Oil Rents, Policy and Social Development

Lessons from the Ghana Controversy

Franklin Obeng-Odoom

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Contents

Acronyms ii
Acknowledgements ii
Summary iii
1. Introduction 1
2. Utilizing Oil Rents 2
3. How has the Government of Ghana used the Petroleum Funds? 4
4. Investing Oil Rents in Energy: Towards a Political Economy of Green Social Change 8
5. Conclusion 13
Bibliography 14
UNRISD Research Papers 17

Tables
Table 1: Percentage Allocation of ABFA in Ghana, 2011–2013 4
Table 2: Growth indices in Ghana, 2009-2013 5
Acronyms

ABFA          Annual Budget Funding Amount  
ECG           Electricity Company of Ghana  
GDP           Gross domestic product  
GSS           Ghana Statistical Service  
IMF           International Monetary Fund  
LEAP          Livelihood Empowerment against Poverty  
MLGRD         Ministry of Local Government and Rural Development  
MoFA          Ministry of Food and Agriculture  
PIAC          Public Interest and Accountability Committee  
UNRISD        United Nations Research Institute for Social Development

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Summary

This paper shows that the Ghanaian state expends its resources on four priority areas: loan financing, agricultural modernization, capacity building, and road construction and maintenance. It argues that the emphasis on “roads for prosperity” reflects a strong commitment to economic growth not as an end in itself but as a strategy to achieve broader social development goals. While this expenditure pattern is broadly consistent with institutional processes in the country and is largely transparent, the expenditure of oil rents has negated or made only modest contributions to socioeconomic development. This paper shows that channelling oil rents into an alternative holistic social energy programme will drive sustainable social change through energy security and sovereignty, the creation of green jobs, and the reduction of dramatic levels of actual and perceived income, wealth and gendered inequalities in the country in a way that will make this social change both desirable and feasible.

Franklin Obeng-Odoom is a Senior Lecturer in Property Economics at the School of Built Environment, University of Technology Sydney. He was also Research Fellow at UNRISD.
1. Introduction

Ghana has been said to be a “petrostate” because oil rents constitute 10 per cent of its GDP (Heilbrunn 2014). This percentage varies; for instance, appendix 3b of the 2014 budget of the government of Ghana (Ministry of Finance and Economic Planning 2013b) suggests that in 2013, the country’s oil rents amounted to 8.2 per cent of nominal GDP with an even smaller annual budgetary funding amount (0.6 per cent of GDP in that year). While there is some controversy about whether this percentage is big enough to make Ghana a petrostate (Yates 2015), it is not just the quantum of petro rents that make Ghana a petrostate, important as it is. Rather, it is the oil-supported social and spatial transformation of the country, the potential of current and future rents to attract investment and loans, and the general emphasis on oil as a driver of social change that make Ghana a petrostate worthy of attention. Recognizing this status, the state has put in place new oil legislations, measures and strategies, including an elaborate governance mechanism of its marine space (Chalfin 2015), to maximize the collection and use of oil rents. In Oil, Democracy and Development in Africa, for example, J.R. Heilbrurn (2014) concludes that, in Africa, Ghana is a paragon of excellence with respect to how it has managed its oil resources, while a recent contribution in African Affairs (Kopiński et al. 2013:583) declares Ghana to be immune to the usual problems of oil economies in Africa. There is certainly a basis to be enthusiastic about Ghana’s experience, in spite of its many downsides (see, for instance, Adusah-Karikari 2015) and compared with the widespread criticisms of the experiences in Uganda (Alstine et al. 2014), for example. In relative terms, Ghana has clear legislation in place to ensure that rents for oil are committed to a nationally agreed programme of social development, an independent body that locally assesses the use of the funds, a press that is freer than the Australian press on the 2014 World Press Freedom Index, a sustained body of policy scholars and a capable national development planning commission. Corruption levels have been low, civil society activity rigorous and international monitoring extensive.1

Yet, in the latest nationally representative (Afrobarometer) survey on how satisfied Ghanaians are with the use of oil rents for social development, 7 out of every 10 people interviewed said that oil rents have been either “very ineffectively” or “ineffectively” used (CDD 2014). This Ghana controversy has triggered vitriolic and rancorous exchanges in the latest issue of Journal of Modern African Studies,2 although these generated more heat than light. It is important, therefore, to revisit this controversy, addressing, specifically the following questions: how does the Ghanaian state, Africa’s leading frontier oil state, expend its oil rents? Why does it pursue this oil rent–use pattern? How is this expenditure pattern consistent with its own institutional framework and broader national development? And to what extent are its choices congruent with the aspirations of the Ghanaian people?

Unfortunately, the Afrobarometer report does not answer these questions and, with the notable exception of Adam (2014) whose work looks at efficiency, transparency and accountability in the use of oil resources, and my own work (Obeng-Odoom 2015a) centred on the impacts of some of the resulting projects of oil expenditure, the growing body of scholarship concentrates mostly on the ramifications of oil extraction, rather than

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1 See, for example, Gyampo 2011; Gyimah-Boadi and Prempeh 2013; Kopiński et al. 2013.

2 See the review by Yates 2015 and the response by Heilbrunn 2015.
on social policy. Addressing these questions, therefore, fills a gap in the studies on the new oil industry in Ghana and is also of interest at the global level. Most work on oil, particularly in Africa, has focused on the impact of the resource on macroeconomic stability and a number of political challenges, with notable exceptions such as Hujo (2012) and bourgeoning research conducted or commissioned by the United Nations Research Institute for Social Development (UNRISD) for its project, Politics of Domestic Resource Mobilization for Social Development.3

This paper makes a contribution to this research theme. It studies the utilization of oil rents in Ghana by juxtaposing how they have been used by the social democratic government vis-à-vis the most pressing present needs of the Ghanaian people. Based on this analysis, the paper argues that there is no congruence between the government’s four “priority spending areas” of loan servicing, road construction, agricultural modernization, and capacity building on the one hand, and energy security, which is currently the most pressing challenge of the majority of people in Ghana, according to a survey conducted by Friedrich Ebert Foundation as well as other assessments, including that of organized labour presented during the National Workers’ Day celebration on 1 May 2015. Even worse, the government’s priority of “roads for prosperity” has created infrastructure whose utilization has led to many untimely deaths (this was aggravated by the usual problems of growing congestion, road accidents, and pollution on the many oil-maintained or created roads) or unrealized dreams of oil jobs (in the form of capacity building that is yet to be accompanied by sustainable oil employment). Using oil rents to develop a sustainable and affordable energy strategy that generates green jobs, is inclusive and triggers productive linkages would be a better priority area for the use of oil rents.

The rest of the paper is divided as follows. Section 2 describes the Petroleum Revenue Management Act of Ghana. Section 3 highlights how the government of Ghana has expended oil rents, showing how this emphasis dramatically diverges from what people require, while section 4 offers an alternative strategy for the use of oil rents and how that is a feasible alternative. The concluding section draws some policy lessons.

2. Utilizing Oil Rents

On 11 April 2011, the Petroleum Revenue Management Act (Act 815) received presidential assent to become the legal “framework for the collection, allocation, and management of petroleum revenue in a responsible, transparent, accountable and sustainable manner for the benefit of the citizens of Ghana” (preamble). This Act prevails if there is a contradiction with other legislation. The Act establishes a Petroleum Holding Fund at the Bank of Ghana into which all revenues arising from up and midstream activities due to the government are paid either in cash or in the equivalent number of barrels of oil.

These revenues fall into six categories. These are (i) royalties; (ii) payment for the direct or indirect involvement of the government in oil activities; (iii) corporate income taxes from oil companies working in the upstream and midstream of the industry; (iv) dividends; (v) corporate taxes and other payments by the national oil company, and

3 More about this UNRISD project can be found here: http://www.unrisd.org/pdrm (accessed 19 February 2015).
other amounts either directly or indirectly generated by the government in its petroleum dealings, such as the gains from the sale of capital assets related to oil (section 6); and (vi) all other payments not in section 6 but which arise from the carried and participating interest in oil activities (section 7).

The Petroleum Holding Fund has three sub-funds, one not for immediate use but reserved for future generations (Ghana Heritage Fund); a second to cushion public expenditure in the event of unpredicted shortfalls (defined in section 12) in petroleum revenues (Ghana Stabilisation Fund); and a third for the annual support of the national budget (not referred to as a fund in the Act, but in the Annual Budget Funding Amount/ABFA in subsection 2 of section 11 and section 18). Before 1 September each year, the Minister of Finance is obliged to report a Benchmark Revenue from petroleum for that year from which no more than 70 per cent shall be categorized as the Annual Budget Funding Amount for that year. The actual percentage of the benchmark revenue that should go into the Annual Budget Funding Amount is determined by the country’s medium-term development strategy, which feeds into a long-term national development plan, and prevailing macroeconomic management conditions such as the capacity of the economy as a whole to absorb the funds. Such a percentage shall be publicly and openly announced in the national budget for the year and approved with the budget (section 18).

One of the crucial parts of the Act for the purposes of this paper is Section 21, aptly entitled “Use of annual budget funding amount”. This guides the use to which the petroleum funds are put. It is worth quoting in full:

The use of the Annual Budget Funding Amount shall be (a) to maximize the rate of economic development; (b) to promote equality of economic opportunity with a view to ensure the well-being of citizens; (c) to undertake even and balanced development of the regions; and (d) guided by a medium-term expenditure framework aligned with a long-term national development plan.

Where such a framework is not in place, the Act notes that the expenditure of the annual petroleum funds

shall give priority to, but not be limited to programmes or activities relating to (a) agriculture and industry; (b) physical infrastructure and service delivery in education, science and technology; (c) potable water delivery and sanitation; (d) infrastructure development in telecommunication, road, rail, and port; (e) physical infrastructure and service delivery in health; (f) housing delivery; (g) environmental protection, sustainable utilisation and the protection of natural resources; (h) rural development; (i) developing alternative energy sources; (j) the strengthening of institutions of government; (k) public safety and security; and (l) the provision of social welfare and the protection of the physically handicapped and disadvantaged citizens.

The Act seeks to maximize impact, so it obliges the Minister of Finance to nominate not more than four areas in the above (subsection 5 of section 21). The priority areas can be reviewed every three years unless there is a national disaster, in which case the Act allows the Minister to vary the priority areas (subsection 6 of section 21).

It is useful to examine how the government has spent the resources since 2011 when the Act came into force.
3. How has the Government of Ghana used the Petroleum Funds?

The details of expenditure of oil rents are regularly reported by the Ministry of Finance and Economic Planning in the national budgets and in the reports of the Public Interest and Accountability Committee (PIAC). Table 1 provides data on the expenditure pattern of petroleum funds from 2011 to 2013.

<table>
<thead>
<tr>
<th>Priority Areas</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan servicing</td>
<td>11.9</td>
<td>19.0</td>
<td>25.4</td>
</tr>
<tr>
<td>Road infrastructure</td>
<td>79.8</td>
<td>45.0</td>
<td>68.4</td>
</tr>
<tr>
<td>Agricultural modernization</td>
<td>7.8</td>
<td>14.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Capacity building</td>
<td>0.5</td>
<td>22.0</td>
<td>3.7</td>
</tr>
</tbody>
</table>


The table shows that the priority areas for the government have been loan servicing, road construction and maintenance, agricultural modernization and capacity building. These areas have not changed since 2011. While the percentage of fund allocation has varied, most of the petroleum funds have been invested in the construction and maintenance of roads, a priority area which, apart from 2012, has typically taken far more than half of the funds, leaving less funding for the three other priority areas. Loan servicing and road construction took 92 per cent of the funds in 2011, 64 per cent in 2012, and 94 per cent of the funds in 2013.

The priority given to roads requires careful attention. In the history of economic development, road construction and road works were advocated at different times and for different reasons. The colonial and neocolonial philosophy saw roads as a way of modernizing, mainly to help exploit natural resources and as a symbol of “development”. The Keynesian advocacy for roads in the period after the Great Depression was a counter cyclical measure aimed to increase employment and through that expand the purchasing power of labour. From this perspective, road construction generates both direct and indirect employment opportunities. Directly, labour is employed in the various processes of actually building roads, managing the process on site and administering the project. Indirectly, there is a significant multiplier effect from such employment, primarily in the form of purchases which then expands the building industry as a whole. With his colleague Hubert Henderson, Keynes noted that

> There is nothing fanciful or fine-spun about the proposition that the construction of roads entails a demand for road materials, which entails a demand for labour and also for other commodities, which, in their turn, entail demand for labour. Such reactions are of the very essence of the industrial process. Why, the first step towards a right understanding of the economic world is to realise how far-reaching such reactions are, to appreciate how vast is the range of trades and occupations which contribute to the production of the commonest commodities (cited in Patinkin 1978:23).

In contemporary times, a “neoclassical synthesis” and transport policies grounded in the principles of neoliberalism have emphasized the rapid transportation of goods to expedite the wheels of accumulation, expand economic growth and guarantee individual freedom. The neoclassical synthesis stresses how roads enable markets and facilitate the exchange of commodities, expedite the production process for commodity expansion, stimulate

Aspects of all these ideals have percolated into transport policy in Ghana, but it is the drive for growth that has been strongest in the past three decades. Ghana successfully implemented neoliberal policy dispensed by the World Bank and the International Monetary Fund (IMF) through, for example, the Poverty Reduction Strategy Papers (PSRP). Interestingly, Ghana’s PRSP is called Growth and Poverty Reduction Strategy (I & II). In a report on a major Transport Sector Project funded by the World Bank (2009a), the road sector is extolled. The “transport and the country’s growth agenda” is seen as serving as the primary “strategic context and rationale” for the project. So there is a strong growth-centric vision that drives the government’s road investment agenda, although in doing so growth is not seen as an end in itself but as a strategy to other ends defined in Section 21 of the Act: (i) maximizing the rate of economic development; (ii) promoting equality of economic opportunity with a view to ensure the well-being of citizens; and (iii) leading to even and balanced development of the regions.

It is necessary to consider the outcome of this expenditure pattern in terms of the criteria provided by the Act. In growth terms, the latest Ghana Living Standards Survey prepared by the Ghana Statistical Service (GSS) shows that GDP has expanded. The average annual GDP growth rate from 2005 to 2013 was 7.8 per cent, increasing to an average of 9.7 per cent since the “oil years” (2010–2013) (Ghana Statistical Service 2014:1). Beyond mere correlation, GSS actually finds causation that has been particularly strong since 2011 (GSS 2014:1), the year in which Ministry of Finance and Economic Planning figures showed that oil was contributing about 100 per cent to the growth in real GDP (Obeng-Odoom 2014:54).

Table 2: Growth indices in Ghana, 2009–2013

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita GDP (USD)</td>
<td>1,103.5</td>
<td>1,284.7</td>
<td>1,605.7</td>
<td>1,602.8</td>
<td>1,838.3</td>
</tr>
<tr>
<td>Growth rate of GDP at constant 2006 prices (with oil)</td>
<td>4.0</td>
<td>8.0</td>
<td>15.0</td>
<td>8.8</td>
<td>7.1</td>
</tr>
<tr>
<td>Growth rate of GDP at constant 2006 prices (without oil)</td>
<td>N/A</td>
<td>7.6</td>
<td>8.2</td>
<td>8.6</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Note: N/A = not available. Source: Ghana Statistical Service 2014.

In addition to the positive growth outcomes, poverty levels have become significantly lower. While the number of people living below the poverty line (USD1.83 a day) in 2005/2006 was 31.9 per cent of the population, as of 2012/2013 the share of the population living in poverty had declined to 24.2 per cent (GSS 2014). GSS (2014:19) finds that the growth in Ghana was helping poverty reduction.

Whether the expenditure of oil rents per se is growth enhancing or poverty reducing is, however, an entirely different question. There is evidence that construction in general
drives economic growth in Ghana. However, Anaman and Osei-Amponsah’s (2007) Granger causality test reveals that there is a three-year lag for this causation to happen, and the real value of the construction project peters off two years after the completion of projects such as road construction. It follows that the growth figures in table 2 cannot really be attributed to construction as the Granger test suggests that those effects had to accrue in 2014.

The connection between the expenditure of oil rents and poverty reduction is similarly tenuous. The “oil roads” create jobs but these jobs are few, dominated by men and offer poor conditions of service. Relative to the entire population, the construction sector offers little direct employment. The road-building industry is only limited to a few big foreign-owned construction companies (Anaman and Osei-Amponsah 2007), including Chinese company SinoHydro, which mainly employs the services of expatriate Chinese (Hensengerth 2011). This Chinese model of employment applies not only to its road projects, although such projects have been the most widely studied and provide formidable evidence that they generate limited employment opportunities. The Chinese project officers do not deny that they offer little or no employment to local Ghanaian labour. Instead, they claim that local Ghanaian labour is not skilled enough, and that the local Ghanaian workers take weekends off for cultural and religious activities—activities that Chinese construction workers hardly undertake. In turn, in one project, over 500 Chinese labour had to be imported from China; and even when there is no Chinese labour, Pakistani labour—not Ghanaian labour—is preferred (Odoom 2014). Whether the claim that it is not possible to find equivalent skilled Ghanaian labour is accurate is moot: this employment model does not empower Ghanaian labour and, even worse, creates a vicious cycle of what can be called “enclaved employment”, especially because in the contracts for such construction projects (at least in the case of one well-known oil-based infrastructural agreement between the governments of Ghana and China), 60 per cent of the resulting projects from the agreement had to go to Chinese companies (Obeng-Odoom 2014:98–99).

The relatively few indigenous people who are employed in the roads sector generally are mostly men, who are usually employed on a casual basis with little health, safety and social protection, and with low wages as well as irregular or non-payment of wages. In the Bui Dam Construction Project under the management of SinoHydro, for instance, only 2.6 per cent of the 560 Ghanaian workers were women, almost none of the 560 workers was permanent, and none had any employment contract (Baah et al. 2009:99–100). In contrast, the Chinese workers obtain much better conditions of service. This “labour aristocracy” has been admitted by the project officers who tend to say that they “do not know” precisely how big these racially constructed job hierarchies are (Baah et al. 2009). These experiences of exploitation are not entirely unique to Chinese/oil infrastructure projects. Indeed, research on job satisfaction among construction workers in Ghana generally shows low levels of satisfaction (Yirenkyi-Fianko et al. 2012). Besides, the few, gendered and poor work conditions in the roads sector recall a long colonial history of exploited and forced labour for the building of roads in Ghana (Akurang-Parry 2000).

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5 Danso 2010; Owusuah 2012; PIAC 2013:xi-xl; Adam 2014.
However, when “oiled” and racialized, the exploitation of labour takes distinct forms and generate different levels of social relations and dissatisfaction. In their study of the “psychological contract in Chinese-African informal labor relations” focusing on Chinese-Ghanaian employment, Giese and Thiel (2015:1807) find that “under conditions of foreignness, employment relations are conflict prone because of contradictory equity expectations of employers and employees”. Elsewhere, they dramatize these tensions and contradictions as “When voicelessness meets speechlessness”, stressing struggles “for equity in Chinese-Ghanaian employment relations” and “how Ghanaian employees cope with this situation by means of voice, silence, retreat or destruction” (Giese and Thiel 2012:abstract). Cast in a wider context, the expenditure of oil rents generates a paradox of pouring oil rents into an area that benefits the least number of people, generates conflict or potential conflict, and, even worse, animates a driving culture which, as I show elsewhere (Obeng-Odoom 2015a), has propelled many fatal road accidents, pollution and health problems (Obeng-Odoom 2015a), while improving house prices and hence house rents for the benefit of property owners (Obeng-Odoom 2014). Consequently, any associated multiplier from the expenditure of oil rents on road infrastructure is limited, irregular or concentrated.

Turning now to the goal of ensuring that the utilization of oil rents generates “equality of opportunity” for all regions, the existing evidence similarly raises difficult questions for the state. In 2011, two projects were allocated to each region (PIAC 2011:23), so this was consistent with the Act. However, in educational opportunities supported or provided by the state in the oil-bearing Western region, those outside the region have benefitted the most in terms of enrolment and certification (Obeng-Odoom 2014). The government of Ghana has established an Enterprise Development Centre in the region with the mandate to support capacity development of local businesses through seminars, training programmes, information sessions and networking opportunities. However, these efforts target Ghanaian enterprises in all regions in the country in the hope that by giving this “equality of opportunity”, the market will equitably distribute the resulting advantages. However, to date, the evidence (Ablo 2015) shows that it is the size and power of the firm that are more important in assessing the benefits of this information and capacity building programme for local firms. So, for the most part, the Western Region receives the least, and other regions, notably the Greater Accra Region where most people in government reside, receives the most resources from oil—a phenomenon described at length in the Western Region Human Development Report 2013 (UNDP 2013).

This micro aspect of inequality mirrors and contributes to broader patterns of inequality that have increased over the years. Current national level Gini coefficient is at 42.3 per cent (2012/2013), an increase from 41.9 per cent in 2005/2006, according to GSS (2014). In addition to actual inequality, 68 per cent of the people in Ghana perceive substantial levels of inequality (CDD 2012). A major contributor to inequality in Ghana is the land sector, which is currently characterized by growing commodification which favours those with market power. This results in weaker groups and persons being dispossessed of, and undercompensated for, their land which is taken over for corporate mechanized agriculture and private sector speculation (see Obeng-Odoom 2014). This is aggravated by limited, irregularly provided and coordinated social interventions that do not pay sufficient attention to differentiating circumstances (Debrah 2013). Highly unequal societies tend to be insecure and unsafe, and in turn, promulgate processes that
can harm a flourishing economy by reducing productivity and diverting the use of resources for social courses to policing and military expenditures. Inequality tends to create the condition for further inequality, such as when privileged groups support the creation of institutions that guarantee and enforce existing privileges leading, in turn, to economic growth patterned after such privileges (Stilwell and Jordan 2007; UNRISD 2010). Little is known about the broader effects of growing inequality in Ghana, except that it is choking off poverty reduction by 1.1 per cent (GSS 2014:18). As my collaborators and I show elsewhere (Obeng-Odoom et al. 2014), inequality triggers and heightens a feeling of insecurity especially among relatively well-off people who live in gated housing estates as the gulf between them and the relatively deprived people outside the gates widens.

Overall, then, the utilization of oil rents has made only a modest contribution to improving the rate of economic development in the country, promoting equality of economic opportunity with a view to ensure the well-being of citizens, and leading to balanced development of the regions in Ghana. The story of Ghana’s growth and poverty should be explained in terms of other processes and activities, rather than solely or even mainly as a function of how it spends its rents. Indeed, the Ghana Statistical Service (2014:4) attributes Ghana’s poverty reduction to three key factors. The first is public expenditure on direct social interventions such as the Livelihood Empowerment against Poverty (LEAP) programme, which actually gives cash transfers to the poor. The second is the increase in public sector employment and the third is the increase in public sector wages (see, for example, Lindebjerg et al. 2015). Much of the research on LEAP suggests that although there are remaining design and scale limitations (Debra 2013), LEAP is responsible for the reduction of poverty by 5 per cent (Osei 2011) and currently benefits some 165,000 households (Dako-Gyeke and Oduro 2013).

This analysis is consistent with formidable historical and contemporary evidence that countries that have been successful in combating poverty and inequality have done so through direct, effective and sustained state intervention in all aspects of society (UNRISD 2010), including in the private sector through policies that (i) prevent profiteering and (ii) encourage the channelling of private sector forces to social uses (Gore 2013). To talk of “mineral rents and the financing of social policy” (Hujo 2012) implies interventions not only in terms of “welfare”, but also production, and not only in terms of distribution but also institutional changes that would attenuate any tendencies towards inequality (UNRISD 2010).

4. Investing Oil Rents in Energy: Towards a Political Economy of Green Social Change

One area where alternative interventions would work particularly well is financing quality social housing fitted with sanitary services. It was the highest priority area for most people when asked what they really want from the state (World Bank 2010:37–44), while human capital development and energy came first and second respectively in another survey in which researchers from the Friedrich-Ebert Foundation asked the youth in Ghana how they would want the oil revenue to be utilized (Friedrich-Ebert Foundation 2011:87–94).
As I have focused on sustainable housing (Obeng-Odoom 2014:165–172) and human capital (Obeng-Odoom 2015b) in my earlier analyses, I will limit the remaining analysis to the question of energy, which is a particularly important avenue for investment. The energy sector is in need of significant investment. Currently, the power sector alone requires about 50 per cent of the USD1.6 billion that is needed yearly to sustain and expand infrastructure in Ghana (World Bank 2009b:41).

There is currently an energy crisis in the country. At the time of writing, major demonstrations have been staged and take place often against the government and/or the Electricity Company of Ghana (ECG). The tripartite crisis of unreliable, poorly distributed and unaffordable energy problem has provoked dramatic reactions. National church services try to call on providence to end this crisis, which is reminiscent of how Christian Pentecostalism arose in Ghana in response to the hopelessness after structural adjustment programmes (Gifford 2004). In his State of the Nation address, the president said the problem was so grave that it gave him “sleepless nights” (Mahama 2013:16). According to him:

Mr. Speaker, millions of Ghanaians and businesses are today experiencing very erratic and frustrating electricity supply (p.15)... As President I am adequately aware of the challenges and the extreme discomfort that this is causing to the generality of our people and businesses. This situation causes me sleepless nights (p. 16).

This year, in another state of the nation address, the president (Mahama 2015:2) noted:

As I present this State of the Nation Address, our nation is confronted with one such hill; the challenge of providing adequate electricity to power industry, business and for residential consumption. The effects and frustrations posed by the power deficit are clearly felt in our work places, our homes, schools and hospitals. The storage of food, academic activity, and artisans such as barbers, hairdressers, welders, and health care providers are all feeling the pinch of the power shortage. Big businesses and industries are also suffering and threatening to lay off workers. As leader of this nation by the grace of God, I more than anyone else understand the adverse impact of this energy shortfall on the growth of our economy.

So this is an acknowledged problem. However, the energy crisis arises from the state’s inability to generate sufficient power. From this perspective, while the state supports the development of the Ghana Gas Company and a number of state energy projects to promote gas as an additional source of energy, it argues that it needs private sector leadership to achieve improved access, what it calls the “energy for all programme” (Mahama 2013:17). This dual emphasis on private sector–led additional “generation” and improved “access” is written into the Energy Sector Strategy and Development Plan (Ministry of Energy 2010). Opinions vary on exactly how the private sector idea should be utilized. Some believe that the Tema Oil Refinery should be privatized (Bukari 2013); World Bank scholars feel that national energy supply should be funded by mining companies—after all, they power their own operations (Banerjee et al. 2015). If it is not the mining companies, then private individuals constituting small-scale producers should be generating and selling power as a business (Tenenbaum et al. 2014) or private individuals should be supported to sell energy products such as generators to the public (Haselip et al. 2015).
Regardless of how privatization is framed, however, the private sector-led approach has major limitations. Even when it succeeds in expanding access, it struggles to maintain equitable distribution. Either as the main operator or a mere distributor of energy commodities, the private sector is ill-equipped to succeed. The experience of water privatization, the resulting deterioration in service and the subsequent termination of the contract of the private providers (Obeng-Odoom 2012) should offer lessons for attempts at privatizing the energy sector. Additionally, research on the experiences of small and medium-sized energy enterprises in Ghana has revealed that, for the majority of people, privately provided energy alternatives branded as “sustainable energy products” are prohibitive and the business case for upscaling substantially weak (Haselip et al. 2015). It is ironic that the strategic planning of energy, which became a mandate of the Ministry of Energy during the oil crisis in the 1970s (O’Keefe and Soussan 1991), is being given back to the market—the very institution that has been responsible for recurrent energy crises in Ghana and globally.

Channelling oil rents to support a holistic state-led social energy strategy is plausible and will be a better way to utilize oil resources. While currently most of Ghana’s oil is exported and much less remains for use locally, it is possible to reverse the situation. The country has a national refinery, the Tema Oil Refinery, which has received little attention but much lip service, and has been subjected to political interference and mismanagement to date (Bukari 2013). However, the refinery has the capacity to refine 45,000 barrels of oil per stream day with a secondary conversion processing plant that can process 14,000 barrels of oil per stream day (Tema Oil Refinery Company Limited 2013). Similarly, the country has capable local engineers and one of the few technical universities in Africa that has over the years supplied the needed and empowered labour to run the refinery. The aim of revamping the refinery will not be corporate or individual profit but rather attaining equitable energy security, creating sustainable jobs and making the country less dependent on the fluctuations of the global oil industry.

Simultaneously, the country has the foundation infrastructure for an indigenous biofuel industry. This facility was developed by the state between 2003 and 2007 to support a community project driven by Onuah Amoah, a Ghanaian biochemist, who formed Anuanom Industries Ltd. During this time, the state established a National Jatropha Planning Committee working in collaboration with the Ministry of Food and Agriculture (MoFA) and Ministry of Local Government and Rural Development (MLGRD) to plan a biofuel industry and train community farmers to participate in the project. The coordination of state agencies reflected the linkages in the country. For instance, MoFA was involved to ensure that the biofuel crops are not developed at the expense of food crops. Two important local events and a major wave in the international political economy changed the fate of this policy. The brain behind the industry died around the same time that a new government took over power (Boamah 2014). At the international level, the interest in private sector-led biofuel cultivation in Africa was starting to gain ground—as the ground under the global financial system started giving way (Obeng-Odoom 2013) and oil prices continued to soar (Obeng-Odoom 2015c).

However, support for the industry remained after these major events. Indeed, the Energy Commission issued a draft report, Bioenergy Policy For Ghana (Energy Commission 2010), in which it offered a comprehensive mixed energy programme with strong emphasis on
biofuel for which the first policy objective was “To substitute national petroleum fuels consumption with biofuel by 10% by 2020 and 20% by 2030” (p.17). However, the strategy adopted was no longer based on strong state support, but turned to a market-based approach: “Encouraging the commercial scale production of biofuel feedstock” (p.18). This was buoyed by the constellation of global political economic forces, notably the drive by the World Bank to promote “large-scale investment in land” (World Bank 2011). Since then, the government has only been encouraging transnational entities to invest in the industry. However, evaluation of the promised benefits of such investments have been overwhelmingly negative. Most jatropha crops have been exported in raw form, the crop has reduced food production, led to the dispossession of farmers, and the promised jobs have been few, male-dominated and unsustainable. Feminist political economists have shown how women and children, in spite of having agency, have borne a disproportionate brunt of the distressing effects and yet gained the least from the process. Local elites working with government agencies or on their own have facilitated a process that has now become a major albatross around the necks of communities, fishers, farmers and traders. Among those that miss out, women and children have been particularly hard hit: they travel longer distance to find fuel wood and water as traditional locations have been fenced off for large-scale farming, and the plots of land on which they depend to supplement their income or contribute to the family taken away with little or no compensation.7

It is not too late, however, to make not just a change in policy, but a change for a just policy. The government can still take over land, for example, by buying it back from land grabbers or taxing the surplus from such land so progressively that land grabbers will eventually give them back to communities or will be discouraged from speculating on community land—an argument I develop more fully in my contribution to Review of Black Political Economy (Obeng-Odoom 2015d). In this process, the “commons” will be reinstated and managed at community levels with state support to attain social ends. In particular, the objective is to pursue energy security and sovereignty in the sense that communities will exercise rights to access, control and self-determination of their own energy needs—with strong state support. This small-scale, green justice and social energy programme will feed into similar programmes advocated in what Thokozani Simelane and Mohamed Abdel-Rahman (2011) have called Energy Transition in Africa.

Oil rents can help these processes in three ways: rents can help in the buyback process; finance the required biofuel technology; and support small-scale farmers—the poorest group of people in Ghana—with extension services, storage facilities and food distribution. This strategy can, therefore, be linked with the national goal of attaining food security. This development planning is feasible because Ghana currently has an abundance of jatropha crop on 1,534 hectares of land. Jatropha is used widely in Ghana for fencing purposes. Its advantage is that has a very low cultivation cost: it requires little tendering and very few nutrients. It grows well on degraded soil and takes only two to five years to fruit. Its fruits are not edible, so developing them does not affect food security. The plant can last 50 years and has demonstrated the potential to create jobs (Duku et al. 2011). To make these jobs truly “green jobs” or “green-collar jobs”, the state will need to ensure they meet at least three key criteria “first…the job is environmentally sustainable; second…it is a “quality” job in the sense of being well-paid and secure; and third, when it

7 Boamah 2014; Alden Wily 2012; Yaro and Tsikata 2013.
replaces another, non-“green” job...it is located in the same community and targeted to the same worker”, as Pearce and Stilwell (2008:132) argue in another context. Once this biofuel industry has been developed to provide an alternative, the state can slowly reduce and ultimately remove the subsidies on petroleum, as has recently been argued recently by Lindebjerg et al. (2015), but not before devising alternatives as doing so will create more social pressures than are warranted.

This tripartite solution can create green jobs through social development geared towards a green economy. Changing these priority areas should not be difficult. Energy and food are already part of the law, so no legal change is required. As energy is national, the issue of regional balance is more easily handled, although as I show elsewhere (Obeng-Odoom 2014), the oil region requires disproportionately more support—say in housing and education, and particularly for groups such as women—because the region and its various groups bear a greater brunt of the pressures for the oil industry. In this sense, this alternative takes into account production, distribution, social services, gender questions and institutional change. Even more than that, this alternative sets in motion the process of becoming a producer of its own energy needs and then collaborate with other African countries: a strategy that was called “collective self-reliance” by Surendra Patel in the late 1970s (Patel 1978) but which is referred to as “energy sovereignty” in this paper. Reliance on the vicissitudes of the global oil market now threatens the country with the loss of USD700 million in oil rents (Mahama 2015:16), so energy sovereignty also has short-term pragmatic economic advantages too.

The critical question remains how to get state institutions to move from their current road and growth-centric framework to an emphasis on a broader vision of social development entailing a transition from brown to green social change. The establishment of a Ministry of Power in November 2015, and the inauguration of the Ghana Infrastructure Investment Fund Board on 12 February 2015 add a sense of urgency to addressing the energy crisis. More fundamentally, in his acceptance speech, the board chairman Ato Ahwoi mentioned that the energy crisis will be the priority of the board. Aptly summarized in Today Ghana News as “Solving the power crisis is our priority—Ato Ahwoi”, Ahwoi notes that

Immediately, the most important thing for us to look at is the energy problem. All the three sectors of the power sector are crying for investment; the generation, the transmission and the distribution. I think one of the first objectives of this board is to make sure that we manage to help to deal with the electric power problem that is confronting this country (TodayGhanaNews 2015).

While so far, the board chairman has consistently mentioned private funding for the activities of the Board, the Ghana Infrastructure Investment Fund Act 2014 from which the board derives its mandate makes oil rents one of the sources of funding for the board. Section 5 on “Sources of Money for the Fund” notes in subsection ‘b’ that one of the sources should be “an amount of money equivalent to twenty-five percent of Annual Budget Funding Amount to be applied to amortization and direct infrastructure expenditure”.

Together with the growing pressure on the government, as shown in the major demonstrations undertaken or planned by the opposition parties and the civil society groups, and coupled with survey evidence that a substantial majority of people favour a
more direct intervention in the energy crisis using oil rents, the claims made by the board chairman suggest that there are possibilities for fundamental rethinking of the energy question from a state-led, oil perspective. The question then, is not whether change will happen, but when it is going to happen.

5. Conclusion

There are six clear policy lessons from the Ghana controversy. First, a policy emphasis on equality of opportunity is important but it does not necessarily lead to equity in outcome. Direct interventions are needed for this, not only for the regions but also for various groups within the regions, nation-state and cities. Second, it is not enough to focus on state intervention: interventions must directly create jobs. Third, the nature, size, type and conditions of employment all need to be carefully planned: leaving them to the market to work out will lead to regressive outcomes. Fourth, social interventions, even limited ones, end up being the drivers of growth and poverty reduction. Fifth, however, social interventions must (i) remedy inequalities created or moulded by gender, income and assets; (ii) be sustainable and expand the economy and well-being of people; and (iii) transform institutions that foster maldistribution to those that sustain equitable distribution. Finally, the Ghana controversy shows that the energy sector is one area where reform of the current utilization of oil rents can achieve these five lessons, particularly because there is existing infrastructure, huge popular interest and a degree of political will to do so.

The experience of Ghana poses many questions for both admirers and critics of how the Ghanaian state has managed its oil resources to date. This is one case where the experts have been proved wrong. The growth strategy has its merits, but these are not large enough to counter its inherent failings (road accidents, exploitation and appropriation); and they are inconsistent with popular aspirations. Ghana’s experience shows how a relatively clean and transparent growth agenda can generate modest gains. It also shows how intervention merely for its own sake or even for employment generation will overlook major aspects such as labour conditions. It challenges expert-led development policy that sidelines popular aspirations. Clearly, theory is important as are experts, but neither of them trumps the will of the people.

Energy security and sovereignty will be a more appropriate avenue for the investment of oil rents. It will certainly be more consistent with the aspirations of people and will have better prospects for inclusive social and human development. As this alternative takes into account production, distribution, social interventions and the transformation of institutions, it has a strong potential to drive inclusive and green social change. Overall energy security strongly supported by the use of oil rents has a major potential to develop Ghana as a green economy in which jobs are green and sustainable, the society is inclusive, and the nation-state is sovereign in terms of being progressively self-reliant in cooperation with other African countries. Giving power to the people is not a utopian idea. The major legislations are already in place. The masses are already in favour of this policy. The resources and infrastructure needed are largely available. Whether this change will actually happen, how, and when it will happen do not invalidate the policy lessons from the Ghana controversy.
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<table>
<thead>
<tr>
<th>Volume</th>
<th>Title</th>
<th>Authors</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015–1</td>
<td>Transnational Social Movements in ASEAN Policy Advocacy: The Case of Regional Migrants’ Rights Policy</td>
<td>Jenina Joy Chavez</td>
<td>April 2015</td>
</tr>
<tr>
<td>2014–1</td>
<td>The Political Economy of Pension Re-Reform in Chile and Argentina: Toward More Inclusive Protection</td>
<td>Katja Hujo and Mariana Rulli</td>
<td>April 2014</td>
</tr>
<tr>
<td>2013–1</td>
<td>Securing the Home Market: A New Approach to Korean Development</td>
<td>Alice Amsden</td>
<td>May 2013</td>
</tr>
<tr>
<td>2012–7</td>
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<td>December 2012</td>
</tr>
<tr>
<td>2012–6</td>
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</tr>
<tr>
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<td>Recapturing the Narrative of International Development</td>
<td>Sakiko Fukuda-Parr</td>
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</tr>
<tr>
<td>2012–2</td>
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</tr>
<tr>
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<td>Neoliberal Development Macroeconomics: A Consideration of its Gendered Employment Effects</td>
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<td>February 2012</td>
</tr>
</tbody>
</table>
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