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Party politics and the political economy of Ghana's oil

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Abstract: Ghana's status as a new oil producer raises questions about the developmental effects of resources, and the role of political institutions in these processes. The conundrum this paper addresses is the rather limited impact of oil exploitation in Ghana despite the country's strong democratic record and internationally acclaimed oil governance legislation. The reasons for this lie in the nature of elite-based political coalitions and we root our analysis of Ghana's hydrocarbons in the political settlements literature, which moves us beyond the 'good governance' approaches so often linked to 'resource curse' thinking. We also move beyond the instrumentalism of political settlements theory to examine the role political ideas play in shaping resource governance. We argue that inter-coalitional rivalry has generally undermined the benefits of Ghana's oil but that a crude interests-based interpretation is insufficient to explain differences between these coalitions.

1. Beyond the resource curse in Ghana

Ghana's discovery of oil in commercial quantities in 2007 and its subsequent production by mainly foreign-owned firms have revived questions about whether and how natural resources can promote national development. The discovery of oil was greeted with much optimism across the political spectrum, and the hope was for oil to contribute up to 6% of GDP and kick start a wider industrialization that would, in the words of the then President, enable Ghana 'to fly' and become an 'African tiger' economically (BBC 2007). Shortly after oil began to flow there was a raft of studies about how Ghana needed to avoid the resource curse (e.g. Arthur 2012; Ayelazuno 2014; van Gyampo 2011). Given that these studies were speculative and normative in urging the Ghanaian state to manage oil revenues well, they could not address how the country's political economy is actually shaping the nature of the oil complex and reciprocally how the exploitation of oil modifies the political system.

While this paper is not framed by the resource curse thesis, for reasons we explain, resource curse approaches are useful for seeing the curse as primarily political (Karl 1997; Roll 2011). Policy emanating from resource curse thinking is necessarily normative and is rooted in liberal institutionalism (Auty 1993). Broadly speaking, policy is about moving poorly governed regimes towards a good governance agenda that emphasizes the adoption of 'best-practice' institutions that are seen to have worked well in more democratic countries (Humphreys *et al.* 2007; NRG1 2014). Logically, then, countries that are better governed *in general* should have better resource governance regimes and so benefit developmentally from resource exploitation. Observers expected Ghana's relatively vibrant parliament and civil society to enable her to translate oil wealth into national development, given the capacity of these 'watchdog' actors to engage in debates around the utilization

and direction of revenues towards long-term development goals. For example, Kopinski *et al* (2013: 583) projected that Ghana possesses ‘a structural immunity against the natural resource curse’, while Gyimah-Boadi and Prempeh (2012: 96) noted that ‘the presence in Parliament of a strong opposition party in Ghana will help ensure that government actions in the management of the oil sector did not escape scrutiny’. For these observers, the very existence of the ‘right’ institutions is seen as sufficient to stave off the resource curse in Ghana. The scrutiny of ‘government actions’ captures the tension which we explore in this paper between long-term, national development visions and short-term interests relating to both the personal gain of strategically placed individuals and the pressures to maintain office in a highly competitive electoral system.

Despite this optimism, a few years after the commencement of commercial oil production in 2010, the impacts of oil exploitation had largely failed to be translated into developmental gains. For example, spending patterns from the government’s oil fund, which is ring-fenced for longer-term development programmes in strategic areas, such as agriculture, reveals the ways in which oil revenue can be diverted for shorter-term political goals. Analysis of spending from the fund showed that in 2011 ‘capacity building’ of the President’s Office accounted for well under 1% of spending from the oil fund, but in 2012, a crucial election year, it rocketed to 22%, or \$111 million in real terms (Essel 2013). Further analysis (ACEP 2013b) showed that allocations for infrastructure from the oil fund had been thinly spread across a number of road projects whereby the regions with the lowest allocation were the most under privileged, which undermined the rationale that the fund was to support long-term, equitable development. More likely such spending patterns reflect political considerations whereby contracts were used for bolstering patronage relations. More recently Ghana faced a major macroeconomic crisis with growing debt and

a budget deficit that necessitated an IMF bail-out. The bail-out's stringent macroeconomic measures combined with a series of problems in the oil and gas sector resulted in GDP growth falling to 3.3% in 2016 (Dzawu 2016) which is the lowest since 1990 and well below its peak of 14% the year after oil production started. The question this paper addresses is: why has impact of oil exploitation in Ghana remained limited despite the country's strong democratic record and internationally acclaimed oil governance legislation?

The answer to this question, we argue, lies in the nature of elite-based political coalitions. As Poteete (2009) has argued, the nature of the ruling coalition at the moment when natural resources are discovered has important implications for how and in whose interests those resources are governed. In analysing the role of elite coalitions in the political economy of Ghana's oil, we root our work in the concept of political settlements (Khan 2010; Menocal 2015), but also extend this concept. For Khan (2010: 1), a "political settlement emerges when the distribution of benefits supported by its institutions is consistent with the distribution of power in society". By focusing on the underlying power arrangements that underpin the emergence, stability and performance of institutions, political settlement theory pushes development thinking beyond the normative institutionalist diagnoses of the resource curse phenomenon to examine coalitional politics at the heart of the state. We expand on our understanding of this body of theory in the next section.

In Ghana's context, Odoom (2015), Hardus (2014), and Phillips *et al.* (2016) have focused on the engagement of transnational capital in the oil sector. Odoom (2015) examined Chinese engagement in Ghana's energy infrastructure and concluded that the deals favoured by the Chinese are appealing to both the Chinese and their African counterparts.

Like Odoom, Hardus (2014) addressed China's role but importantly unpacked the nature of Chinese state-owned oil companies and the role of Ghanaian political institutions in shaping the terms of China's engagement. Like Hardus, Philips *et al* (2016) focus on political elites' role in brokering the entry of foreign investment in Ghana's oil sector, and argue that while the enactment of Ghanaian sovereignty influences the nature of these deals sovereignty is severely constrained. These studies tend to treat the Ghanaian state as homogenous or focus on individual elites relatively disembodied from more meso-level political processes that a political settlements approach helps us address. As we discuss presently, Ghana's political settlement is characterized by a 'winner takes all' electoral system in which two leading parties compete in pursuit of short-term interests of power retention. It is these competitive democratic interests that, contrary to the expectation of resource curse thinking, largely explain the disappointing performance of Ghana's oil economy and why political settlement theory is a more useful analytical tool. However, although helpful for understanding how the interplay of power and institutions is shaping the performance of Ghana's oil industry, political settlements thinking is overly rationalistic in its interpretation of political actors' motives. Crudely speaking, political actors' behavior is seen to merely reflect their underlying material interests of retaining power. This interest-based account tends to flatten out a range of political differences within and between elite coalitions. Such flattening of political differences can lead to a path dependency logic, because analysts simply focus on the recurring cut-and-thrust of short-term elite interests and ignore the underlying power structures which generate the institutions in the first place. As we outline below, the ideas that actors have about development and politics more broadly is one way in which institutional directions can change and we see important differences between Ghana's leading parties in how they have sought to govern oil. Hence, where we augment political settlements thinking is taking ideas and ideology more

seriously wherein ideas and interests are mutually constituted (Beland and Cox 2010), bringing with it a more dynamic political trajectory.

We begin with a conceptual discussion in Section 2 of how the political settlements thesis can be augmented using new institutionalist theory around the co-construction of interests and ideas. As we do this we introduce relevant aspects of Ghana's political system. A brief Section setting out the basics of Ghana's oil discovery follows. Section 4 addresses how the discovery of oil plays into Ghana's political settlement and how inter-coalitional rivalry, interests, and ideas play out in particular moments along the oil value chain. These moments focus on the terms on which foreign investment was attracted, the politicisation of oil governance institutions, and the collateralization of oil to bring in Chinese investment in the gas sector.

2. Political settlements, ideas and state performance

Here we set out the main tenets of a political settlements approach before discussing the role of ideas in shaping and shifting political institutions. In doing so we discuss briefly how Ghana's political settlement in general, and around natural resources in particular, has evolved up to the point where oil was discovered. This sets the scene for discussion of our Ghanaian field data in Sections 3 and 4. Political settlements theory focuses on how the balance of power in a polity between different coalitions shapes the types of institutions that emerge and how such institutions function in practice. An important contribution of this concept is the primacy it accords informal institutions for understanding governance and development outcomes in developing countries like Ghana, where the clientelistic nature of politics is widely acknowledged. Khan (2010) sees clientelism as the most pervasive form of politics in developing countries because the productive economy is not

developed enough to allow allocation of resources through more formal mechanisms. In turn, tax revenues are insufficient for redistribution according to socially accepted rules to fund social sectors and other support for the economy that would build the state's legitimacy and secure the social contract. Instead coalitions rely on informal political mechanisms regarding their relations with actors lower down the political hierarchy or with capitalists outside the state in order to survive. In this sense, clientelism is not a vestige of 'pre-modern' forms of politics, but rather a rational mode of politics, given the need to ensure the stability and viability of the ruling coalition.

Khan argues that the differing levels of capacity and commitment of ruling elites to delivering development are explained largely by the strength of excluded elite groups and of lower level factions within ruling coalitions. In clientelist states "significant holding power is based on sources *outside* the incomes generated by formal institutions" (Khan 2010: 53 original emphasis). For Khan 'holding power' refers to the capacity of individuals or groups to inflict costs on others and, reciprocally, to absorb costs imposed on them in repeated rounds of conflict. Holding power is not simply derived from wealth but also from groups' organizational capacities. Where factions with significant holding power are excluded from the ruling coalition, then those in power are vulnerable to threats to their rule, which reduces the likelihood that they will undertake institutional reforms and distribute resources in the national interest. In contrast, where excluded elite coalitions are weak, the ruling coalition will consider itself secure enough to develop and, crucially, seek to implement a longer-term vision for the nation. In such circumstances the need to fire-fight multiple threats to the ruling coalition is reduced and so the ability to pursue longer-term visions is enhanced. Khan (2010) sees these vertical and horizontal distributions of power as productive of a range of types of political settlement as shown in Figure 1.

Figure 1: Khan's classification of Political Settlements (Source: Khan 2010: 65)

INSERT FIGURE 1 HERE

Ghana's political settlement, particularly since the return to multiparty democracy in 1992, has been characterized by 'competitive clientelism' (Whitfield *et al.* 2015; Abdulai and Hickey 2016). Competitive clientelism occurs "where there is a substantial level of fragmentation in the distribution of power across political organizations and within the ruling coalition such that higher levels have more limited powers over lower levels" (Khan 2011: 48). In such contexts, ruling elites are vulnerable due to the strength of excluded elite factions as well as of lower level factions within the ruling coalition. In addition to the distribution of power and the coalitions' organizational capabilities are the relations the coalitions have with domestic capitalists. Whitfield and Therkildsen (2011) argue that the relationship between ruling elites and domestic capitalists is shaped by the sources of financing the elites rely on. If ruling elites rely on inward FDI to generate state revenue through taxation or to earn foreign exchange, then firms in these sectors will receive the most attention. This is a fine balancing act since political coalitions need relatively strong capitalists to supply such support, but do not want them to be too powerful so as to challenge the dominance of the ruling coalition. The political influence of domestic firms comes largely from their wealth since it can provide resources for buying access to decision making processes (Hirvi and Whitfield 2015).

Prior to the discovery of oil, Ghana's competitive clientelist political settlement was characterised by intense electoral competition between two dominant parties, intra-elite

competition, and strained relations between party elites and lower ranks (Oduro *et al.* 2014). The current political settlement has its roots in the decolonization processes when inter-elite competition over state power coalesced around two political traditions - Nkrumahists and Busiasts – named after the founders of these coalitions. Over time, this has led to a *de facto* two-party system mobilised around the Nkrumahist National Democratic Congress (NDC)¹ and Busiast New Patriotic Party (NPP) that have controlled politics in Ghana since the return to multiparty rule in 1992. In ideological terms, although both parties have largely pursued free market policies, the NDC professes to be a social democratic and statist party (NDC 2004: 12) whereas the NPP regards itself as pro-market party and touts the private sector as the engine of growth (NPP 2012).

Within Ghana's clientelist setting state capture, particularly the Presidency, remains the ultimate prize under a 'winner takes all' system (Oduro *et al.* 2014), which has rendered successive ruling coalitions vulnerable. To secure the prize of office, political elites have to build and maintain coalitions capable of competing in elections and winning power. The factions that form these coalitions are motivated and rewarded via an extensive patron-client network, since the benefits from formal institutions are not adequate to satisfy all those who are critical for winning elections. This also explains the anti-developmental relations between the state and business, based largely on short- to medium-term goals of primitive accumulation and party financing. The Ghanaian state has secured revenue from international aid and rents from a small number of primary commodities such as gold and cocoa, which coalitions could use as part of their holding power. Reciprocally this meant these coalitions did not rely on domestic capitalists and so did not nurture them as a source of revenue. However, at times (notably under the Rawlings Government in the 1980s)

¹ The NDC does not strictly have its roots in Nkrumah's Convention People's Party (CPP), but has succeeded in usurping the Nkrumahist parties due to the closeness of its ideologies to that of Nkrumah's CPP.

domestic capitalists were seen to pose a threat to the ruling coalition by potentially establishing new power bases outside of the dominant coalition. As Whitfield *et al* (2015) argue it is this political need to selectively include and exclude domestic capitalists that explains why successive Ghanaian governments have failed to develop a long-term industrial strategy. From 1993, the NDC continued the practice of the previous regime, the unelected Rawlings' government, of building up domestic capitalists who were loyal to the party as a resource base for party financing and to compete against existing capitalists aligned with the opposition. This continued in the NPP era, so that both domestic capitalists and the NPP ruling coalition were directed towards short-term extractive goals because of the vulnerability of the coalition.

That said, one limitation of political settlements theory is its rational actor interpretation of elite behavior, where the behavior of powerful elites 'is driven primarily by pursuit of an inter-related set of economic and power interests' (Parks and Cole 2010: 8). While Khan notes that holding power can include the ability of actors to 'mobilise prevalent ideologies and symbols of legitimacy' (2010: 20), he sees ideas as only instrumental, consistent with a rational actor approach. Rather, we argue that ideological positions can constrain or modify the short-term material orientations of ruling coalitions. The rational actor perspective of political settlements theory tends to treat ideas merely as epiphenomena of interests. Yet a diverse body of theory examines the mutual construction of ideas and interests (Beland and Cox 2010; Hall 2010; Hudson and Leftwich 2014) such that 'the ideas that actors hold affect how they define their interests' (Campbell 2002: 22). From the perspective of our discussion of Ghana's competitive clientelism in the management of oil we focus on the actual responses of elite actors to material reality, which is what Hay (2010: 68) refers to as 'rendering actionable' actors' concepts. As we discuss presently this relates to what laws

were enacted to govern oil revenue and provide checks on excessive state power, how Ghana's political parties sought to use oil contracting for different economic and political ends, and how revenue expenditure was tied to contested visions of development. Ideas are also 'embedded in the design of institutions' (Beland and Cox 2010: 8) such that the co-construction of institutions and ideas brings the stability inherent in institutions, yet this does not mean that ideas are always coherent or that institutions are incapable of being changed. Bebbington (2015) argues that while institutions are difficult to shift it is possible through coordinated efforts to change the rules of the game.

The ideological differences between Ghana's two dominant parties have shaped their varied approaches to the governance of oil. Ideologically speaking the National Democratic Congress has pushed a more resource nationalist agenda compared to the pro-market New Patriotic Party that has led to differences in the ways oil and gas are being governed for development. While these important differences exist between the leading coalitions there has been an enduring set of ideas about the role of the Ghanaian state in resource exploitation and governance that transcends the NDC-NPP divide. Throughout the post-independence period both political coalitions have articulated the notion of Ghana as a unitary state (Boone 2003). In terms of resources this belief sees the state as best placed to pool and share the benefits of resource extraction fairly between citizens and regions, and was enshrined in the Republican constitutions of 1969, 1981 and 1992. Any disproportionate distribution to regions of extraction or particular interest groups is seen as having the potential to generate political instability. In practice this means that the state is the gatekeeper to international capital seeking rights to explore for and extract sub-surface resources, and forces politicians and civil servants into bargains with multinational corporations and financiers, which is largely what Phillips *et al* (2016) studied. This role of

the state in resource extraction means that rents are centralized which coalitions of whatever ideological persuasion use as holding power to fight short-term political battles. As we will see this need to control rents affected the speed with which the NDC sought to bring the Jubilee Field into production and the terms on which early oil contracts were offered. However, overlying such materialist accounts the NPP claimed that liberal market approaches secured inward investment into Ghana's oil sector whereas the more social-democratic NDC favoured the state-owned oil company – Ghana National Petroleum Corporation (GNPC) – as the vehicle through which to develop the oil sector in Ghana's interest.

Our approach then is one that accepts that in Ghana's highly competitive environment elite coalitions have to make deals to stay in power. Yet, differences within and between coalitions in terms of their ideologies of development and how they view oil in these processes complicates a straightforward interests-based interpretation. Ontologically and methodologically it is difficult and not useful to split phenomenon into ideas or interests because they are co-constituted. This blurring of ideas/interests means that discerning intentionality and revealing causality are hard (Beland and Cox 2010: 15-16), because it is difficult to know from outcomes whether it was interests that were prevailing, ideas, or some combination. While actors' interests are constructed through ideas we cannot simply accept one actor's version of events as fact. So we approach the same moments in Ghana's oil governance from different entry points based around individuals, coalitional groups, and institutions. The method we use is process tracing (George and Bennett 2005) where the focus is on a particular policy arena and through thick description we identify key outcomes and then track back to see whether they were linked through specific causal mechanisms to the nature of the political settlement and how ideas around particular interests shaped this.

The arena we focus on is the ‘oil complex’ Watts (2004), which involves institutions, actors, and discourses that structure the extraction and governance of oil. For a resource like oil this is necessarily transnational and forms an ‘Extractive Industries Value Chain’ (Alba 2009) involving contracting, regulations and the monitoring of operations, revenue collection and allocation, and investment in development projects. We structure our analysis around this value chain with the findings based on fieldwork conducted in 2013-15. In addition to analysis of publicly available laws, Parliamentary Hansards, contracts and grey literature we undertook over 30 key informant interviews with leading Ghanaian oil specialists in academia, the media and civil society. We also undertook interviews with Ghanaian bureaucrats in the Ministry of Energy, the Petroleum Commission and GNPC, as well as oversight bodies such as members of the Civil Society Platform on Oil and Gas and the Public Interest and Accountability Committee (PIAC).

3. Ghana’s oil sector: the basics

While the Nkrumah-Busia divide in Ghanaian politics was founded largely on ideological differences, the idea of the unitary state controlling access to resources is common to both the NDC and NPP. This belief in the role of the state meant that GNPC was central to both parties’ strategies, but their differing approaches to attracting foreign investment shaped how GNPC was structured and used. During the early period of the PNDC (which subsequently metamorphosed into the NDC) when socialist ideas were prevalent (Nugent 1995), GNPC was established under the leadership of Tsatsu Tsikata in 1983. Tsikata, a well-known academic activist with socialist leanings, used his close relationship with President Rawlings, the PNDC leader, to gain autonomy for GNPC. Two linked processes occurred during this period. First, Tsikata saw oil’s potential as consistent with ideas of the regime around economic self-determination and so established stringent fiscal terms for

foreign investors. Under this fiscal regime, Government sought to obtain a share of net-oil of between 65% and 55% (Interview, former Energy Minister, April 2014). However, such tax rates made it difficult to attract foreign capital into the oil sector, which undermined the ability to discover oil in commercial quantities. Indeed, for one GNPC official, the Corporation had the expertise, but ‘what was lacking was the capital’ (Interview, GNPC official, August 2014). Instead of relaxing the fiscal regime Tsikata chose to diversify GNPC’s activities into cocoa farming, soap making, and gold mining as a way of supporting its oil exploration activities. Second, investment in GNPC and its staff secured it as a relatively high-capacity institution. The PNDC’s decision to concentrate power in its national oil company consciously mirrored Brazil’s Petrobras and at its inception GNPC sought to build up the company’s competence. Referring to the Rawlings-led military regime, one official noted that ‘GNPC had a strong calibre of workforce’ (Interview, Energy Ministry, August 2014) and had ‘developed capacity in all areas’ (Interview, GNPC official, August 2014). In the offshore oil industry, technical competence is commercially important so while the 2011 legislation establishing the Petroleum Commission seems to put GNPC in a subordinate position to the Minister of Energy and Petroleum, in practice, “the Ministry has traditionally relied heavily on the GNPC for the regulation and management of the petroleum sector” (Prempeh and Kroon, 2012: 10). We will see later how GNPC’s capacity was undermined in a political move to weaken the corporation’s ties with the NDC.

This limited development of Ghana’s oil – confined to small onshore blocs – prevailed until 2007 when offshore oil in the Jubilee Field was discovered in commercial quantities. Ghana has over 36,000 km² and 103,600 km² of open acreage offshore and onshore, respectively. The Jubilee Field was developed in a record time of three and a half years

(Prempeh and Kroon 2012) and commenced production in November 2010 with output standing at 103,000 barrels per day (bpd). In early 2017, according to GNPC, 24 companies in addition to GNPC and its subsidiary ExploreCo held petroleum agreements. Ghana's total oil reserves are due to increase, with the development of two further fields – the TEN (Tweneboa-Enyenra-Ntomme) and Sankofa projects – which are estimated to contain about 200 million and 114 million barrels of oil respectively. While legislation originated in the mid-1980s under Tsikata's direction of GNPC, at the discovery of oil in 2007 the development of more robust regulatory mechanisms began immediately, although oil commercialisation outpaced regulatory development and capacity building (Gary 2009). This development of an appropriate oil governance framework received input from international actors, who wanted to impart knowledge of best practices but also to create good will that they hoped would position them favourably to participate commercially in the new oil and gas industry. Since 2007, a number of important laws, policies and institutions have been developed and established, which have been recognized as conforming to international best practice (Amoako-Tuffour and Owusu-Ayim 2010), albeit in ways that are largely framed by the liberal institutionalism of resource curse thinking. This involves a revenue management act, oversight bodies, an oil fund, and the separation of the regulatory and production functions of GNPC. Most notably there has been establishment of a new regulatory body known as the Petroleum Commission (Act 821 of 2011), the transformation of GNPC into a state-owned oil company, and the passing of a Petroleum Revenue Management Act (Act 815 of 2011) and a local content bill (LI2204 of 2013). In addition, two new bodies, informed by the revenue management legislation, have been established. First, the Public Interest and Accountability Committee (PIAC) is intended to operate as a shadow oversight body to all the state bodies. Second, a new state-owned Gas Company has been formed to manage the gas produced alongside the oil.

However, the 2016 Petroleum Exploration and Production Law (Act 919), which replaced the old regulatory regime under PNDC Law 84, took over three years to be passed. On paper these institutions and legislation do contribute to transparency and accountability, but the bipartisan nature of Ghanaian political power that underpins them and the need to secure informal patronage networks means that these institutions were undermined.

4. Political settlements, ideas and oil sector governance in Ghana

This section explores how the interplay of interests and ideas has shaped the governance of Ghana's oil discovery. We structure the discussion around the oil and gas value chain by focusing first on contracting and the role of Ghana's national oil company in production, before examining how revenue is used.

Inward investment in oil exploration

A key stage in oil development is the attraction of foreign investment into the sector wherein state actors are positioned to enter bargains with International Oil Companies (IOCs). When the pro-market NPP government assumed office in January 2001, it undertook major reforms in the oil sector, aimed ostensibly at offering more generous and flexible terms to investors. In practice the NPP government took many rushed decisions, including some privately expressed concerns that 'the government, eager for cash, was pushing the consortium to do a "quick and dirty" plan that would cut corners to exploit the field as quickly as possible' (Gary 2009: 24). The idea of 'quick and dirty' deals speaks to NPP interests such as the well-documented case of the E.O. Group (Hardus 2014, Phillips *et al.* 2015). In 2004, the NPP government granted an oil block licence to the E.O. Group, a Ghanaian diaspora owned company that was perceived to be close to President Kufuor. On taking office, the NDC investigated these deals, particularly the E.O. Group's 3.5 percent

share in the Jubilee Field, the majority of which it sold to Kosmos Energy, a small US-based oil firm. The NDC argued E.O. had used its connection with Kufuor to obtain the licence on the cheap and was essentially a front for the President (Public Agenda 2011). Compared to previous Petroleum Agreements, the norm for the industry, and the terms offered to Tullow a year later, the Kosmos contract had relatively low royalty fees and GNPC's participating stake. This was defended by both Kosmos and the Kufuor government as a product of the risk carried by Kosmos in exploring an unproven field. The investigations triggered a parallel US investigation of Kosmos Energy under the US Foreign Corrupt Practices Act. While the investigations cleared Kosmos and the E.O. Group, it forced the E.O. Group to sell its shares to Tullow Oil, a UK oil firm. As part of agreements reached with the NDC ruling coalition, the E.O. Group could only receive the proceeds of the sale (estimated to be about \$100m cash and \$205m in Tullow shares) after the 2012 elections, for fear that the E.O. Group would use its windfall to sponsor the NPP.

When the NDC took over in 2008, it was also accused of setting up front men in the issuance of other block licenses. A contract between AGM (owned by AGR of Norway and Minexco based in Gibraltar), GNPC, and ExploreCo was called into question by the African Centre for Energy Policy (ACEP 2013a). Contrary to the provisions in the new Local Content regulations that pegged the mandatory minimum participating interest for Ghanaians at 5 percent, the Energy Minister exercised his discretion, also granted in the same law, to lower the equity percentage to 2.5 percent for MED Songhai, the Ghanaian company involved in the agreement. MED Songhai was owned by Joseph Adjepong, a prominent government contractor and financier of the ruling NDC. Adjepong had been a prominent businessman under the NPP who benefited from very large sanitation contracts through his company Zoomlion, but made a smooth transition to supporting the NDC in

2008. Adjepong's company was the subject of multiple corruption investigations and its subsidiaries were asked to refund monies to the state as a result of these investigations. The E.O. Group and AGM cases suggest that the existing model of state-business relations in Ghana continues to favour domestic businesses allied to a particular party though MED Songhai managed to switch allegiance. Both cases also suggest that each ruling coalition pursued political and personal interests through informal deal-making which is consistent with the logic of competitive clientelist political settlements.

Yet ideas and interests were more entangled when it came to political debates about attracting investment into the sector to explore for oil and on what terms. Here we examine how GNPC, which has been aligned with the NDC, argued for a greater state take compared to the free-market NPP that sought to reduce barriers to investment. As part of these reforms, the old fiscal regime established under the PNDC, which sought to obtain state share of net-oil of between 65% and 55%, was replaced by a new regime that reduced the government share to between 55% and 45%. The NPP holds the view that Ghana's discovery of oil during its term was 'not by accident', but was primarily the outcome of the party's ability to provide a 'conducive business environment to attract committed investors to our off-shore oil fields' (NPP 2008: 7). On the face of it this interpretation is consistent with the NPP's pro-market ideology yet NPP party political interests were woven through this. Symbolically the party was keen to take credit for discovering oil. President Kufuor noted 'My joy is that I'll go down in history as the president under whose watch oil was found' (BBC 2007). This desire to take credit for the oil might also explain why exploration was rushed through in the period 2007-10 without the accompanying legislation and strategic planning around such things as gas production. When the NPP proposed the reforms to the fiscal regime, GNPC officials were aware of the potential trade-offs between

attracting more investors through reduced tax rates on the one hand, and the rate of government's profit from the oil on the other. This recognition led to a fierce battle between the GNPC and leading NPP politicians. In a seminar organized by the NPP to kick-start discussions around the oil sector reforms, GNPC staff were criticized for their 'stringent' requirements:

'I remember very well when GNPC was lambasted for being so stringent, so strict, discouraging investors. So don't charge any royalties, make royalties zero, don't have any interest, reduce tax to 15%.... And this was presided by the then senior Minister....and the then Minister for Energy' (interview, GNPC official, August 2014)

One retired GNPC official recalled how the new government insisted that 'we should cancel royalties and tax' (Interview, Petroleum Commission, August 2014); a proposal that was vehemently opposed by senior bureaucrats within the GNPC. While GNPC officials openly rejected this stance, their limited bargaining power vis-à-vis powerful NPP politicians meant that they could only partially push through their position:

'So GNPC have to come back here, go and fight with our Board, and our Board having been appointed by the authorities, they did not also want to go against their political masters, so we had to adopt middle ground' (interview, GNPC official, August 2014).

The 'middle ground', as Hickey *et al.* (2015) argue, was that the NPP government offered generous terms that reduced the government's revenue from oil, which the NDC

government changed in petroleum agreements signed after 2008. Royalty rates were doubled from 4-5% in the 2002-2006 period to 10% for agreements signed between 2008 and 2014, while the state's additional participation interest improved from an average of 4% during 2002-2006 to around 13% during 2008-2014. Amoako-Tuffuor and Owusu-Ayim (2010: 14) also observed that, except for Kosmos and Tullow, the tax rates for subsequent agreements have risen, accentuating the progressiveness of Ghana's fiscal regime. Hickey *et al.* (2015) show that the progressive increase in the national take has been driven, first, by the discovery of commercial quantities of oil in 2007 that reduced the risk for oil investors and, second, the return of more capable civil servants to the negotiating table under the NDC. These observations demonstrate how the ideological differences of Ghana's two dominant parties shaped the governance of the emerging oil sector. While the NPP were successful in attracting initial investment through a combination of reducing the fiscal take and the use of front companies, the more resource nationalist NDC improved the fiscal terms for Ghana while also entering questionable deals with shadowy companies.

Earlier we noted that attracting exploration companies into the Jubilee Field was credited by the NPP to their market-friendly ideologies. Yet the party was not simply offering carrots to IOCs in terms of investment conditions but played a hard political game aimed at weakening GNPC which was more allied to the NDC. When the NPP government came to power in 2001, it set up a committee to examine GNPC's operations. Following the Committee's report, the NPP significantly restructured the Corporation, including closing down its drilling, marine, aviation, marketing, and corporate affairs departments (Kobbie 2012). The NPP's aggressive assault on GNPC also saw the removal of Tsatsu Tsikata as CEO, which was seen by many as an attempt to secure the Corporation from perceived

political rivals. Indeed, one ministry official was emphatic that this restructuring process was more of a ‘political agenda rather than a developmental agenda’, because

‘the head of the GNPC was very well aligned to the government that lost power [NDC], the incoming [NPP] government just simply threw away the baby with the bath water’ (Interview, Energy Ministry official, August 2014)

The adverse implications of this perceived politically-driven restructuring processes was highlighted by one retired GNPC official:

GNPC built capacity enough but unfortunately when NPP came, they said GNPC was not doing anything. I have not seen any company in Ghana where 90% of the staff were sacked and it becomes successful.....so you see, we built the capacity but we destroyed the capacity with politics (Interview, Petroleum Commission, August 2014).

Hence the restructuring reflected both the ideological beliefs of the NPP in favouring private over state-led investment, as well as a political calculus of ridding GNPC of NDC sympathisers. This approach to GNPC was reversed somewhat after 2008, with the NDC returning to power in 2009 and investing heavily in recruitment and capacity building projects with Tsikata acting as an advisor to President Atta-Mills. This rebuilding of GNPC’s capacity was accompanied by a more resource nationalist approach although as noted this does not preclude interest-based deal-making. Its 2008 election manifesto promised to restructure the GNPC in order to ensure optimal developmental benefits from natural resource wealth. In this regard GNPC’s strategy made public in 2012 was to follow

the path of other National Oil Companies (NOCs) and become an independent operator. A pillar of that strategy was to grow the operational capabilities of GNPC in which they favoured joint operation of blocs to acquire the necessary experience and skills. As the Corporation's CEO explained:

‘In GNPC, within five to seven years we want to be operators. That is a huge step forward...We believe that in about fifteen years we are going to be a full operator, operating most of our fields.’ (Mould 2014).

Since the AGM contract of 2013, GNPC has gone on to sign an agreement with CAMAC, a Texan company, to explore and jointly operate the Expanded Shallow Water Tano Block. These observations provide an example of how ideational concerns over long-term development, in this case building Ghana's capacity to develop its oil producing capacity, can sometimes trump short-term political considerations in a competitive clientelist political setting where elite incentives are supposedly loaded towards the use of public institutions in securing short-term political gains.

GNPC had also been interested in gas processing since the early 1990s but did not get it off the ground due to blocking of loans from the Bank of Ghana. Phillips (2016) reveals that factions within the NDC held different views of the role that GNPC should play in development of gas infrastructure and processing. One faction, made up of long-standing PNDC supporters, favoured GNPC working in collaboration with the National Gas Company of Trinidad and Tobago while another that coalesced around the President supported a Chinese loan. The agreement in 2010 to go with Chinese loan marginalized GNPC from the downstream gas, and was justified as ‘good practice’ in allowing Ghana's national oil company to focus on upstream activities and production and stay out of the

downstream. This greatly angered GNPC, but in 2011 Ghana Gas was incorporated as a state-owned limited liability company and used the Chinese loan to develop gas processing infrastructure in Western Region. As such Ghana Gas was born amidst institutional confusion and NDC in-fighting. Subsequently Ghana Gas operated as an enclave and its credibility was questioned over the management of the Chinese backed gas project which was eventually completed in 2015. Yet the chaos of Ghana Gas' birth meant no credible plan was in place for utilizing the gas and so GNPC re-entered the fray as an 'aggregator' of the gas in 2015. In that year, the Government of Ghana sold its 100% share in Ghana Gas to GNPC which would cover the risk for any default by using its oil revenues. The rationale for this, as explained by the Minister of Finance, was to give GNPC a 'stronger balance sheet' so it could raise money from the capital markets to finance its expansion (Republic of Ghana 2015). For GNPC this was consistent with the strategy of increasing its efficiency and balance sheet, as its Chief Executive explained:

'GNPC has not been pushing to take over Ghana Gas. Let's get that clear. If you go back to history, Ghana Gas was part of GNPC. GNPC started building the pipeline and the (processing) plant. In order to fast track it, it was decided to move it out of GNPC; and now it is being brought back to GNPC...But it makes sense for Ghana Gas to be part of GNPC, because it is basically our processing arm' (Mould 2015).

The expansion of the downstream gas industry was central to NDC policy of seeking to add value in country and harness the totality of Ghana's hydrocarbons for domestic development, an issue to which we now turn.

The politics of revenue allocation

One important issue where the interplay of ideas and interests can help offer a more nuanced account of the political economy of Ghana's oil relates to the ways in which the two dominant parties responded to demands of sub-national authorities regarding the distribution of oil revenues. Shortly after the discovery of oil, chiefs from the oil-rich Western region began to lobby for their share of the oil revenue. During the Second Reading of the PRM bill, a delegation from the Western Regional House of Chiefs presented a petition demanding that 10% of all oil revenues be placed in a fund perpetually dedicated to the development of the region. They also demanded that indigenes of the region be appointed to all oil governance institutions to protect the region's interests. Two days after the petition was submitted, the Joint Parliamentary Committee on Finance and Energy rejected it as unconstitutional.

What triggered these subnational demands, and how did the interests and ideas of the NDC and NPP shape their responses? To an extent, these demands were motivated by the NDC's campaign promises during the 2008 presidential elections. The Western Region is one of three key swing regions in Ghana where voters shift their support across the two dominant parties. It was within this context that ceding portions of oil revenues to the Western region was mooted by the NDC Manifesto Drafting Committee as a potential strategy for winning the region (Interview with NDC politician, July 2014). Despite significant opposition to this idea from within the party hierarchy, for fear that ceding portions of mineral revenues to regions of their derivation might trigger claims from other regions with natural resources, it was agreed that the risk was worth it. In pursuit of the campaign strategy the then Vice Presidential Candidate of the NDC, John Mahama, promised during his campaign tour of the Western Region that if the NDC was elected, ten percent of the oil revenues would be allocated perpetually to the region through a dedicated fund (Essel 2008).

However, once they won the general elections (including in the Western Region), NDC ruling elites became worried about the counter demands that might emerge from other natural resource producing regions if the demands of Western Region were granted. We have noted earlier that the idea of the unitary state controlling access to sub-surface resources has been an abiding aspect of Ghana's political settlement and across political divides. Such ideas were central in the rejection of the chiefs' demand by elites within the NDC ruling coalition:

‘...acceding to the 10% demand will set a dangerous precedent and trigger claims from other regions, which will undermine national cohesion and political stability’ (Interview, NDC ruling elite, July 2014)

‘I believe strongly that we need to collect the revenues to the center and distribute. This is the only way we can ensure we stay together as a state’ (Interview, NDC ruling elite within the Ministry for Lands and Natural Resources, March 2015).

However, such ideas gained support within the NDC ruling coalition in part because the suppression of subnational challenges with regards to the distribution of mineral wealth is in the interests of ruling elites because they increase government revenues and enhance prospects for patronage spending. In this context, the idea of a unitary state was invoked by the NDC ruling elites to reject the chiefs' demands not only because of its potentially adverse implications for national cohesion, but also because by centralizing oil wealth it could more effectively pursue both its developmental agenda and secure more resources for oiling its patronage networks.

That the political economy of oil is best understood through the mutually-constitutive roles of interests and ideas is also evident in the ways in which the opposition NPP reacted to the

chiefs' demands. As a party, the NPP did not oppose the idea of meeting the chiefs' demands and some NPP MPs actually supported the chiefs and submitted a petition in Parliament to that effect (Gadugah 2010). However, the NPP was not fully supportive of centralization because it was not in power, and they realized that centralization would make more revenues available to the NDC. Thus, while the NPP elites were keen to exploit the failure of the NDC to fulfill their promise to the Western Region, they were equally concerned about counter demands from other regions. Their approach was to push Parliament to debate the issue rather than be seen to openly advocate revenue sharing, particularly as their stronghold is the Ashanti Region - a key gold and cocoa-producing region - where the revenues they generate have been centralised for over a century. It is this cautious approach that explains why political debates on the chiefs' demands did not seem to have taken a purely partisan character along an NDC-NPP divide, as was the case with the question of whether or not to collateralize oil wealth, to which we now turn.

We noted that Ghana's oil legislation is held up as being robust, especially the PRMA that enshrines the principle of using oil revenue to be spent according to long-term development plans. In practice debates around and patterns of expenditure are driven by an interplay of ideas and interests. The debate between the NDC and NPP over whether to include a collateralization clause in the PRMA is an example of ideological tensions over whether to build up long-term funds for development or use the state's oil fund for short-term injections of capital to finance immediate development needs. Yet at the same time these claims and counter-claims feed interests around quickly accessing sources of finance for deals-making and demonstrating visible evidence of developmental investment in the run up to elections. In the NDC's 2008 manifesto, it promised to use the oil resources to develop fertilizer and liquefied petroleum gas cylinder industries (NDC 2008), as part of a long-term development plan. However, when it came to the design of the PRMA, the NDC

favoured immediate extraction of oil rents to finance rapid development as opposed to saving for the future. Clause 5 of the Petroleum Revenue Management Bill, which was submitted to Parliament for approval, prohibited the use of the Petroleum Holding Fund as “collateral for debts, guarantees, commitments or other liabilities of any other entities”. But once the Bill reached Parliament, an NDC Member of Parliament proposed an amendment to allow for collateralisation. The proposed amendment received overwhelming support from ruling NDC MPs, and the debates that ensued followed a strict party line. The issue was eventually put to a vote, which the NDC won, and which gave them the green light to use future oil revenues as collateral for loans in, particular the large Chinese loan discussed by Hardus (2014).

The question that arises is why the NDC did a complete U-Turn on Clause 5 of the Bill that the party itself sponsored? Mohan and Asante (2015) argue that the NDC was pursuing a number of oil backed loan agreements, including the £3bn Chinese loan, and that the party’s preference for collateralization was in line with such interests. While political incentives certainly played a role in these debates, contestations over ideas on how oil revenues should be managed were also at play. Supporting the view that Clause 5 be amended to enable oil-backed loans, ruling NDC MPs pointed to infrastructural deficits and inadequate social services as justification for the need to collateralise oil resources, characterizing opponents of collateralisation as ‘anti-development agents’². The NPP opposed the collateralisation of future oil revenues, seeing it as ‘nothing more than eating your dinner and lunch at breakfast time’³. One former Deputy Finance Minister in the Kufuor-led NPP government described this problem as a “moral hazard”:

² Parliamentary Debates Official Report, Fourth Series, Vol. 71., No. 33, 10 December, 2010, Col 2816.

³ Parliamentary Debates Official Report, Fourth Series, Vol. 71., No. 32, 9 December, 2010, Col 2820.

‘it will be easier to actually contract a loan with that collateralization, what it will mean is that due diligence, social and economic evaluation of that project will not be taken seriously. The tendency is that we will end up ... [using our oil revenues] for frivolous project.’⁴

As the debates ensued, the NPP opposition began to soften their stance by not arguing against collateralisation *per se*, but rather the extent of it. This argument apparently persuaded MPs from the ruling party⁵ and the amendment was passed allowing partial collateralization and opening the door for oil-backed loans meant primarily for infrastructural development⁶.

5. Conclusion

Many of the resource curse-based arguments about the importance of institutions in resource governance fail to see those institutions as embedded in circuits of political power and coalitional competition. By using a political settlements lens in the context of Ghana’s recent oil discovery we argued that elite coalitions play a crucial role in the governance of this resource and that despite the existence of democratic institutions the country’s benefits from oil have been limited. Ghana has relatively strong legislation around oil governance and revenue, but key powers remain with the President, the executive and key ministers who are politically appointed. Yet a ‘standard’ reading of political settlements tends to reduce politics to interests, albeit coalitional as opposed to individual interests. In this reading elite coalitions use formal and informal channels to contest power, though retention of power remains their *raison d’être*. In Ghana’s case our process tracing of the unfolding

⁴ Parliamentary Debates Official Report, Fourth Series, Vol 71, No. 32, 9 December, 2010, Cols. 2803-4.

⁵ This is reflected in the partial collateralization that was agreed upon

⁶ Much has happened around this Chinese loan over the past 5 years which is beyond the scope of this paper. See Phillips (2016)

of its oil and gas sectors certainly supports an interest-based analysis in which the dominant, historically constituted parties vie for control; a tendency intensified since the return to multi-party democracy since 1992. As such the discovery and exploitation of offshore oil has not fundamentally altered the country's interest-based competitive clientelistic political settlement. This was evident in the use of front companies to broker quick deals in the early phases of contracting, or the attempts to collateralise oil for swift injections of capital in the short term.

Where we departed from the standard political settlement literature was driven by the empirical observations that there are important differences between Ghana's coalitions that affect the developmental outcomes of oil. As such we argued that the key differences centre on the ideas the leading coalitions hold about development, and with it the ways in which oil is governed. Broadly speaking the NDC coalition has always sought to use the state as a vehicle for driving long-term processes of more inclusive development, which clearly comes with the danger that the centralization of revenues enables patronage. By contrast the NPP has favoured the market for driving development and so reduced barriers to entry for international capital, with the danger that profits are repatriated. As such ideas about development play into the ways in which oil is governed and we used recent institutional theory to argue that interests and ideas are not separable. Neither are interests and ideas easily mapped onto one another because the political environment is so fluid and riven by factional pressures as we saw in the case of Ghana Gas. As such deal-making interests may trump ideological beliefs, as in the case of the NDC's AGM deal, or interests become framed in ideological terms, as with the NPP's argument that collateralization was a 'moral hazard'. But equally ideological beliefs about longer-term development visions do play into how shorter-term interests are calculated since actors cannot simply sacrifice longer-term

visions for short-term gains. Certainly the NDC has long held a vision of utilizing resources to promote wider development in agriculture and industry even if many of its practices have contradicted such a vision. Also longer-term horizons do not simply equate into a development vision, since interests also extend over long periods. As such the long-standing idea of Ghana as a unitary state is as much about controlling access to rents as it is about being custodians of the country's development. Likewise the NDC in particular realized GNPC was an important conduit for rents and international investment and so should be nurtured for those reasons as much as for its potential as a vehicle for capturing benefits for the Ghanaian economy as their resource national rhetoric would suggest.

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