

Ghana's Oil Discovery

(*Citation* – Agupusi, Patricia “Ghana” in The SAGE Encyclopedia of World Poverty edited by Mehmet Odekon (2015) Sage Publication)

Ghana¹, a country of over 23 million populations is situated in the coastal southern region of West Africa bordering Cote d'Ivoire and Togo on the East and Bukani Faso on north. Ghana gained its independence from the British in 1957 and was seen as the light bearer. Even though it started off well, by the end of the first decade of independence in late 1960s, Ghana went into political and economic turmoil leading the country into deep socio-economic decline that lasted for more than two decades. During this time, Ghana's social and public services availability and access declined, setting off the onset of persistent high poverty. According to the Ghana Living Standards Survey of 1991/92 poverty rate was 31² per cent. However, since 1992, Ghana has had a stable democracy. This has given hope for positive change in the socioeconomic environment of the country.

The economy relatively stabilized and consistently grew since late the 1990s. According to the 2007 Ghana Statistical Service Report, the Gross Domestic Product (GDP) from 1991 to 1999 period is estimated at 4.65 per cent per annum and 4.98 per cent from 1999 to 2006, with an average per capita growth of 2.2 percent (GSS Report, 2007:1). In recent time, Ghana's growth has accelerated. With the discovery of oil in commercial quantity and relative stable environment, Ghana's economy in the past six years has grown at the average of 6 per cent. Despite the positive growth outlook bolstered by oil and gas production, Ghana's economy has been driven by commodity and service with little integration to the global economy especially in terms of manufacturing.

With the discovery of oil and gas reserve, Ghana attracted attention of scholars and development agents. This is not surprising given the problem of oil course and the Dutch disease which shows the negative side of effects of oil windfall (Corden and Neary, 1982; Collier and Gunning 1999). If however, oil wealth is channeled properly through public spending, infrastructural improvement and social services such as health, education, clean water and sanitation, there is great likelihood that Ghana might reduce poverty and escape the so-called natural resources course. Ghana began oil production in 2010 contributing about 13 per cent of the GDP. It has been predicted that it will peak in 2016 before it starts a steady decline (Dagher, 2010). The discovery has increased hope that living standard would improve but also fear and cautious effort not to fall into the natural resources curse that has plagued most of Africa. I will try to find out how the trend of poverty in Ghana has changed since 2010 when commercial production of oil and gas began. To what extent are Ghanaian households and communities benefiting from the new found wealth? Have the lives of poor Ghanaians improved as a result and which group or region has benefited most?

In an attempt to avoid natural resources course as seen in various countries such as Nigeria, Angola and Congo, the Ghana's Petroleum Revenue Management Act, 2011 (Act 815) was introduced to create Ghana Petroleum Funds (GPF). According to the Act, pending the long term development plan approval by the parliament, the petroleum revenue within the budget should be focused on public services such as education, agriculture, access to portable water, health and housing delivery. It is expected that social development should not be suspended due

¹ The word Ghana means "Warrior King" and it derives from the ancient Ghana Empire

² C/F World Bank 1995

to political gridlock. This would be beneficial to the most vulnerable and help in reducing poverty. The Revenue Watch Institute commended Ghana in meeting 13 of the 16 good governance criteria but it also suggests that some key government agencies failed to implement the Act and policies of the petroleum funds. Obviously Ghana through broad consultation approach was able to draft a means of managing oil wealth but the challenges lies in the implementation, which would determine whether discovering oil in the country can mitigate poverty. From 2011 to 2013 the Petroleum Fund went mainly to investment in infrastructure, agriculture sector through fertilizer subsidy and capacity building in the oil sector. In 2013, bulk of the fund disbursement went to infrastructure and petroleum sector, while Agriculture received only 1.5 per cent³. Even though the poor will benefit indirectly from infrastructure, most of the poor are located in the rural area and are in the agricultural sector.

Using three dimensions of poverty – Consumption, access to services and human development from the Ghana Living Standards Survey (GLSS) to decompose and estimate the trend of poverty in Ghana showed a reduction in poverty. Overall poverty rate was brought down from 52 per cent in 1992 to 28.6 per cent in 2006 but the poorest regions such as Savana area did not benefit from over a decade of consistent growth and rise in per capita as the poverty level in the northern regions have marginally declined. Poverty in Ghana has always had rural/urban as well as north/south dichotomy. Various governments have pledged to reduce poverty in the north which is also most rural especially, with exploration of oil in 2010. There is not yet available systematic data on poverty in Ghana since 2006. Using deprivation indices of non-monetary analysis (education, health, mortality rate and standard of living, housing, sanitation and access to clean water); the three northern regions are found to be disproportionately lagging behind. Access to social services is also skewed to the urban area. For example, 73 percent of electricity access is in the urban area with only 27 in the rural areas (GSS, 2013). Using the Multidimensional Poverty Index (MPI), some of the poor region experienced deprivation in the three key areas of education, health and standard of living, therefore, making poverty in these regions more extreme than the rest. ‘The three regions of northern Ghana have the highest MPI poverty incidence: Northern Region (80.9%), Upper East Region (80.8%) and Upper West Region (77.6%)’ (ibid.48). General poverty rate in Ghana remains at 28 per cent despite increase revenue from oil wealth and consistent high growth rate⁴. This should be taken with a grain of salt as no systematic data on poverty in Ghana is available.

Ghana once more is seen as the rising star in Africa, with one of the most stable democracy and consistent high growth rate. The new found wealth has also elevated the development prospect of the country. Despite some modest progress in reducing poverty the trend of poverty that is skewed by region and urban is yet to improve. There is still expectation that with efficient management of oil wealth, Ghana will improve its poverty rate but, there is no evidence yet to show that the Petroleum Fund is targeting poverty.

³ 2013 Annual Report on the Petroleum Fund

⁴ This is according to Ghana Aid Effectiveness Forum

Reference

- Ayensu, F. (2013) 'Managing Ghana's Oil Revenue: Ghana Petroleum Fund (GPFS)' *Asian Journal of Humanities and Social Sciences (AJHSS) Volume 1—Issue 2, August 2013*
- Collier, P., & Gunning, J. W. (1999). Why has Africa grown slowly?. *The Journal of Economic Perspectives*, 3-22.
- Corden, W. M., & Neary, J. P. (1982). Booming sector and de-industrialisation in a small open economy. *The economic journal*, 825-848.
- Ghana Statistical Services (2013) Non-Monetary Poverty in Ghana
- Dagher, J., Gottschalk, J., & Portillo, R. (2010). Oil windfalls in Ghana: A dsge approach. *International Monetary Fund*.
- World Bank (1995) Ghana Poverty Past, Present and Future; *Population and Resources Division West Central Africa Department Report No. 14504-GH*