

Case study: Ghana

Political rivalry threatens
fiscal sustainability



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Kaisa Toroskainen, Adams Fusheini and Femke Brouwer

GHANA, KEY INDICATORS 2015

POPULATION

27.4 millionⁱ

GDP PER CAPITA (PPP)

\$4,200ⁱⁱ

MAIN NATURAL RESOURCES

Oil, natural gas, gold

RESOURCE RENTS AS % OF GDP

21ⁱⁱⁱ

POLITICAL SYSTEM

Presidential democracy

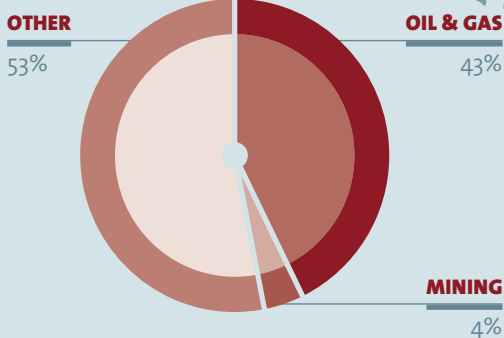
RULING PARTY

New Patriotic Party (NPP)

OPPOSITION PARTY

National Democratic
Congress (NDC)^{iv}

EXPORT SHARES, 2013^v



ⁱ "DataBank 2015: Population, total," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/SP.POP.TOTL>.

ⁱⁱ "DataBank 2015: GDP per capita (current US\$)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>.

ⁱⁱⁱ "DataBank 2015: Total natural resource rents (% of GDP)," World Bank (2015), accessed 5 September 2016, <http://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS>.

^{iv} Parliament of Ghana, <http://www.parliament.gh/parliamentarians>.

^v "DataBank 2013: Fuel exports as % of merchandise exports," World Bank (2013), accessed 5 September 2016, <http://databank.worldbank.org/data/reports.aspx?source=2&series=TX.VAL.FUEL.ZS.UN&country=> and "DataBank 2013: Ores and metals exports as % of merchandise exports," World Bank (2013), accessed 5 September 2016, <http://databank.worldbank.org/data/reports.aspx?source=2&series=TX.VAL.MMTL.ZS.UN&country=>



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Political system

Ghana has a multi-party system and unicameral parliament. The New Patriotic Party (NPP) won a majority over the National Democratic Congress (NDC) in the presidential and parliamentary elections in December 2016, in which Ghana's economic performance was a key election topic. In the latest elections, two smaller opposition parties represented in the previous legislature lost their seats, reinforcing the two-party dominance in Ghana's political system. Executive power is vested in the government, which is headed by President Nana Akufo-Addo.

Natural resource endowments and governance

Ghana discovered oil in 2007 and became an oil producing country in record time by December 2010, increasing the contribution of natural resource revenues to government revenues to 18 percent in 2014.⁸⁴ The Ghanaian government engaged in wide public consultations to guide the design of a petroleum revenue management system, which was codified in the 2011 Petroleum Revenue Management Act (PRMA) and subsequent amended versions, putting in place two savings funds and an apparently strong legal basis for revenue management. In later years, Ghana started borrowing heavily against projected oil revenues to finance infrastructure development projects. Consequently, the unexpected dramatic fall in global oil prices from June 2014 resulted in considerable public debt and a fiscal deficit. This experience revealed that overall fiscal sustainability was not sufficiently considered when the PRMA was designed. In particular, the PRMA failed to shield the budget from overspending by a government pressured by political rivalry, which in turn was fueled by high expectations for oil revenues.

This case study examines the creation of the PRMA and the challenges in its implementation by showing how political rivalry and mismanagement of Ghana's modest oil revenues contributed to the country's debt and budget crisis.

⁸⁴ Ghana EITI, <https://eiti.org/ghana>.

The development of the Petroleum Revenue Management Act under political rivalry

In 2008, after the discovery of commercial quantities of oil, the New Patriotic Party (NPP) government initiated public consultations to feed into the process of drafting key laws governing Ghana's nascent oil sector and revenues. Domestic and international civil society organizations and donors pushed the government to consult the people of Ghana. Citizens were initially wary of news of the oil discovery, because of historical public discontent with the management of mineral revenues in Ghana and neighboring Nigeria's challenges in the oil sector. However, broad public consultations led to a greater awareness of the opportunities—as well as pitfalls—of oil wealth, and Ghanaians started seeing the oil discovery as a unique opportunity to get things right.

Box 2.4 ***Policy position development in Ghanaian parties***

Policy-making on oil and gas issues by the Ghanaian parties represented in parliament takes place through the formation of sector-specific committees, which consider draft policies that emanate generally from the responsible ministries and governmental agencies. At this stage, external experts may also be consulted.

Additionally, party caucuses make contributions to election manifestos for approval by the party's national executive committee. Inclusion of the views of regional branches and other constituencies takes place via their representation in the party's national executive committee.

In some parties, the party leadership approves the proposed policy before the national committee hearing, making it a forum for formal approval rather than substantial debate, and rendering policy position development rather a top-down than bottom-up process.

In spite of the consultative approach to developing the revenue management principles, intense political rivalry between the two main parties had a detrimental impact on revenue management outcomes. The NPP's energy minister at the time of oil discovery went as far as presenting a bottle of crude oil in a parliamentary session to celebrate the discovery.⁸⁵ These types of public appearances and accompanying positive messages raised expectations among the public, which were reflected in the nature of the consultation process and the assumption that revenues would be large enough to quickly transform the

⁸⁵ "Parliament Discusses Oil Discovery," *Modern Ghana*, 20 June 2007, <https://www.modernghana.com/news/138029/parliament-discusses-oil-discovery.html>.

country's economy. Consequently, public consultations led to wide backing for the codification of a revenue management system into law and the principle of saving a minority of the resource revenues for future generations and investing the rest in national development.

Political rivalry has continued to play a role in shaping the sector's management, with the subsequent NDC government publicly declaring that it would produce "first oil in record time" and pressuring the industry to move ahead with production. However, this strategy was not accompanied by equal determination in developing a comprehensive set of policies, laws and regulations before the start of production. This is now seen as one of the major mistakes that impacts the oil sector today, as expressed by Kwame Jantuah, vice chairman of the Public Interest Accountability Committee (PIAC), an institution created under the PRMA to increase accountability of the use of oil revenues.

"Some of us were of the opinion that we started the whole policy development on a wrong footing, as when political power changed hands from the NPP to the NDC government, we should have halted exploration until we had put in place the new Exploration and Production Act,⁸⁶ which we saw as the bible of the industry where all the other governing laws emanated from," Jantuah said. "Instead, we rushed to pass the Petroleum Revenue Management Act 2011 because the international oil companies were going ahead, and we realized we didn't have an effective law that governed how the revenue should be managed and spent in the economy."⁸⁷

Competition between the main political parties did not translate into an articulated policy debate around the PRMA's content. In fact, politicians have been hesitant to pronounce any major differences between their positions on the law, as it would have been difficult to deviate from the main views expressed in the public consultations. Nonetheless, Steve Manteaw, head of the Ghana Civil Society Platform on Oil & Gas, explains that there were some differences regarding the balance of saving and spending revenues. Mainly, the then-ruling party NDC argued that money should not be put away for saving only, but also used to address Ghana's infrastructure gap. Other parties did not take strong positions. Opinions were also divided on allowing oil revenues to be used as guarantees for debt repayment. According to MPs from the NDC, the ruling party was divided on this topic, but ultimately the temptation to access debt financing to accelerate projects took over, as stated by former NDC MP Kwame Ampofo: "As a politician I say we're going to develop now that

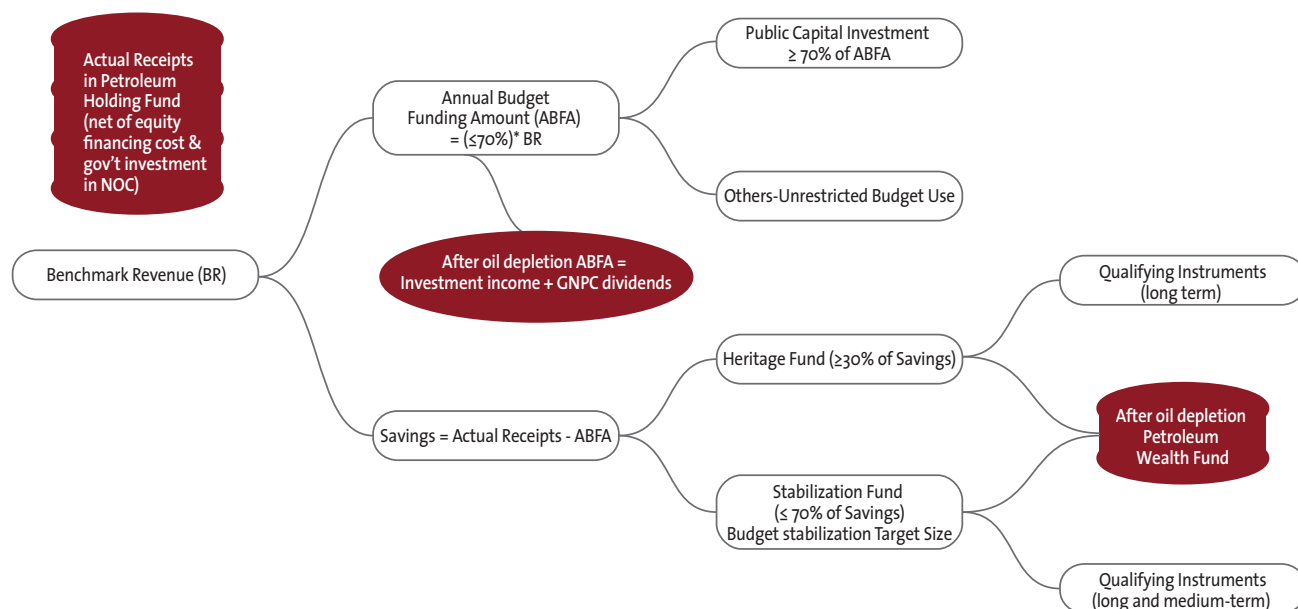
⁸⁶ The Exploration and Production Bill replaced PNDC Law 84, which was designed to govern the mining sector and hence did not cover fundamental issues of oil and gas extraction and production.

⁸⁷ Only in August 2016, the Exploration and Production Bill was passed in parliament introducing competitive open bidding to the sector.

we're in power. You need to take risks and make bold decisions when you can. Otherwise you're seen as a weak politician.”

The final design of the PRMA reflected a compromise between party views and those emerging from the consultations. After equity payments to the Ghana National Petroleum Company, up to 70 percent of the benchmark revenue would be directed to the annual budget (Annual Budget Funding Amount, ABFA) and any excess of this saved in the Stabilization and Heritage Funds (Figure 2.1).⁸⁸

Figure 2.1
Ghana's fiscal rules under the Petroleum Revenue Management Act



In order to accommodate the views of advocates for prudent revenue management, the ABFA limited the use of oil revenues as collateral for debt. Ultimately, the PRMA's detailed design was created by the Ministry of Finance, influenced by international donors and local experts, and approved fairly unanimously in parliament. Consequently, the ruling party in particular has emphasized the broad agreement to these rules, as declared by NDC MP Adam Mutawakilu: “All parties have won on the same ticket. There are no major differences between the parties with regard to oil and gas. The differences appear only on how to spend the revenues.” Many

⁸⁸ Government of Ghana, *Petroleum Revenue Management Act 2011* (2011), www.mofep.gov.gh/sites/.../Petroleum_Revenue_Management_Act_%202011.PDF.

interviewees affirmed that differences in spending choices are related to the parties' ideologies with the NDC being more consumption driven and the NPP aiming to develop industry. In reality, Ghana's political system, with its Westminster-style whip system and majority rule, helps the ruling party ensure that its view is sufficiently reflected in outcomes.

Implementation challenges

In its early years in government and especially near the 2012 elections, the NDC benefited from access to additional financing backed by oil revenues by entering into a resources-for-infrastructure deal with China. It also raised public sector wages and, in general, government expenditure soared. When oil prices started to decline in 2014, lack of consideration for overall budget sustainability allowed the NDC government to continue spending even though much less oil revenue was flowing in than what had been estimated based on the benchmark formula.⁸⁹ PRMA principles were also circumvented by the finance minister's decision to cap the Stabilization Fund and channel the excess into debt repayment, as mandated by the NDC party and allowed by ambiguity and wide executive discretion in the law's implementation.⁹⁰

In the absence of general fiscal rules, it took a long time for the NPP-led opposition to voice concerns over the increased indebtedness and spending, as it seemingly occurred within the limits of the PRMA. Between 2011 and 2014, PIAC and civil society organizations produced reports that flagged the mismatch between the price used in the benchmark revenue formula and the real development of oil prices and pointed to other implementation challenges, triggering a debate on amending the PRMA.⁹¹ The reports' findings convinced the main parties represented in the mines and energy committee of the need to reform elements of the PRMA. Due to wide public discussion on the shortcomings of the law triggered by the civil society, the PRMA Amendment Act was approved unanimously by parliament in 2015. The key changes to the PRMA include allowing adjustment of the benchmark revenue by finance minister; specifying the transfer rules between the ABFA and the funds and further between the Stabilization and Heritage Funds; and earmarking ABFA allocations to the Ghana Infrastructure and Investment Fund, which was established by the Amendment Act. The amendments also ensured regular funding for PIAC.

“All parties have won on the same ticket. There are no major differences between the parties with regard to oil and gas. The differences appear only on how to spend the revenues.”

MP Adam Mutawakilu

⁸⁹ See, for example, “In Ghana, Fiscal Responsibility Remains Elusive Even as Oil Flows,” *NRGI Blog*, 11 August 2015, <http://www.resourcegovernance.org/blog/ghana-fiscal-responsibility-remains-elusive-even-oil-flows>.

⁹⁰ Africa Centre for Energy Policy, *Three years of petroleum revenue management in Ghana*, (2014), <http://www.aceplive.com/wp-content/uploads/2014/08/ACEP-Report-PRMA-Final.pdf>.

⁹¹ Africa Centre for Energy Policy, *Three years of petroleum revenue management in Ghana*. However, it should be noted that while many non-governmental organizations pointed to the implementation challenges, they also voiced concerns over allowing more ministerial discretion to definition of benchmark revenue, risking the integrity of the fiscal regime.

However, in the run-up to the 2016 elections, political rivalry again threatened implementation of the PRMA rules. Before the PRMA Amendment, PIAC and CSO reports had pointed out that the ABFA was used on a wide range of expenditure areas instead of four priority sectors selected from 12 sectors of national development impact, as mandated by the law.⁹² Responding to this criticism, interviewed members of the mines and energy and finance committees from both main parties now maintain that oil revenues should be further targeted for greater impact. In reality, however, the 2015 expenditure shows that ABFA spending has continued to be spread thinly, contrary to PIAC report recommendations. For example, roads and other infrastructure priority spending areas received nearly half of ABFA funding in 2015, exceeding the allocated amount and starting 21 new road projects on top of 12 unfinished ABFA-funded road projects since 2011. One hundred and eighteen road projects were funded by ABFA between 2011 and 2015.⁹³ The thin spread of spending can be linked back to political pressure to demonstrate benefits from oil revenues, heightened by excessive expectations, as described by James Avedzi, Chair of the Finance Committee from the NDC: “There is a need for infrastructure in all parts of the country, and pressure is put on the president by the people. Can the president select which projects to start? The answer is no. The president is forced to start all projects. It’s a difficult discussion with voters and local chiefs. When you say no, I cannot give you any more projects, you’re done.”

“Once in opposition, the party is struggling to have the finances to keep the party afloat and hence capacity building in the oil and gas sector can become secondary.”

Kwame Jantuah

Lessons on capacity building and dialogue

Political outmaneuvering has been central to the process of creating and implementing the PRMA, but parties have not been driving the substantive policy debate. Opposition MPs have used PIAC and other civil society reports to raise questions to the finance minister especially on the thin distribution of revenues. However, engagement between civil society and opposition parties has been limited, as civil society actors have traditionally targeted the government rather than opposition parties to challenge policy. This can be linked back to the lack of sector expertise in the policy-making machinery within Ghanaian parties, as well as practical challenges such as lack of funding for opposition parties between elections. As Kwame Jantuah explains: “Once in opposition, the party is struggling to have the finances to keep the party afloat and hence topics like capacity building in the oil and gas sector and related issues of technical nature, although important to the party, can become secondary, especially because of the challenges attributed to running the party.” At the same time, learning is taking place, and the committee on

⁹² See, for example, “Concentrate petroleum revenue on few key sectors of the economy – IMANI,” *Ghana Business News*, 14 September 2015, <https://www.ghanabusinessnews.com/2015/09/14/concentrate-petroleum-revenue-on-few-key-sectors-of-the-economy-imani>.

⁹³ PIAC Annual Report 2015, 45-49, <http://piacghana.org/resources/2015%20PIAC%20Annual%20Report477.pdf>.

mines and energy is increasingly capacitated and serving as a platform for inter-party cooperation.

Overall, the results of inter-party dialogue in Ghana are mixed. On the one hand, the level of influence, respect and authority enjoyed by civil society actors has ensured that throughout the development of Ghana's revenue management system, independent actors were pushing the government and political parties to consider national benefits from the sector, as well as introducing an independent accountability mechanism in the form of PIAC. The importance of the consultations and the existence of a political dialogue platform cannot be understated, especially in how it has succeeded to inform ordinary Ghanaians of the principles of oil revenue management. On the other hand, the bitter rivalry between the two major parties in Ghanaian politics, a winner-takes-all electoral system and a political system that creates strong executives have concentrated power in the ruling party. This has enabled the governing party to make decisions on oil revenues with undesired consequences for the wider economy. The unfortunate disconnect between the two major parties on long-term policy development undermines the otherwise positive results of consultations.