Based on the tenets of the resource curse theory, Botswana should be another good

candidate to experience the resource curse, but the high economic growth rates of the country (IMF report, 2013) appear inconsistent with the basic assumptions of the theory (Limi, 2006; Acemoglu et al., 2001). Like Norway, there is almost a general agreement among scholars that Botswana achieved its high growth rates as a result of strong political institutions and good policy practices (Acemoglu et al., 2001). In this case, Botswana has been successful in transforming its natural resources into high economic growth rates unlike other African countries endowed with rich natural resources.

It is therefore clear that the existence of strong political institutions and good governance systems not only matter, but they constitute critical or perhaps the sine qua non, as this paper argues, in the management of natural resources, especially oil for economic growth. In fact, Eifert et al. (2003) made a similar argument in their piece (*Managing Oil Wealth*) that the types of political systems existing in an oil-producing nation tend to affect how revenues are managed.

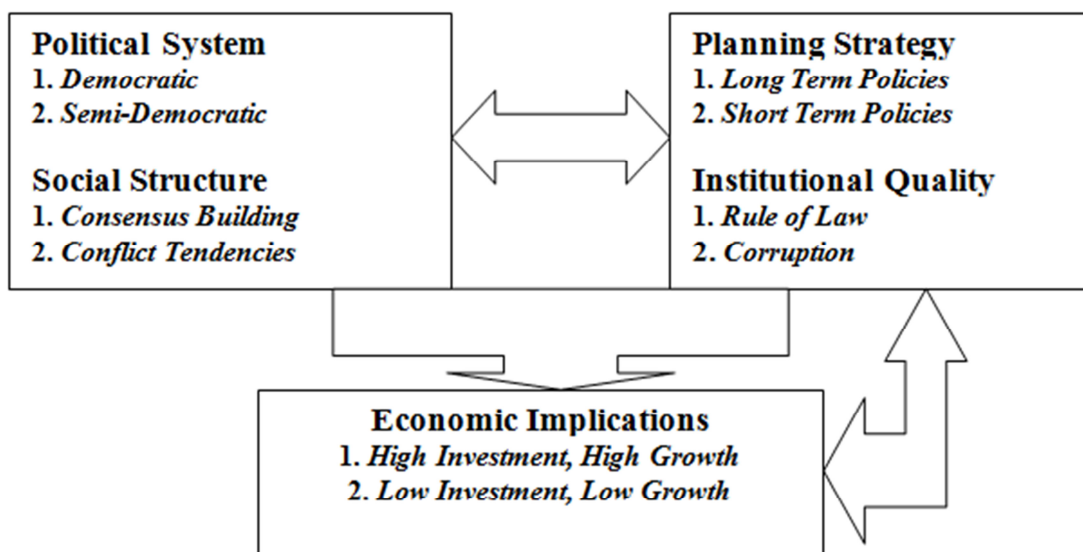


Figure 2. Political Systems/Regimes

Source: Model designed by the authors with ideas from Eifert et al. (2003).

Eifert et al. (2003) have identified five main types of political systems in oil-exporting countries. They include: mature and factional democracies, paternalistic, predatory/reformist autocracies. But for the purposes of this study, we re-categorized them into two main systems (democratic and semi-democratic) as shown in figure 2. In effect, we draw on the ideas of Eifert et al. (2003) to define democratic system in this paper as advanced and stable democracies like Norway and semi-democratic system as emerging and somehow unstable democracies like Nigeria.

As shown in figure 2, democratic political systems (represented by 1) are likely to have long term policies (planning strategies), consensus building (social structure) and the ability to maintain the rule of law (institutional quality). The possibility of countries experiencing high investment and economic growth as represented by 1 (democratic system) in figure 2 is more likely to be high. On the contrary, semi-democratic political systems (represented by 2) are likely to have short term policies (planning strategies), conflict tendencies (social structure) and the existence of corrupt practices (institutional quality). The possibility of countries experiencing low investment and low economic growth as represented by 2 (semi-democratic system) is likely to be high.

The above interpretation has provided the opportunity to revisit the underlying empirical question that has captured the attention of many scholars, including the authors of this study, about why some countries and provinces with rich natural resources are performing well (e.g., Norway, Botswana, US State of Alaska and Alberta province of Canada), while others are performing badly such as Nigeria and Equatorial Guinea (Limi, 2006). Essentially, one cannot deny the argument that the politics of statehood, political institutions and democratic governance matter, but the question of whether these conceptual ideas can effectively be translated into actual policy is the key challenge facing emerging democracies like Ghana. These emerging democracies are not only characterized by weak political institutions, but the fragility of these institutions can create undesirable incentives for clientelism and corrupt practices (Limi, 2006).

#### 4.1 Lessons for Ghana and Policy Recommendations

As previously noted in our discussion on Ghana's development strategy, Ghana is not new to depending on



natural resources (e.g. gold) for its foreign exchange earnings. What might be considered new for Ghana is the recent oil wealth. Overall, Ghana is expected to experience two major outcomes as similar to other oil-exporting countries. First, large revenue inflows are expected granted the current global market price of oil increases overtime and stabilized. Second, the consequences of the large revenue inflows could trigger the appreciation of the national currency with its effects on local industries. Other sectors (e.g., manufacturing/industry) of the economy could also be undermined as a result of the Dutch disease. Also, rent seeking activities could result in corruption and the politics of exclusion. Of course, the adverse environmental effects of oil extraction on local communities are other issues of great concern (Frankel, 2010).

While the first outcome (revenue inflows) is desirable for the country's development goals, steps should be taken to minimize the impacts of the second outcome with strong political institutions and good governance practices. This explains why this paper is making the case for Ghana to draw useful lessons from the Norwegian experience. As Holden (2013) has earlier reminded us, the success of Norway can best be explained by its tradition of democratic values, well-functioning bureaucratic system, good policy practices and effective oil sector governance. There is no doubt that democratic institutions matter and must always be acknowledged as critical to Ghana's efforts to escape the resource curse. While this paper acknowledges the importance of democratic institutions in helping Ghana to escape the resource curse, the paper offers an alternative argument that strong institutions alone cannot secure high economic growth and development for oil-exporting countries unless the critical importance of oil sector governance is underscored. In fact, Lahn et al. (2007) define oil/petroleum sector governance as:

The system for making and implementing decisions concerning the exploitation of a nation's oil and gas resources. It includes the structural and hierarchical organization of the sector, its decision-making and communication processes, the policies and objectives governing its activities and the regulation of those activities. (p.5)

A careful analysis of the above quotation highlights the need for a transparent decision making process in terms of clarity of goals, roles and the responsibilities of key players involved in the management or governance of a country's oil wealth. Lahn et al. (2007) added that a well-governed petroleum sector could increase national wealth while a poorly-governed petroleum sector could also have far-reaching negative consequences for a country's economy, social development and political stability.

Apparently, the discourse on the links between oil resources and economic growth is taking a different dimension with emphasis on oil sector governance besides issues of democratic governance (Lahn et al., 2007; Thurber et al., 2011). Again, Norway represents a good example of one of the oil-exporting countries that has successfully blended both governance principles (*oil sector/democratic*) in achieving its success story (Thurber et al., 2011; Holden, 2013). Although Botswana is not an oil-exporting country, its success in the management of diamond wealth has been attributed to strong institutional framework and high levels of transparency. We argue that Ghana can draw useful lessons from these cases, especially from the Norwegian experience on two key levels. The *first level* should be within the context of *democratic governance and strong institutions* and the *second level* should be on *oil sector governance*. On the first level, Ghana is certainly not deficient on democratic governance and strong institutions as we have previously discussed. In fact, Moss and Young (2009) have echoed similar thoughts as Gyimah-Boadi and Prempeh (2012) on Ghana's progress in deepening its democratic values and good governance practices. Kopinski et al. (2013) have also expressed their thoughts on Ghana's preparedness against the resource curse, but from a rather revealing perspective. For them, Ghana's stable political system, relative diversification of the economy and strong civil society have positioned the country to develop what they described as "structural immunity" against the resource curse. They suggested that the so-called curse should rather be perceived as a treatable disease (Kopinski et al., 2013, p.582). Notwithstanding these positive outlooks, Ghana as we currently know is still faced with challenges such as the growing social polarization (urban vs. rural, south vs. north), patronage politics and increasing levels of corruption (Dessus, 2011:2), but this paper is of the view that the country is well-positioned to employ its solid democratic structures as the first step to benefiting from the "blessings" of the oil fields.

Similarly, Ghana can draw valuable lessons from Norway on the second level (*oil sector governance*) as well. The Norwegian experience, for example, on oil sector governance is what Thurber, et al. (2011) have described as the unique administrative design involving the three distinct government agencies tasked with ensuring high performance and transparency of the oil wealth. This Norwegian model is similar to the five universal principles of good governance coined for the petroleum sector (Lahn et al., 2007). The five principles or what this paper describes as the five commandments of oil sector governance (Lahn et al., 2007, p.6) includes:

1. Clarity of goals, roles and responsibilities
2. Sustainable development for the benefit of future generations
3. Enablement to carry out the role assigned
4. Accountability of decision-making and performance

##### 5. Transparency and accuracy of information

The rationale behind the five principles or the commandments is a further recognition of the earlier argument that the management of oil wealth in terms of setting clear goals regarding the present and future generations, commitment to these policy goals as well as the transparency and accountability of the decision making process (oil sector governance) are equally necessary and vital (Lahn et al., 2007) just as the case for strong political institutions and democratic governance. Our central argument in this paper is thus simple. That is Ghana must shift the rhetoric from its so-called preparedness to escape the resource curse because of the country's democratic governance and values to put more emphasis on oil sector governance. We therefore need to ask very hard questions as Ghanaians, particularly the political class and policymakers on whether the country is adequately prepared for effective oil sector governance.

Again, our contention in this paper, as others might share is quite clear. That is Ghana appears to be prepared at the first level (*democratic governance/strong institutions*). But the critical question of interest that this paper is attempting to unravel is whether Ghana is prepared at the second level. That is the area of petroleum sector governance. We argue that the country does not seem to be very well prepared in the area of the oil sector governance, especially the high skills and structures needed to ensure good oil sector governance or management. As Ayelazuno (2014) puts it, Ghana lacks the human capital to actively engage and fully participate in the oil sector. Panford's (2014) recent study re-echoes a similar point about the small number of highly skilled personnel (technical and managerial) existing in the country's petroleum sector. While we share both scholars' concerns, we are also proposing or better put, recommending a new trend of public debate on Ghana's oil sector governance. One of the good starting places for this debate is the need to first redefine and shift the public discourse from the so-called Ghana's democratic preparedness to escaping the resource curse based on strong institutions and governance practices to Ghana's willingness to draw lessons from other success cases as far as oil sector governance is concerned.

The case for a shift in emphasis from democratic governance to oil sector governance is certainly not to suggest that Ghana should ignore and subsequently erode its gains on democratic values and governance. This paper, however, advocates for the two principles of governance (democratic and oil sector) to be integrated into our national dialogue. This is where Agbodzakey's (2012) conceptual ideas on collaborative governance will be useful in enhancing our understanding of the two governance principles. Besides, this paper is mindful of the fact that some steps have been taken by the Ghanaian government in improving oil sector governance. For instance, Holmas and Oteng-Adjei (2012, p.129-131) have noted that Ghana and Norway signed two five year agreements in December 2010 for institutional cooperation and support in the management of Ghana's oil resources. Key agencies involved in the agreements include: the Ghana National Petroleum Company (GNPC), the Ministries of Energy (MoE) and of Environment, Science and Technology as well as the Environmental Protection Agency. The Office of the President was also included. Norway is also expected to support Ghana in other areas like policy, regulatory/technical issues and institutional strengthening. Norway's support for the establishment of the Petroleum Revenue Management Act, 2011(Act 815), which is modeled on the Norwegian experience deserves recognition as well. For Holmas and Oteng-Adjei (2012), "it took Norway 25 years to establish the Government Pension Fund Global, whereas for Ghana, it took approximately 25 days from the start of oil production to establish a similar fund" (p.130).

Further steps by the government in terms of its commitment to the Extractive Industries Transparency Initiative (EITI)/Ghana Extractive Industries Initiative (GHEITI) as well as the creation of the Public Interest and Accountability Committee (PIAC) in pursuit of transparency and oil sector governance are equally important (Obeng-Odoom, 2014, p. 660; Kopinski et al., 2013, p.595-596). What is clear from the preceding analysis is the fact that Ghana has taken some good steps toward oil sector governance. What is unclear is whether these steps would be sustained in an oil industry characterized by what Gyampo et al. (2011) have described as lacking the needed transparency and consensus building.

Again, we applaud these initiatives, but further steps must be taken to ensure an effective oil governance sector by engaging in public debate and discussion on the issue. Beside the need to develop highly skilled professionals (technical/managerial) through partnership programs with advanced scientific institutions on oil exploration and management, we also recommend a close partnership with our local universities regarding the future training of our energy professionals. Current and future media professionals should also be encouraged and supported in terms of training on issues of oil sector governance. Given the growing trends of new oil discoveries in Africa, the emphasis on renewable energy and the likely effects of these trends on the future earnings on oil sales, Ghana needs to seriously consider diversifying its economic base, especially its sources of revenue. Discussions on these issues should constitute an integral part of the long term planning goals of the country's development. Another recommendation is for policy makers not to lose sight of the potential risks from environmental pollution and the likely manifestation of what Yates (2009, p. 8) defines as the *grievance theory* where segments of the population might feel deprived of the benefits from the oil wealth. Above all, this paper shares the view that Ghana's oil wealth should be seen as a means to liberate the country from poverty. In

essence, we urge Ghanaian leaders to be visionary like former President Nkrumah and other nationalist leaders who were determined to liberate Africa from colonialism (Kumah-Abiwu and Ochwa-Echel, 2013).

## 5. Conclusion

Ghana has since 2010 occupied a special place on the exclusive table of oil-producing countries to the admiration of many Ghanaians who consider the oil discovery as the beginning point toward the end of their woes. Getting onto this table was nature's gift of blessing to a country that has been considered as the torchbearer and the beacon of hope for the continent of Africa. Ghanaians have also reminded themselves, in the midst of the excitement that the oil wealth might not necessarily result in high economic growth and development as common with other oil-producing countries like Nigeria. On the contrary, few outlier countries such as Norway and Botswana provide a glimmer of hope for Ghana.

To explore the dynamics of these issues, this paper examined the question of whether Ghana can escape the resource curse by drawing lessons from other successful countries. Grounded on a systematic analysis of the literature, the study employed the resource curse theory to examine the central research question stated above. Given Ghana's strong democratic institutions and governance practices, this paper concludes, as shared by other scholars, that Ghana is likely to escape the resource curse. This rationale is based on the idea that democratic institutions and values matter in avoiding the curse and Ghana can pride itself on that. Besides, we have also argued and reached the conclusion that Ghana's likelihood of escaping the resource curse cannot solely be determined by democratic values, governance practices and strong institutions, but good oil sector governance in terms of how oil revenues are managed and spent will be critical in Ghana's quest to avoid or escape the resource curse. Indeed, the literature on Ghana's oil wealth and the resource curse thesis is growing, but the trend appears to be focusing more on Ghana's democratic governance as compared to oil sector governance as the country makes the necessary efforts to escape the resource curse. Future research directions should focus more on oil sector governance as well.

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