

How will Ghana manage and deal with the discovery of its newly-found oil and avoid (unlike some other countries in the continent) the curse of black gold?

*[‘If one finger brought oil, it soiled the others’](#) - Proverb from [Chinua Achebe’s](#) seminal novel *“[Things Fall Apart](#)”* (1958).*

It’s ironic to think that Achebe wasn’t actually writing about oil – oil was only discovered in his country, Nigeria, the year the novel was published, in 1958 and its full impact had not yet been realised. Achebe was depicting – as he saw it – the negative effects of colonialism on the well-being of a tribal Ibo village – one which, hitherto, he or (more accurately) his alter ego ‘Okonkwo’, had regarded as a panacea.

But, the proverb and the title of the novel certainly stand as perfect - if inadvertent - metaphors for the impact of oil in African societies.

According to [Martin Meredith](#) in his book *‘[The State of Africa](#)’*, Ghana embarked on independence (in 1957) as one of the richest tropical countries in the world, governed by an outstanding leader, Kwame Nkrumah, with an efficient civil service, an impartial judiciary and a prosperous middle-class. Economic prospects were propitious. Not only was Ghana the world’s leading producer of cocoa with huge foreign currency reserves but it also possessed gold, timber and bauxite (amongst other commodities).

Yet, by 1980, it had effectively been reduced to a pauper. Its per capita gross domestic product fell by more than 3% a year in the 1970’s. Output declined in all major sectors – cocoa, timber, mining and manufacturing. The only sector that flourished was *‘kalabule’* – the black market. The Ghanaian currency, the Cedi, traded on the black market at up to twenty times below the official rate. A loaf of bread took two days to earn; a yam sufficient for a family meal cost as much as two week’s wages. Crime soared. Public services disintegrated. Between 1975 – 1981, some 14,000 trained teachers left the education service, many heading abroad and Ghana lost half of all its graduates.

How had it all come to this?

The answer to that lies in delineating what Ghana must now not do - whether by learning from its own general economic history or from the mistakes of other oil-producing nations – if it is to manage properly and for the benefit of the country as a whole its newly-discovered oil.

As Ghana starts its oil production, polarisation about its prospects is already forming. Presently, at initial drilling, [Ghana is only expected to produce 55,000 barrels of oil per day \(bpd\) leading to 120,000 bpd after the first quarter of 2011](#) with potential output of about 250,000 bpd after about three years. In one corner are the optimists who cannot envisage Ghana making the errors of countries like Nigeria and Angola. Moreover, they argue that the situations are entirely different. As far as Ishac Diwan, the World Bank’s country director for Ghana, is concerned [“it’s a bit of oil not a whole lot so it’s not enough to give you the ‘Dutch disease’ and a curse.”](#) This is a reference to what happened to the Netherlands when it discovered gas in the 1960s, it consequently boosted the nation’s currency but undermined its non-resource exports.

Also, optimists argue that the Ghanaian economy is far more diverse than (for example) the Angolan and Nigerian markets. [The cocoa and mining sectors in Ghana account for 75% of foreign exchange accounts unlike those two countries which are dominated by the oil industry.](#) In addition, Ghana is held up by observers – national and international – as a beacon of good and stable governance. The World Bank accords this to the fact that there is no single dominant political party and that the parties are quite well institutionalized. President Obama has added his own voice to the issue declaring on a visit in 2009 that [“the people of Ghana have worked hard to put democracy on a firmer footing, with peaceful transfers of power even in the wake of closely contested elections. And with improved governance and an emerging civil society, Ghana’s economy has shown impressive rates of growth.”](#)

On the other side are pessimists like Alex Vines, head of the Africa program at Chatham House (the leading UK think-tank) who worries that Ghana is unprepared for the flow of oil - still relying on an old 1984 regulation. He has stated [“it \[Ghana\] still has no new law, no regulations and no regulator. It is not too late.....but muddling through is inefficient and could be very costly.”](#) To add to this, issues about transparency and accountability have (as yet) not been properly addressed. According to Nicholas Shaxson, the author of ‘Poisoned Wells: The Dirty Politics of African Oil’, [“aid makes rulers accountable to donors, tax makes rulers accountable to citizens, and oil makes rulers accountable to nobody.”](#) To reinforce the point about the challenges of accountability everywhere, here are the words of a leading American politician, governor Mitch Daniels who has been widely hailed for turning around the economic fortunes of the state of Indiana. [“In government, I always say you have to transplant or implant accountability, ‘cause it doesn’t come naturally.”](#)

Furthermore, there have already been grumblings from locals in the Western region of Ghana - in an eerie recall of the Delta situation in Nigeria - about the general impact of the oil discovery and whether they will be allocated a fair share of the resources. Takoradi (a town in the region where oil has been discovered) has a mile-wide no-go area surrounding the offshore oil-rig which has been imposed by the government. Joseph Tetteh Narh, a local fisherman, recently had this to say: [“we are all suffering. All the fish, all the tuna, gather around the light on the oil-rig at night and stay there during the day. The government has to compensate us.”](#) Also, local chiefs like Awulae Agyeifi Kwame have been making themselves heard. [“Since independence, we in Western Ghana have been cheated. We all want to see the success of the industry but not at our expense.”](#) He added ominously: “if our voice is not heard, there are those who might handle it in a more radicalized way.” Their demands for a percentage of the oil revenues have (so far) been resisted by politicians but their appeals are only likely to get louder as the government starts to accrue benefits from the produced oil.

In the opinion of Rolake Akinola, the founder of VoxFrontier Consulting (an analyst of sub-Saharan African political and markets risk), there is clearly no room for complacency and she sees no divine reason for Ghana to believe it will be immune from some of the direct and/or tangential impacts that have affected other places once they discovered oil. As she remarked to me in an interview: “when I was growing up in Nigeria, I certainly noticed changes happening in society which were directly attributable – I would say – to the result of the oil flow there.”

So, what specific actions could the Ghanaian government (and others) take to prevent oil causing them the misery of corruption, civil and armed strife, poverty and chaos that have blighted some other African countries? Here are a few suggestions:

- Ensure transparency of revenue and distribution of allocations. This could be achieved by making public all the documentation that form part of the oil bidding process – so, you open up all the agreements and include them in the budgetary process. It would make political capture of oil rents and general corruption in this area much more difficult to accomplish.
- Allow the government to use the oil revenues for acts which would actually benefit the country as a whole – health, education, housing, employment, water, sanitation etc..etc. To do this, the government would need to ensure that its fiscal position was in good shape and remained so.
- Remove any obstacles that could stunt growth prospects in other sectors of the economy – so, policies around competition and general bureaucracy and red-tape would need to be analysed and liberalised, as appropriate.
- Also, issues about obtaining alternative capital investment for infrastructure – as opposed to directly from oil receipts - would have to be addressed. This may be the reason why Ghana (and other African) governments have started to give priority to energy deals that are linked to infrastructural projects. [The deal struck last year by Ghana with the Chinese National Offshore Oil Corporation \(CNOOC\) at the expense of Kosmos Energy LLC and Exxon Mobil Corporation may be a case in point.](#)
- Develop methods and policies to deal with oil price volatility – a possible mechanism would be to create an oil fund which could be dipped into (as and when necessary) to balance any shortfalls in the budget caused by unexpected petroleum earnings.
- Maintain and increase investment in the agriculture sector. History is littered with examples of countries ignoring this sector once oil strikes and as a highly sustainable economic sector and not capital-intensive for the average worker, it is in the interests of policy makers to allocate sufficient investment for agricultural land and for collateral items necessary to sustain it.
- Invest in sovereign wealth funds and the Ghanaian government has been getting [the advice of the Norwegian government to try and generally manage its oil resources. Whilst the IMF agrees with this, it must be noted that leading economists like Paul Collier \(the author of ‘The Plundered Planet’\) think that they should not be investing in foreign assets but in what is called ‘in-investing’\(i.e. investing internally\).](#)
- Utilize efficiently investment from international bodies like [the World Bank for implementation of the Oil and Gas Capacity Building Project](#). Its two main objectives are to:

- help improve public management and regulatory capacity in accordance with international standards and enhance sector transparency by strengthening the institutions managing and monitoring the sector. This should help to create systems, a performance culture, and governance models along the lines of those found in commercially driven enterprises; and
 - support selected educational institutions to develop indigenous technical and professional skills needed by the petroleum sector which would help to (amongst other things) enhance the long-term ability of indigenous policy makers to conduct successful contract negotiations over oil and gas rights.
- Civil society should play a leading role in promoting accountability and community participation and their role could involve what Paul Collier describes as “[capturing social value.](#)” They could do this by utilizing (for example) a tool created by the Mo Ibrahim Foundation - the Ibrahim Index of African Governance, a comprehensive ranking of African countries according to governance quality (derived from researched data) and the Index was designed as a mechanism to help civil society monitor national progress. So, for instance, they could apply pressure on the government to publish all information about taxes due from legal exploitation of the extractive industries as well as information about the amounts actually collected. In addition, they could further ensure that the government has in place adequate measures to manage environmental risk.

So, what does the future hold and are there reasons to be hopeful?

Paul Collier has stated that if countries like Nigeria and Rwanda which have emerged from decades of mismanagement and civil and armed strife can start getting their acts together, then it can only bode well for other countries which have a reputation for better government and are blessed with ‘[favourable fundamentals](#)’.

[In a McKinsey on Africa report \(June 2010\)](#) he writes: “yet the contrast between Nigeria’s dysfunctional management of its first oil boom of 1973 – 1983 and its brilliant management of the second boom (2003 – 2008) cautions against the gloomy cynicism that until recently bedevilled investor thinking about Africa.” And, about Rwanda he states: “even, Rwanda, a landlocked, crowded country lacking in natural resources, a leadership committed to economic transformation has been able to sustain a growth rate of 10%.”

The word on the ground is certainly no less optimistic. Ernest Hanson (the MD of Clifton Homes, a real estate development company in Ghana) said to me in an e-mail interview; “I’ve been back two and a bit years now and there is a definite sense of economic dynamism at present. There is pent-up demand for a huge range of products and services. I don’t think the economic optimism is founded on short term investor speculation on gold or cocoa prices or anticipated oil revenues but on strong structural growth drivers.”

It would make sense to conclude with another proverb - this one from the KiSwahili dialect: '*Nyama tembo kula hawezi kumaliza*' – which roughly translates as: “*You never finish eating the meat of an elephant.*”

If you were to substitute (in that proverb) Africa for '*an elephant*' and the natural resources that Africa possesses for '*the meat*', you may find that this could well be true. And, if this does turn out to be true, then, it makes it all the more incumbent on governments and policymakers in Africa and, indeed, it would be a dereliction of their duties both moral and otherwise if they do not – now and in the future - better utilize those resources for the abundant benefit of their people as a whole.

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