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“HARNESSING GHANA'S OIL AND GAS REVENUES FOR SUSTAINABLE DEVELOPMENT: KEY PROPOSALS FOR CONSIDERATION”

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Ghana's discovery of oil in commercial quantities, off its western coast, has been received with great joy and expectation by the Government and people of Ghana. Conservative estimates put production levels at some 120,000 barrels a day, capable of generating a revenue stream of about US\$1.3 billion per annum by the end of 2013. This revenue stream has the potential to accelerate our socio-economic development through the provision of massive infrastructure and employment opportunities. Optimism for economic growth and development, and higher standards of living, is well founded given how oil wealth has transformed the economies of countries such as Norway,

Saudi Arabia and Qatar, among many others.

There is therefore no doubt that the discovery of oil and gas resources presents to Ghana a unique opportunity to accelerate the pace of her development. It is important to note, however, that the oil find also presents numerous practical challenges to policymakers on how to manage the revenues accruing from the sale of oil to the benefit of Ghanaians, both current and future generations. The classical examples of Nigeria and Angola should remind Government and Ghanaians of the task ahead if we are to escape the “resource curse”. It should also

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be noted that if the revenues are not managed properly, Ghana could be susceptible to the “Dutch Disease” syndrome (i.e. *the tendency for the local currency to overly appreciate in value due to large foreign capital inflows, as a result of the discovery of a natural resource, thereby displacing tradable sectors such as manufacturing and agriculture*).

It is against this backdrop that the IEA proposes the following key recommendations to create a framework for the effective management of oil and gas revenues in Ghana:

- Government should pursue a sustainable income strategy in which 70-80% of the revenues would be used annually to address physical and social infrastructure needs; 10-15% would be put in a savings fund for future generations, and 5-20% in a stabilization fund.
- The bulk of funds to be saved should be saved abroad to insulate the domestic economy from the adverse macroeconomic effects of the “Dutch Disease”.
- The oil and gas revenues must be captured by the

central government budget and ring-fenced for specific projects that have been nationally debated, agreed upon and backed by legislation.

- There should be an independent regulator with security of tenure and independently funded, reporting to Parliament, while Civil society is encouraged to play a watch dog and whistleblower role.
- To enhance transparency and accountability, the Freedom of Information (FOI) Bill, the Petroleum Revenue Management Bill, and the Ghana Petroleum Regulatory Authority Bill must be passed. The media and civil society must play a role in holding Government accountable for the management of oil and gas revenues.
- We also recommend that oversight institutions such as Parliament, SFO, the Police and the Armed Forces, must be strengthened and

empowered to assist them achieve their mandates.

- To avoid the “resource curse” and to minimize the “Dutch Disease” effects, the Government must vigorously and strategically diversify the economy by investing in agriculture, agro-processing and manufacturing.
- The Oil for Development Model to be adopted by the Government must be subjected to public debate and input.

In addition to the above, we also make the following equally important recommendations for Government's consideration:

- The Government must quickly establish an inclusive process to manage conflicting uses of the sea.
- The concerns of communities living in oil producing areas, as well as other natural resource producing areas, must be addressed. The needs of the vulnerable in society must

be addressed through targeted social programmes.

- There should be a freeze on the issuance of new oil licenses to prospective oil companies until an appropriate regulatory framework has been determined.
- Environmental and Social Impact Assessments (ESIAs) should be completed before commercial development of fields begin; all ESIAs should be made public and a strategic ESIA developed for Ghana's offshore oil acreage; protection of critical environmental areas by establishing zones that are off limits to oil and gas development should also be ensured.
- The Government should continue to rely on tax revenue for development financing in order to maintain the social contract that exists between the state and its citizens. In this respect, the capacity of the tax revenue agents needs to

be strengthened.

In conclusion, it is reiterated that Government, and indeed all Ghanaians, have a role to play in ensuring Ghana does not suffer the same fate as other oil producing countries in Africa as oil production commences in the last quarter of 2010. It is recommended that a spending strategy that guarantees sustainable government consumption and gives pivotal consideration to inter-generational, equity while guaranteeing a predictable stream of oil revenues to meet pressing developmental needs should be policymakers' priority. Government must also devise long-term development and

expenditure plans and address issues of governance to successfully manage the oil receipts. Finally, Government should continue to rely on tax revenue and broaden the tax net, despite the oil and gas find, for development financing in order to maintain the social contract that exists between the state and its citizens. In this regard, the capacity of tax revenue agencies must be strengthened. These recommendations, if carefully considered and factored into the regulatory framework for the management of Ghana's oil and gas resources, will ensure the efficient, effective and transparent use of our new found blessing.

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- ¹ These recommendations were made at a workshop organized by the IEA for Members of Parliament and leaders of the political parties at Dodowa, Accra from 11th -13th December, 2010. The communiqué, issued at the end of the programme, was signed by: Hon. Ernest Yankah - Parliamentary Select Committee on Mines and Energy; Mr. S. P. Adamu - National Democratic Congress; Hon. O. B. Amoah - New Patriotic Party; Alhaji Ahmed Ramadan - People's National Convention; Mr. Ladi Nylander - Convention People's Party; and Prof. John Asafu-Adjaye - The Institute of Economic Affairs.

*Note: Nothing written herein is to be constructed as necessarily reflecting the views of
The Institute of Economic Affairs*
