

The Discovery of Oil in Ghana: Which Socio-Economic Growth?

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ABSTRACT: *By most standards, Ghana can, prudently enough, be defined as one of the most politically stable nations on the African continent, which in itself is, a prerequisite for economic prosperity. On the one hand, this West African country possesses mineral resources, gold and diamonds in particular, hence its former name of Gold Coast, and on the other, it succeeded to establish a democratic tradition after long years of political upheavals. There is an expectation, then, that a momentous time like the one of oil discovery in 2007 would mean a quicker and steady economic growth and a better quality of life for Ghanaians. But this hydrocarbon potential does not produce wealth in itself, good economic management does. The present paper sets out to examine the impact the black gold had on national economy in Ghana, and by extension, the effect on its social life. It endeavours to inquire into the extent to which oil discovery responded to Ghanaian expectations and whether the administrations of Atta Mills and later Mahama exploited this new energy in a way that benefited more than just a small elite. Findings tend to suggest that weak economic management in oil industry, predominantly characterized by a lack of transparency over oil revenues, in addition to a lack of discernment as to prioritized sectors, agriculture in particular, the cornerstone of national economy in Ghana, led to public disillusion.*

KEYWORDS: Economic growth, Ghana, oil industry, social welfare.

RÉSUMÉ : *Selon la plupart des normes, le Ghana peut, assez prudemment, être défini comme l'un des pays les plus politiquement stables du continent Africain, ce qui en soi est une condition préalable à la prospérité économique. D'une part, ce pays de l'Afrique de l'ouest possède des ressources minérales, en particulier l'or et les diamants, d'où son ancien nom de Côte de l'Or, et d'autre part, il a réussi à établir une tradition démocratique après de longues années de bouleversements politiques. On s'attend donc à ce qu'un moment aussi important*

que celui de la découverte du pétrole en 2007 se traduise par une croissance économique plus rapide et régulière ainsi qu'une meilleure qualité de vie pour les Ghanéens. Mais ce potentiel d'hydrocarbures ne produit pas de richesse en soi, c'est sa bonne gestion économique qui le fait. Le présent travail vise à examiner l'impact de l'or noir sur l'économie nationale du Ghana et, par extension, son effet sur sa vie sociale. Il s'efforce de déterminer dans quelle mesure la découverte du pétrole a répondu aux attentes du pays et si les administrations d'Atta Mills et, plus tard, de Mahama ont exploité cette nouvelle énergie d'une manière qui a profité à plus qu'une petite élite. Les résultats tendent à suggérer que la mauvaise gestion économique de l'industrie pétrolière, caractérisée principalement par un manque de transparence sur les revenus pétroliers, en plus d'un manque de discernement quant aux secteurs prioritaires, l'agriculture en particulier, pierre angulaire de l'économie nationale au Ghana, a conduit à une désillusion de la population.

MOTS-CLÉS : Croissance économique, Ghana, industrie pétrolière, bien-être social.

Introduction

Until the end of the first decade of 2000, Ghana was recorded as the second World producer of cocoa behind the Ivory Coast, with a production of 3000 tons a year. The country had exclusively relied on cocoa and gold exports for centuries (Aryeetey & Kanbur 2017) when in 2007 the discovery of oil by the American upstream oil company, Kosmos Energy, sparked a striking change in national economy. The new fortune was estimated at 700 million barrels of oil and 800 billion cubic feet of gas. It is however useful to underline that there existed small oil basins in Ghana on stream since the 1970's but production was insignificant as petroleum was not available in commercial quantities. The exploration of this lucrative raw material started 60 km offshore of the Western Region in the Jubilee oil field in the South Atlantic Ocean, with a water depth of 1100–1700m. It was the Irish Tullow Oil Public Limited Company, a multinational oil and gas exploration company that assumed the development of the new industry. Less than four years later, the field started production with the hope of promoting sustained socio-economic growth.

The discovery of oil sparked much excitement in Ghana, and ushered it into the community of the oil producing countries of the world in 2010 with an estimated production of 120,000 barrels of oil per day in addition

to the promise of 500 million barrels of proven reserves. With a potential for over 1 billion barrels, the Jubilee field was expected to reach a production that would pump more than \$400 million into the government's 2011 budget. In 2017, Ghana ranked ninth in a list of twenty in Africa in terms of oil production, a sector dominated by Nigeria, Angola and Algeria. Two years later, in 2012, oil became the country's second major export after gold with a total production of 110 000 barrels per day with a revenue of some 500 million dollars (Borowski 2013). The jubilation was great. Among Ghanaians grew the hope that the new revenues would generate economic growth and better living standards. But hopes were tinged with worries. Terry (2007) notes: "...countries dependent on oil as their major resource for development are characterized by exceptionally poor governance and high corruption, a culture of rent-seeking, often devastating economic, health and environmental consequences at the local level, and high incidences of conflict and war. In sum, countries that depend on oil for their livelihood eventually become among the most economically troubled, the most authoritarian, and the most conflict-ridden in the world". (p.02)

How prudent was Ghana so that this view does not apply to its case? How was oil to benefit Ghanaians? Were oil revenues really directed to national socio- economic growth? Did the Ghanaian government (the National Democratic Congress) bridge equity gaps in oil wealth distribution? These are the issues that the present article raises and will attempt to shed light on.

1. Oil Discovery: Back to a Dependence on the West?

Crude oil in Ghana is extracted from four petroleum basins: three offshore, the Western Basin, the Central Basin and the Eastern Basin, and one onshore, the Voltaian Basin in the north central part of the country. The new discovery was synonym of relief from a crucial problem: the electricity shortages Ghanaians suffered from. In fact, a considerable portion of foreign currency was directed to oil imports to generate electricity. The new discovery was likely to lighten this drain on the Ghanaian economy and revive its overall development.

The transformations engendered by the discovery of the black gold were remarkable and Ghana's economic policy had inevitably been affected by such a change. For a socialist country like Ghana, the smoother attitudes it

adopted towards oil private companies was by most standards a lean towards a capitalist pattern although the state was relatively present through the Ghana National Petroleum Corporation (GNPC). As a Jubilee partner, its stake percentage represented 13.75%, while the rest was shared among the British Tullow Oil plc (34.70%), the American Anadarko Petroleum Corp (23.49%), Kosmos Energy (23.49%), Sabre Oil and Gas (2.81%) and E.O. Group (1.75%). (Civil Society Platform on Oil and Gas-Ghana.2011).

The GNPC was entrusted with the task of discovering crude oil in Ghana, appraising the already existing petroleum discoveries, supplying petroleum products adequately where needed in economy, training Ghanaians in petroleum related activities, and licensing. In fact, Ghanaian legislation stipulates that petroleum in the country is its property with power of oversight vested in the person of the president. The Petroleum Exploration Law, passed in 2016 entitles the Minister of energy to negotiate any oil agreement that can be valid for up to 25 years. Foreign companies were bound to integrate a subsidiary company and merge into a Ghanaian company which would enjoy at least 5% equity participation. The need for incorporating foreign firms in Ghana's oil industry was in reality a prerequisite as the country had not the necessary experience in identifying, extracting and producing the raw material (upstream). It thus lacked the required human element, notably seismic and drilling contractors, geophysicists and service rig operators whose role is crucial for reserve estimations. Another step in the supply chain that put Ghana in a state of need for foreign companies was the transportation and storage services, namely the pipelines which ensure the flow line network for the movement of oil from the wells to the storage depot (midstream). Finally, the country also needed the firms in the last phase of the chain which consists of bringing the ready-to-use product to end users. These represent the refiners of petroleum that provide the consumers with final products like diesel, gasoline, heating oil, lubricants, pesticides and pharmaceuticals. Hence, in 2014, the number of these licensed firms totaled 132 oil-marketing companies and 29 import companies.

2. Early Challenges

Notwithstanding, the huge expansion experienced by the petroleum market was tinged with difficulties occasioned by one particular company, the

American Kosmos Energy. The latter's entrance into Ghana was subject to investigations on account of alleged corrupt practices. In fact, the company was backed up by two rich Ghanaians living in the United States who acted as intermediaries between the company's managers and the Ghanaian government of the time, the New Patriotic Party of John Kufour (NPP). With the elections of 2008 and the change in political leadership—now John Atta-Mills's National Democratic Congress (NDC)—, investigations were launched and the company convicted of misuse of political connections with the NPP officials, in addition to forging signatures and documents that allowed the company drilling in the Jubilee field. In return for the help secured, the company had granted the two Ghanaian intermediaries a 3.5 % stake in the field in question. The immediate measure taken by the new government of Ghana was to freeze all Kosmos Energy bank accounts. The company denied any wrongdoing, and as time moved on, the issue turned a real political hot potato for Ghana. Increasingly controversial, the question was nevertheless solved by the end of 2010 when the two sides of the conflict signed a truce agreement “granting Kosmos immunity from criminal or judicial actions for past events”. (Arnold & Wallis 2010). The decision of the Ghanaian government was reinforced by that of the American Department of Justice in Washington which declared that no evidence was found to condemn Kosmos for corruption.

Relationships with the neighbouring countries had also been greatly affected by the discovery of oil in the Ghanaian offshore territories. A maritime border dispute between Ghana and Côte d'Ivoire out broke in 2011 on account of the two countries' unclearly defined territorial waters. Ghana contended there was a long-standing, tacit agreement between the two countries as to the existence of a maritime boundary, which Côte d'Ivoire firmly denied and considered Ghanaian ongoing oil activities in the area as a transgression of its maritime territories. The two governments decided to set up a “Joint Ivorian-Ghanaian Commission on Maritime Border Demarcation” to start negotiations on maritime delimitation. However, these proved unfruitful as the two countries failed to find practical arrangements. Subsequently, Ghana decided to bring the issue before the International Tribunal of the Law of the Sea (ITLOS) in November 2014. On the opposite side, Côte d'Ivoire asserted that (Donnelly & Yiallourides 2017): “Ghanaian geophysical surveys were

infringing its exclusive, sovereign right to conduct marine scientific research... and its associated right to access, possess and control all confidential information relating to exploration of the continental shelf... (Moreover)... the oil activities impeded the implementation of Ivorian domestic energy policy ...constituting infringement of another sovereign right”.

Three years later, the ITLOS rendered its judgment in favour of Ghana, a long period during which oil industry was faced with a slow down as no new drilling in the disputed area could take place.

3. Economic Impact

Ghana's eagerness to develop and expand oil industry was not likely to be hampered by such hindrance. On the contrary, the country moved forward rapidly in quest of quick revenues and a successful outcome. Two principal funds were established by the government in 2010. A Stabilization Fund destined to effectively counteract price volatility as fluctuations do not depend on oil policy makers but on a variety of factors, namely world supply and demand, natural disasters, political upheavals and above all OPEC's decisions about output. The second fund, the Heritage Fund whose capital was estimated to reach 18 billion\$ by 2029, was assigned a longer-term duty: to secure income for future generations whether or not Ghana is still on the list of petroleum producers as oil resources are exhaustible. But government expenditure during the period under review shows that a considerable part of oil earnings was pumped into road-building projects in parts of Ghana where infrastructure was relatively well developed at a time when other parts of the country urgently needed such investment. The state of infrastructure suffered from deterioration. Roads throughout the country crucially required improvement, particularly ring-roads in the capital Accra and tertiary feeder roads across the hinterland. Similarly, the railway network was in a poor state of repair, notably the rail-links between Accra and Kumasi in the East. In addition, sewers, water pipes and a visibly deteriorating electricity grid imperatively demanded renovation.

In Ghana, the agricultural sector, where more than half of the labour is employed, is the backbone of national economy. It is diversified enough as it includes cocoa (mainly), food crops like green leafy vegetables, papaya, mango, sweet potatoes, plantains, mais, igname,

manioc...livestock, fisheries and forestry. It was therefore a sector to which overriding priority had to be given and was thereby in a crucial need to see oil receipts investment. More than half of the population depended on smallholder agriculture for subsistence and were likely to give up the sector should the government devote insufficient funds to its development. Insecticides and fertilizers for instance could be manufactured from oil by-products, a relief to a common problem farmers faced. Nevertheless, the sector did not seem to catch sufficient government attention and was clearly undermined: irrigation problems, poor infrastructure, high transport costs, a deteriorated state of roads leading to farms... A rural-urban migration movement in search of more elusive jobs in the oil industry expanded and an alarming shortage of labour force was recorded in the sector, especially the youth. In 2012, agriculture continued to lose ground and recorded a meager expansion of 2.8% which further collapsed to 0.04 % in 2015. The total contribution of the sector to GDP (gross domestic product) fell from 45% in 1992 to 22% in 2013. Production dropped drastically, compromising food security, increasing strikingly domestic food prices and pumping-up food import bills (Ackah 2016). A simultaneous look at international prices of crude oil in 2013 (\$97.98 per barrel) and 2016 (\$59 per barrel) on the one hand, and government allocated funds to the agricultural sector on the other, suggests a close link between the two. In 2013, the latter's share of the ABFA (Annual Budget Funding Amount) amounted to only 2.5% of total oil revenues, while it increased to 28% in 2016 (Ackah2016). Government policy seemed to resort to invest in agriculture only to mitigate the damage of oil price slumps, a short-term economic policy that did not promote long-run agricultural growth. Government policy significantly undermined the sector. The higher oil prices were the less agriculture received. As time moves along, this will end up seriously compromising not only the country's food security but it will also, paradoxically enough, reinforce poverty as everyone will be waiting for revenues culminating from, an exhaustible source of energy. Economic diversification is a more secure source should the government think of the mid-and long term future of Ghana. The latter had suffered in the past from an economy that relied almost exclusively on one source of export, cocoa. The 1965 cocoa crisis

and its catastrophic repercussions on the country are still seared in memories.

In cities, 90% of Ghanaians depended on the informal sector where basic human needs were not secured. This labour force faced a myriad of challenges such as low and insecure incomes, long working hours, and unsafe working environment. The jobs ranged from casual wage workers, home-based workers and street vendors to farmers, artisans, craft-workers, traders, food processors... Oil industry was thus expected to be job-generating to meet the rising needs of people and to solve the severe problems national economy was facing. However, the proceeds accrued from oil industry were abusively used to fund the presidential budget, paving the way for large-scale corruption and nepotism in the new field (Moss & Young 2009). At the time, John Atta Mills of the National Democratic Congress (NDC) won the 2008 presidential elections (in office from 7 Jan 2009 to July 2012 when he died). This was far away from the promises made at the time of the discovery of oil when commitment to accountability, transparency and oversight of oil revenues were the watchwords of government as to oil wealth management (Annan 2008). Nepotism was indeed widespread. Some selected Ghanaian companies saw their share in oil industry rising from the initial 5% stipulated by legislation to 60%, and even 90%. The criteria of selection were determined by one single person, the minister of oil. Personal ties and interests often decided which company could enter this lucrative race. In addition, the development of the petroleum industry was a key for many international companies to make solid profits in oil fields. In fact, the Ghanaian government decided to sell the right of exploration, development and production to international firms. The American Exxon Mobil and the Norwegian Aker Energy, to name but a few, could obtain as much as a 50% interest in the fields where they operated. Other foreign firms exploited the Ghanaian oil with different stake percentages: the Texan (US) Anadarko Petroleum Corporation (24.08%) and the South African PetroSA (2.73%). Some, like the American Kosmos Energy, underwent a series of troubling experiences in Ghana, and were even brought to justice as part of a corruption investigation as previously reported. In such a context, doubt was cast on the reliability of these companies not only as to the development of oil industry but also to the amount of profits they derived from it. Doubt was also cast on the transparency of the government

to ensure oil incomes go to national economic growth. Hence, it is quite challenging to determine how much Ghanaians could enjoy the revenues of the black gold. Many of them had in fact jubilated at the time of the discovery of oil and expected better living standards, mainly through the creation of new jobs. In fact, demand for labour was constantly falling away and unemployment in Ghana had reached 10.36 % in 2000.

4. Impact on the Welfare of Ghanaians

Oil generated additional revenue for the government which was essentially meant to provide basic popular needs: water, food, housing, jobs, hospitals etc... in addition to other development projects. These were hoped to accelerate economic growth and, by extension, social development through job creation and poverty alleviation (28.5% in 2005/6, more accentuated in the north). However, these effective services remained out of reach for many people and benefits were barely noticeable. Moreover, the establishment of floating production storage and offloading vessels kept the fishermen (constituting with labour in agriculture and forestry the vast majority of the active population) away from fishing areas, which culminated in a poor catch at the end of the day engendering a noticeable decrease in gains and living standards. The presence of sea weeds and the death of marine mammals compounded the hardships for sea-side areas. The advent of the oil age was hoped to transform the country and uplift the quality of life, characterized by general unrest, but to what extent the population benefited from oil proceeds remains highly questionable. As paradoxical as this might seem, higher earnings generated higher living costs, vehicular congestion where the difficulty was compounded by the aforementioned deteriorated state of narrow roads, in addition to enhancing already existing social inequalities. A large-scale movement of people towards the offshore regions accompanied oil find in the country. This inevitably crowded out other sectors of the economy notably agriculture and manufacturing which many gave up in quest for better-paid jobs in oil-producing areas, particularly in engineering, management, security and safety departments.

Other employment opportunities were generated by the oil find by extension. Restaurants opened to provide food for the oil exploration and production companies, and thereby hired unemployment citizens. Similarly, the emergence of hotels, banks and insurance companies created

jobs in the area and responded to the demands of constantly increasing numbers of people moving in the region from inside and outside Ghana. In many cases, people lost their old houses to allow for the construction of these financial institutions and other offices. These clearly benefited oil companies and a limited section of the local community. The accelerated trading activities led, by extension, to a sharp rise of the price of commodities and basic items like food and even rent charges for houses, stores and offices. The social costs were clearly far exceeding the benefits. Some would argue that those employed in the oil and gas sectors saw their living standards improving remarkably because of higher salaries, allowances and incentives, but this hid significant social and regional disparities. In a parallel direction, the move of different people into the oil regions resulted in the spread of social vices that threatened the security of the community like fraud and armed robbery attacks. Social inequalities in the new Ghanaian society were striking.

Among the other dramatic social transformations related to this wave of migrants in their rush towards oil industry was the pressure exercised on the social amenities and public services. It was already quite challenging for health centres and hospitals to take in charge the local residents. The steady flux of expatriates attracted by the oil industry engendered an increase in the rate of waste generation, a serious threat to health, which compounded the difficulties for this critical sector. The latter had not received appreciable attention on behalf of health policy makers in Ghana since oil find. The costs outweighed the benefits which were moving at a much slower pace. The health sector continued to suffer from several malfunctions. In a country where half of the population (24.6 million in 2010 census) is deprived of safe water and improved sanitation, resulting in the spread of different contagious diseases (namely malaria, AIDS and tuberculosis) partly on account of the spread of traditional medicine and self-medication, the government's commitment to define a sustainable investment path in order to create a healthier population was expected to be strong and long-term, nevertheless; doubts frequently hung over state expenditure.

Conclusion

By way of conclusion, it could easily be asserted that oil discovery in Ghana marked a turning point in its economic history. The country joined the oil producing community with all the hopes this implied, plunging Ghanaians and their government into a deep jubilation. But the expectations from such a complex industry as petroleum have never been fully met. The gains are regarded with skepticism and do not allow for the appreciation of a significant long-run socio-economic growth. Not learning from lessons in other oil producing countries in Africa, Ghana relied heavily on the revenues of the new find, used as a substitute rather than a complement to agriculture, the cornerstone of national economy. The danger lies in that oil prices are subject to world demand, and by extension, to volatility, in addition to the exhaustibility of this source of energy. The Ghanaian government lacked not only transparency and equity in oil revenue distribution but also a long-term clairvoyance of the impact of the discovery on its economy as a whole. Both deficiencies greatly disillusioned Ghanaians.

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