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## **GHANA'S OFFSHORE OIL: RESOURCE CURSE OR BLESSING?**

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### **SUMMARY**

- Sizeable quantities of light oil were found off of Ghana's southwest coast in June 2007 and are expected to eventually make Ghana a leading producer of oil in Africa.
- Many African countries have been plagued by the so-called 'resource curse,' but Ghana's political stability, history of good governance and relatively strong institutions are signals that the country will effectively manage its new source of wealth.
- Current legal frameworks and policies are strong in the country but the government and other stakeholders will need to do more to ensure the remaining gaps surrounding Ghana's oil resources management plan are addressed.

### **BACKGROUND: DISCOVERING AND DEBATING GHANA'S OIL**

In June 2007, a consortium of oil companies announced the discovery of a significant light oil accumulation off of Ghana's southwest coast. Three years later, in December 2010, the Jubilee Field began producing 70,000 barrels of oil per day, a number expected to increase to upwards of 120,000 barrels per day by June 2011 (CSPOGG, 2011: iv). The Jubilee Field has over 600 million barrels of proven reserves, but a potential of over 1.5 billion barrels (CSPOGG, 2011: v).

Given the vast reserves in the Jubilee Field and other untapped adjacent wells, Ghana is poised to join Nigeria and Angola as one of the leading producers of oil in Africa. The estimated earnings from these reserves are substantial, with \$1.3 billion per year projected by 2013. This figure represents nearly 40 percent of the government's total revenue in 2009, suggesting that oil revenues will

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soon surpass those from Ghana's historically dominant cocoa and gold industries (Moss and Young, 2009:15).

Prior to the 2007 discovery, Ghana's lack of oil and consequent dependence on foreign suppliers had been a sensitive political and economic issue dating back to the country's independence in 1957. Interestingly, the discovery of oil has been an equally sensitive issue between Ghana's leading parties — the New Patriotic Party and the National Democratic Congress — as both have attempted to seek political advantage over its discovery (McCaskie, 2008).

A national debate began almost immediately over the pros and cons associated with the development of the oil reserve. While many have pitched the natural resource as a blessing for Ghana's development, others caution that, unless properly managed, it might instead be a curse. This debate is particularly salient in Sekondi-Takoradi, the capital of Ghana's western region and the epicentre of the nation's oil developments. Although the city has witnessed impressive growth fuelled by the discovery of oil, many residents complain about the increasing cost of living, pollution, fishing restrictions and a lack of job opportunities in the oil sector (Colombant, 2011). Many in the region feel that the government has failed to adequately reward them. According to a local chief, "when they share the cake up there, they leave out the western region. This time, if there is oil and gas in the region we should benefit more than everybody else" (BBC, 2011).

This backgrounder explores the contentious debate surrounding Ghana's oil discovery. It considers the ways in which Ghana's oil could be either a 'curse' or a 'blessing' for the country. It briefly considers challenges surrounding resource extraction in Africa and the extent to which Ghana is vulnerable to these problems. It concludes by discussing the measures taken by government and other stakeholders to avoid any foreseen risks associated with developing the resource, before evaluating the success of these initiatives and the tasks ahead.

## THE 'NATURAL RESOURCE CURSE'

There is a vast body of literature that explores the tendency of resource-rich countries to experience innumerable challenges. These are often understood to stem from the natural resource curse — where natural resource rents

can have a debilitating impact on institutions. Moss and Young (2009: 5-7) provide a general overview of the potentially harmful effects of the resource curse, citing the ways in which natural resources can threaten peace, stability and development. These include conflict, authoritarianism, corruption and macroeconomic instability through export concentration. Although the 'curse' does not inevitably cause all of the aforementioned problems, this list highlights the multiple ways in which natural resources can become more of a burden than a boon to development.

## GHANAIAN EXCEPTIONALISM

How vulnerable is Ghana to the natural resource curse? Many analysts have argued that Ghana's 'exceptionalism' in Africa makes it a strong candidate for avoiding pathways towards the curse. To be sure, in looking at standard indicators of relative progress such as peace and stability, democracy and governance, corruption, economic productivity and poverty reduction, Ghana has made impressive progress in recent years (Moss and Young, 2009:2-5).

However, as Moss and Young (2009:7) note, "many of the ways in which Ghana is considered to have been successful are the very same areas where oil is thought to have its most damaging effects." When considering the negative impact of corruption that oil has had on Nigeria and Angola, it is understandable why so many are sceptical of the positive effects that discovery might have in Ghana. There is, however, a fundamental difference between Ghana and other oil-rich African countries. As Stephen Hayes, head of the Corporate Council on Africa, points out, Ghana's government and society are relatively transparent compared to other countries dealing in oil, and hence a better opportunity to get it right. Moreover, Hayes highlights another key difference, noting that Ghana's economy is much more diversified than other oil-producing countries in Africa, as it earns billions from cocoa and gold: "The oil revenues expected only represents 6 percent of their economy — compare that to Nigeria where oil revenue represents 92 percent of the economy or Angola where it's almost 100 percent. It indicates they won't be dependent on oil revenue... and are in a far better position to manage it more wisely" (BBC, 2010).

## **POLICIES, PROGRESS AND PROSPECTS FOR AVOIDING OIL CONFLICT**

A brief survey of the recommendations, implementation and tasks ahead provides insights into the progress and prospects for mitigating and preventing potential conflicts over Ghana's oil. A key issue that is often discussed is the speed at which developments are occurring, as many analysts have noted the need to develop appropriate policies and frameworks to manage Ghana's oil early on in order "to avoid the corrosive and corrupting effects of oil booms seen elsewhere in Africa" (Gary, 2009: 54). Yet it is also noted that hasty developments may result in poor decision-making. Ghana needs to "set its own timetable for the further development of the petroleum sector" to ensure that oil deals are well negotiated, that there is meaningful public participation and that regulations are in place before developments proceed (Gary, 2009: 54).

A recent report issued by the Integrated Social Development Centre (ISODEC) and Oxfam America provides comprehensive policy recommendations for effectively managing Ghana's oil for the benefit of all stakeholders. The report identifies five groups — government, parliament, donors, companies and civil society/journalists — and outlines recommendations for each (Gary, 2009: 55-59):

- The Government of Ghana should to ensure robust participation by stakeholders at all levels of oil development; strive for transparency in areas connected to the management of the country's oil; improve the management of licensing and contracting of future oil developments; strengthen the role of independent overseers of Ghana's oil development; develop a closely monitored oil fund; and, integrate local communities into decision-making processes.
- Parliament should strive to be an active stakeholder by checking executive power; develop expertise and advisory staff to effectively engage in oil-affected committees; and maintain its authority to approve petroleum agreements and regulations.
- Donors should insist on the participation of civil society in the management of oil developments; encourage transparency by home companies active in Ghana's oil industry; and support capacity building activities for Parliament and civil society.

- Companies need to disclose all payments to the Ghanaian government, and information related to environmental and social impacts; establish dialogue and information sharing with coastal communities; and compensate individuals and communities affected by oil developments.
- Finally, civil society and journalists must continue to monitor government activities in the petroleum sector in order to understand the industry and develop a constituency for oversight and reform.

How successful have stakeholders been in adopting these recommendations to date? Using the recommendations above, the Civil Society Platform on Oil and Gas — Ghana (CSPOGG) issued a readiness report card in 2011 to evaluate the stakeholder performance (CSPOGG, 2011). Overall, their findings suggest that while some efforts have been made to develop legal frameworks and appropriate policies for oil reserve development, more needs to be done to address remaining gaps.

More positive developments include notable efforts toward improving transparency in petroleum revenue management. The report states that this is “re-enforced by the extension of the Extractive Industries Transparency Initiative (EITI) to the oil and gas sector” and that the Petroleum Revenue Management Bill and the Petroleum Commission Bill help to introduce “a strong and clear legal framework for managing petroleum revenues and independent regulation of the petroleum industry” (CSPOGG, 2011: viii). Ultimately, however, stakeholders received a collective ‘C’ grade, suggesting there is indeed much room for improvement in effectively managing Ghana’s oil moving forward.

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## MASTHEAD

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