In Ghana, Fiscal Responsibility Remains Elusive Even as Oil Flows
Mark Evans

Less than five years after the surge of optimism that accompanied first oil, Ghana's economic situation has rapidly worsened. Ghana is now often cited as a cautionary tale of how *not* to manage public finances. Oxford University economics professor Sir Paul Collier recently described the country's experience as a "story of disaster."

Ghana's predicament is not unusual among natural resource-rich countries. Its government is not the first to ratchet up recurrent spending following a discovery, borrow irresponsibly, and drag down its currency and growth prospects in the process. The same story can be told about present-day Mongolia and Venezuela, and many resource-rich countries during the collapse in oil prices in the 1980s. Like many before it, Ghana has found itself ill-equipped to manage a rapid fall in oil prices.

In 2011, Ghana's legislators enacted important governance reforms to manage resource extraction, having been stung by its previous experiences as a gold producer. The Petroleum Revenue Management Act (PRMA) was meant to quarantine petroleum revenues from other fiscal revenues and enabled journalists, civil society groups and parliamentarians to undertake forensic analyses of how the government was managing the proceeds from oil. It also created a framework for managing revenue volatility and saving for the future. The wall built into the government budget to separate petroleum revenues did help create a huge amount of citizen interest in the oil sector and promoted robust oversight. However, the last four years offer an important lesson for all of us who have been working to promote effective and accountable financial management in Ghana: The benefits of enacting rules for resource revenues are lost if the broader budget is not managed with the same aims. This is something we should carefully consider.

Efforts at managing petroleum revenues in isolation, as seen in Ghana, may work in countries that have budgets dominated by petroleum revenues—countries such as Timor Leste or Iraq. For them, rules for petroleum revenues are *de facto* rules for the rest of the budget. However, in Ghana, oil proceeds only contribute about 8 per cent of total government revenues, and the consequence can now be seen: while the government managed to save GHS 1.7 billion (USD 500 million) in its petroleum funds by the end of 2014, the PRMA did nothing to constrain the damaging effects of a GHS 60 billion (USD18 billion) increase in public debt over the same period. And though the PRMA calls for a majority of annual expenditures, officially designated as deriving from petroleum revenues, to be directed toward public investment, capital spending *on the whole* has actually fallen – from about 26 per cent of spending to 17 per cent – since oil production began.

Ghana's Public Interest and Accountability Committee, tasked with overseeing the government's implementation of the PRMA, is empowered to narrowly focus on savings in the petroleum funds, but not to probe the impact of skyrocketing debt. In this situation the logic of saving petroleum revenues begins to look less clear. Ghana's last USD 1 billion Eurobond issue had an interest rate of 8 per cent, while returns on the petroleum funds are averaging about 2 per cent. This means that for each dollar Ghana saves it loses about 6 cents per annum.

On the whole, instead of saving or investing for the future (e.g., on infrastructure), Ghana has saddled itself with liabilities in order to pay the wage bill. For this reason, the country remains ill-equipped to manage swings in commodity prices and transform its resource revenues into meaningful development outcomes.

As a result, some groups are advocating for reforms that pull the budget back in line with the spirit of the discussions that created the PRMA – to invest for the future. The Institute of Economic Affairs, the Africa Centre for Energy Policy, the Africa Centre for Economic Transformation, along with the Bank of Ghana, have advocated for additional fiscal rules. Some suggest a legislative limit on total expenditure growth. Others propose fiscal deficit limits and debt rules. Many resource-rich countries such as Norway, Chile and Peru take similar approaches.

While many have long called for a fiscal responsibility law to host these rules, they can also be added relatively simply to the PRMA. Fiscal rules in petroleum revenue management laws needn't focus solely on petroleum revenues, as Tanzania's Oil and Gas Revenue Management Law recently demonstrated. For Ghana, such an approach would have the added benefit of giving Ghana's Public Interest and Accountability Committee the mandate to oversee key benchmarks of fiscal responsibility. From international experience we know that ensuring compliance with fiscal rules is not easy. However, such oversight gives much better odds for success.

The response from the government has been firm on this issue: "Ghana has enough rules and merely needs to implement them better." Officials may have a point: Fiscal rules are no panacea. Ghana, like many countries, has an array of financial laws and regulations that indeed remain unimplemented.

However, Ghana *could* benefit from enshrining fiscal limitations in legislation. A limit on recurrent expenditure growth or the fiscal deficit would have made the problematic increases in spending in 2012 a breach of the law. While this would not be a fool proof method against the recurrence of such problems, it could help focus minds on these fiscal issues and can serve as a catalyst for much-needed fiscal reform and consensus building.

The government of Ghana has shown how to build a broad consensus around this kind of law; we should not forget that the PRMA was, to a great extent, a success story in holding the government to an array of budget arrangements.

Managing the "resource curse" will not come from effective management of petroleum revenues alone. To learn this lesson from the first four years of oil production, Ghana must carry the spirit of good fiscal governance embodied in the Petroleum Revenue Management Act over to the broader budget.

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