

A REPORT OF THE CSIS
AFRICA PROGRAM

Ghana

ASSESSING RISKS TO STABILITY

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CSIS | CENTER FOR STRATEGIC &
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AN INTRODUCTION TO THE SERIES

This report is part of a series examining the risks of instability in 10 African countries over the next decade. The 10 papers are designed to be complementary but can also be read individually as self-standing country studies. An overview paper draws on common themes and explains the methodology underpinning the research. The project was commissioned by the U.S. Africa Command (AFRICOM).

The recent upheavals and revolutions in the Middle East and North Africa reinforce the value of taking a hard look at underlying social, economic, and political conditions that have the potential to trigger major change and instability. Few observers predicted the events that have unfolded with such speed in Egypt, Tunisia, and Libya since the turn of 2011. But a close analysis of the underlying fault lines in those countries may have offered some clues, uncovering a range of possibilities that would have given U.S. policymakers a head start in framing responses and devising contingency plans. Similarly, an examination of political crises and conflicts in sub-Saharan Africa, such as postelection violence in Kenya in 2007–2008 and the presidential standoff in Côte d’Ivoire in 2010–2011, uncovers patterns of behavior, common grievances, and social dynamics that can help inform assumptions about other countries on the continent. The purpose of these papers is to delve below the surface of day-to-day events and try to identify the underlying structural vulnerabilities and dynamics that help to drive and explain them.

The papers in this study are not meant to offer hard and fast predictions about the future. While they sketch out some potential scenarios for the next 10 years, these efforts should be treated as thought experiments that look at how different dynamics might converge to create the conditions for instability. The intention is not to single out countries believed to be at risk of impending disaster and make judgments about how they will collapse. Few, if any, of the countries in this series are at imminent risk of breakdown. All of them have coping mechanisms that militate against conflict, and discussions of potential “worst-case scenarios” have to be viewed with this qualification in mind.



Map No. 4186 Rev. 3 UNITED NATIONS
February 2005

Department of Peacekeeping Operations
Cartographic Section



GHANA

David W. Throup¹

Key Stress Points

- Ghana's prospects for long-term stability are being undermined by important structural weaknesses. The political system is highly centralized, the executive is excessively powerful, and patronage politics is corroding public institutions. Social pressures are building due to the slow decline of the country's agricultural sector and its inability to provide jobs for its growing workforce.
- In the next 5 to 10 years, the main threats to Ghanaian stability will stem from the social and macroeconomic impact of its new oil export sector, the influence of drug trafficking on its political system, and youth unemployment.
- The 2012 elections are likely to be the single most significant potential trigger of violence in the near term. Ghana's two main parties are closely matched and are highly antagonistic toward each other. A contested election result is possible.

Overview

During the past two decades, Ghana has emerged as a paragon of stability and good governance, held up as a shining example for the rest of Africa to follow. Its democratic norms are entrenched, its economy is well managed, and it has a burgeoning middle class. The rule of law is respected, the civil service has a well-trained core of technocrats, and there is an active civil society. In sum, Ghana possesses many of the attributes of a successful state. When Barack Obama made his inaugural visit to Africa as U.S. president, he chose Ghana as his destination. In an address to the country's Parliament in Accra, he praised Ghanaians for "working hard to put democracy on a firmer

1. David W. Throup is a veteran of 35 years of political and economic research on sub-Saharan Africa during a career as an academic and British diplomat. He has also authored a forthcoming World Bank report on Ghana. This study was based on the careful analysis of published materials drawn from a wide array of sources and on extensive interviews in both Ghana and in the United States. A team of two researchers spent 12 days in Accra, Cape Coast, the Akuapem area, Akosombo, and Tema conducting interviews. They met with 56 individuals, representing some 24 different organizations. Those interviewed included academics, journalists, U.S. and British diplomats, aid workers, representatives of a number of nongovernment organizations (both foreign and Ghanaian), political leaders and civil servants, researchers at various Ghanaian think tanks, the business community, the Ghana Institute of Management and Public Administration, the Muslim Council of Ghana, and the Law Society of Ghana. Further interviews were conducted in Washington, D.C., with the staffs of the World Bank, International Monetary Fund, and World Cocoa Council.

footing” and for pulling off that rare African feat of “peaceful transfers of power, even in the wake of closely contested elections.”²

On a continent where good governance, ingrained democratic practices, and sustainable economic growth are in short supply, it is tempting to be swept along by Ghana’s success story. But there is a danger of getting carried away. The coming decade will challenge Ghana’s political resilience and stretch its institutions. The rivalry between its two dominant political parties grows increasingly acrimonious with each election cycle. Ghanaians admit that they narrowly avoided a political standoff when the New Patriotic Party briefly flirted with the idea of challenging its razor-thin defeat in the presidential election of 2008. Political polarization sustains a patronage system that penetrates all levels of government and circumvents the nation’s weak institutions. Ghana’s emergence as a major transit point for cocaine smuggling exposes these vulnerabilities, providing an opening for drug money to corrode the political structure and entrench corruption within the police, customs service, and the judiciary, undermining respect for the rule of law.

The economy superficially looks diverse, with cocoa, gold, and oil all contributing significantly to GDP, export earnings, and government revenue. Yet the oil and mining sectors generate few domestic jobs, and the cocoa sector is in long-term decline. Against this backdrop, a burgeoning youth population is flocking from the cocoa farms and subsistence smallholdings in the Savanna to the sprawling coastal metropolis of Accra, whose population of 4.5 million is likely to double in the next 20 years. The rate of youth flooding into cities far exceeds the growth in economic opportunities available to them. As the employment shortfall grows, so does the risk of unrest.

Demographic changes in the coming years will add to these pressures by expanding the size of the working-age population. In theory, this group will provide the human capital for sustained endogenous growth, but its potential will be wasted without much-needed investment in job creation, infrastructure projects, and the revitalization of the agricultural and manufacturing sectors. Ghana’s emergence as a major oil producer in the coming decade provides an opportunity for sustainable growth, but the sudden influx of revenue it promises to bring poses major challenges for economic and political governance. The risk of squandering these opportunities is great.

Defining Stability

By African standards, Ghana is a stable state. In contrast to other African countries, Ghana is unlikely to relapse into civil war or large-scale ethnic strife. Religious tensions exist, especially in parts of the north, but do not seem likely to become a serious threat. Instability in the Ghanaian context in the next decade is most likely to mean more strikes in the formal economy, rising urban violence and crime, clashes between political gangs (exacerbated by ethnic rivalries) in Accra and other cities, and perhaps food riots if inflation gets out of control. In more adverse economic conditions, another closely contested election along the lines of 2008 could conceivably have a very different outcome, provoking widespread violence in the cities, especially Accra, between youths mobilized by the parties. Even so, Ghanaians would be shocked if more than 20 people were killed in this way. In Kenya, by contrast, three of the last four elections have seen more than 1,500 deaths in election and postelection violence.

2. Remarks by the President to the Ghanaian Parliament, July 11, 2009, <http://www.whitehouse.gov/the-press-office/remarks-president-ghanaian-parliament>.

Ghana at a Glance

| | |
|------------------------|---|
| GDP per capita | \$1,600 (2010 estimate) |
| Unemployment | 11% (2000 estimate) |
| Life expectancy | 61 years (2011 estimate) |
| Population | 24,791,073 (2011 estimate) |
| Population growth rate | 1.822% (2011 estimate) |
| Median age | 21.4 years (2011 estimate) |
| Urban population | 51% of total population (2010 estimate) |
| Urbanization rate | 3.4% annually (2010–2015 estimate) |
| Literacy rate | 57.9% (2000 census) |

Source: U.S. Central Intelligence Agency, *The World Factbook 2011* (Washington, D.C.: U.S. Central Intelligence Agency, 2011).

Background

A Brief History

Ghana has come full circle during the more than half-century since it gained independence from Britain on March 6, 1957. Then it was regarded as a model colony with considerable reserves of foreign currency (largely from cocoa exports, which provided nearly 40 percent of world production), a high literacy rate, a diverse and well-established middle class involved in the professions and commerce, and by African standards an extensive communications and port infrastructure. Independence, however, was followed by 25 years of decline. Kwame Nkrumah and the Convention People's Party, which had led the country to independence, became increasingly autocratic and hostile to the interests of the influential cocoa farmers located in the Ashanti region. Nkrumah's overthrow in February 1966 was followed by a series of military regimes, with only two brief and unimpressive periods of democratic civilian rule during the Second and Third republics.

The country began its long climb back to modest prosperity in 1983. Under the tutelage of the International Monetary Fund, the military government led by John "Jerry" Rawlings imposed strict fiscal and monetary controls; floated the cedi downward; removed tariffs and import controls; liberalized the economy, including the cocoa marketing board; and privatized state-controlled industries. By 1985, Ghana's GDP had increased by 13 percent, inflation was down to 20 percent, and exports had increased by 76 percent.

The transition to civilian rule took place in 1992 with the holding of multiparty elections, which were won by Rawlings amid opposition boycotts and accusations of rigging. Since then, Ghana's democratic system has been cemented, and the country has enjoyed nearly two decades of uninterrupted civilian rule, five elections, and the peaceful transfer of power from government to opposition on two occasions—most recently in January 2009, when John Atta-Mills won the presidency on behalf of the National Democratic Congress.

The Political Environment

Ghana is dominated by two main political parties, the New Patriotic Party (NPP) and the National Democratic Congress (NDC). These parties enjoy almost identical levels of support; the last election in December 2008 was decided on the basis of only a few thousand votes. Though the NPP claims a center-right position and the NDC claims to occupy the center-left, the ideology of both parties has been fluid and broadly similar. In practice, the ideological divisions are moderated by the external influence of major donors, most notably the World Bank and IMF, and the pragmatic influence of powerful individuals within each party. A third party, the Convention People's Party, continues to promote the Nkrumahist tradition of national self-reliance, as well as social justice. But it is largely confined to the margins. With few exceptions, Ghanaians expect the two-party system to continue or consolidate further.

The Constitution adopted in 1992 for the Fourth Republic ushered in a new era of democracy, but it also preserved some of the fundamental structural weaknesses of the Second and Third

...the current system is carefully structured to preserve the interests of the executive and consolidate political power in the center.

republics. The hybrid presidential-parliamentary system established a separation of powers in form, but not in function. In fact, the current system is carefully structured to preserve the interests of the executive and consolidate political power in the center.

The powers of the executive presidency penetrate to all levels of the administration,

right down to the villages; the president directly appoints 4,050 individuals, including the executive officers of the 110 district assemblies and 30 percent of the members of the supposedly nonpartisan local government institutions. Most revenue for local government flows from central coffers, amounting to 7 percent of the central government's revenue. This expansive power presents enormous opportunities for presidential patronage, which is used to award contracts and official positions to party loyalists at all levels of the civil service and parastatal structure, from senior presidential advisers down to local assistant postmasters. Because they are beholden to their patrons, local government structures possess little autonomy and are financially dependent on the central government.

Patronage politics corrodes democratic institutions. The dismissal of civil servants at all levels—along with senior military, police, and customs officers—when government changes hands damages the professionalism of the civil service and the military. It disrupts economic planning and compels industry and commerce to be overly dependent on state contracts, which are awarded on the basis of political ties. It also encourages the politicization of ethnicity. Thus, though patronage may not alone cause social turmoil, it is a powerful enabler of the more proximate threats detailed below.

Ghana's Parliament is structurally incapable of providing effective oversight of the executive. It lacks a vibrant committee system and does not have the authority to introduce financial bills. Parliamentarians are also beneficiaries of presidential patronage, which discourages them from scrutinizing the president's agenda too closely. A good number of members of Parliament are not conversant in the practice of parliamentary democracy or appreciative of their larger role within the government system.

The judiciary is largely free from political control, although both major parties complain when they are in opposition that their opponents are attempting to politicize the courts. The legal process is slow and expensive but is not subject to government control. Judges are free to decide on the merits of the case, and under both the NPP and the current NDC government, courts have taken decisions that annoyed the executive. There have been a few indications of judicial corruption—largely around drug-trafficking cases—but no sign that there is anything fundamentally wrong with the system or the current members of the judiciary.

Civil society is strong. Institutions such as the Law Society, the Association of Ghana Businesses, and the Ghana Chambers of Commerce, like the trades union movement, have weathered changing political fortunes but during the past two decades have become more assertive. There is a diverse press with a considerable range of newspapers, but with few exceptions, journalistic standards remain poor. Most favor sensational stories to substantive political or economic analysis. FM radio stations have a large following, and “phone-in” programs are popular, but many are partisan and the understanding of the political system is poor. The constant political debate is both a blessing and a curse; though it enables the general public to participate in holding their government accountable, it also contributes to the polarization of Ghanaian society.

The Economy

Ghana’s economy stands on the brink of major change, with oil poised to replace cocoa as the main driver of economic growth. For the past 100 years, the foundation of Ghana’s economy has been cocoa, and to a lesser extent gold. Combined, the two products account for 70 percent of exports. On the back of these commodity exports, Ghana has developed an extremely open economy, which is well integrated into global trade. At the same time, it is vulnerable to fluctuations in commodity prices on the world markets.

Ghana’s relative prosperity is in part the product of good stewardship of the economy by both of Ghana’s two main political parties. By reaching a consensus over the exploitation of cocoa rents without alienating smallholders and discouraging production, both parties have created a model of economic management that has been and remains crucial to the state’s economic performance and political stability. Since 2004, the cocoa sector has been experiencing a boom. The area under cultivation and the quantity exported reached an all-time high of 750,000 tons in 2009–2010. The World Cocoa Foundation predicts that Ghanaian production will continue to increase by approximately 4 percent in the next three years, reaching 778,000 tons by 2012–2013.

Yet these promising statistics belie more sobering long-term trends. Soil fertility is declining, and the cocoa industry is failing to attract new farmers. More important, Ghana has failed to implement the innovations necessary for long-term competitiveness. The industry has made little effort to invest in high-yield varieties or in the infrastructure that would allow Ghana to process its own beans. Unless these systemic weaknesses are addressed, the country’s cocoa industry is likely to find itself mired in a long-term decline in the decades to come.

At the same time, Ghana has largely failed to develop new agricultural export markets. The country is blessed with fertile land well suited to the cultivation of a wide variety of cash crops, including rice, pineapples, mangoes, and bananas, yet it has been unable to exploit these advantages and remains a net importer of food.

Gold is much less important than cocoa, both in terms of export earnings and share of GDP, but has experienced a revival since the early 1980s, contributing some 10 percent of export earnings. The mining sector is not a major employer, and most of the profits are repatriated by the international conglomerates that dominate production, contributing relatively little revenue to the exchequer.

Ghana's manufacturing industry is largely stagnant, contributing only 9 percent of the country's GDP in 2009. The sector is held back by unreliable and insufficient power supplies, and is incapable of competing on the international market.

The discovery of oil in 2007 holds great promise for the transformation of Ghana's economy. When full production potential is reached, oil exports are expected to yield between \$1 billion and \$1.5 billion per year, amounting to between 6 and 9 percent of GDP. The Jubilee Oil Field—Ghana's largest—has proven reserves of 500 million barrels of high-quality oil, and a potential for more than 1 billion barrels. Production from the field is expected to peak quickly, with an expected 120,000 barrels per day being extracted by mid-2011, rising to 250,000 barrels per day in 2014, but falling sharply after 2016 unless additional deposits are discovered.

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Ghana's transition into an oil-producing economy has created a sense of great anticipation in all corners of society. Former president John Agyekum Kufuor aggressively promoted the oil discovery, fueling Ghanaians' already unrealistic expectations about the improvements it would bring to their daily lives. Comparatively little attention has been given to the potential risks that mismanaged oil wealth poses to the national economy.

The Security Sector

Ghana has an army roughly 10,000 strong, which the U.S. ambassador calls the "best fit in all of Africa": small enough to avoid placing an inordinate strain on the national budget or posing a threat to internal stability, but large enough to play an active role in regional security and international peacekeeping missions.³ The military has undergone dramatic changes to its curriculum and training programs, and as a result has made huge strides in terms of professionalism since 1992.

Ghana has played a prominent role in peacekeeping initiatives by both the Economic Community of West African States regionally and by the United Nations ever since the first Congo crisis of 1960–1964, when nearly half the 19,900 troops deployed were Ghanaian. In recent years, Ghana has contributed peacekeepers to the UN missions in Liberia, Sierra Leone, Côte d'Ivoire, Lebanon, and the Democratic Republic of the Congo. At any one time, roughly one-third of its army is engaged in peacekeeping operations overseas, and another third is undergoing training for such missions. Service with the UN is popular both for the government and individual soldiers in that it contributes to the professionalism of the military and offers higher salaries than those normally paid by the Ghanaian government. The modern army, unlike in the 1960s, broadly reflects the ethnic structure of Ghanaian society; most officers are university graduates, as are some enlisted men,

3. Author's interview, Accra, August 2010.

and the army has a professional reputation. It is a respected institution in contemporary Ghana and is most unlikely to intervene in politics except in the most adverse circumstances, such as the complete collapse of law and order in cities as a result of a contested election.

Ethnicity and Religion

In comparison with its West African peers, ethnicity and religion have not been significant sources of instability in Ghana. Today, ethnicity is rarely acknowledged in day-to-day life. In part, Ghana has its ethnic and religious diversity to thank for this legacy; the country is divided into some 100 ethnolinguistic groups—the largest of which is the Akan, with 45.3 percent of the population; with the Mole-Dagbani, Ewe, and the Ga-Adangbe each representing less than 15 percent of the total. Several long-term trends have also instilled a culture of tolerance. Ethnicity has been purposefully downplayed throughout Ghana's history, and a number of policies have been instituted to increase internal mobility, such as a national service program that allows youths to spend significant time outside their home region. In recent years, urbanization has reinforced this trend, while frequent intermarriage blurs the lines of ethnic identity.

Alone, ethnic divides may not be enough to cause division, yet ethnicity is far from irrelevant. Ethnic cleavages are stronger in rural areas, where political loyalty tends to be offered as a group. These divisions are most pronounced in the Savanna belt of northern Ghana, which has experienced repeated episodes of ethnic conflict during the past three decades. Though these clashes have had little impact at the national level, the current government has made the agricultural development of the north a priority, and aims to entice large-scale commercial agribusiness to the region. These initiatives will require the reallocation of land, which may well reopen ethnic disputes.

Elsewhere in Ghana, expressions of ethnic solidarity have rarely disrupted the peace. The Volta Region, the home of the Ewe, votes overwhelmingly for the NDC, while three out of four Ashanti (a subset of the Akan) favor the NPP. Particularly in more ethnically homogeneous regions, politicians have occasionally appealed to ethnicity in a bid for support, a temptation that is likely to grow during a tightly contested election campaign. Furthermore, there are latent tensions in all segments of the public sector arising from the perception that opportunities and resources are granted disproportionately along ethnic lines by the party in power. For these reasons, ethnicity must be regarded as a potential accelerant of political tensions.

Religion, by contrast, has never been a divisive force in Ghana. Muslims, who form less than 15 percent of the population, are well integrated into society. Although originally concentrated in the north, many Muslims have migrated to the south, usually in search of work. The general education level of Muslims is lower than for Christians. Traditionally, Ghana has followed the Maliki version of Sunni Islam, but there has been a recent growth in Shi'ite teaching, assisted by Iranian funding. Ghana's Muslims have remained largely impervious to Salafist and Wahabbist doctrines and are well integrated into local society. Many have intermarried with Christians, and even in the north there are few signs of religious tension. This may change as charismatic, Pentecostal Christianity spreads from urban coastal areas into the north, helped in part by funding from the U.S. Bible Belt, but it poses far less of a threat in Ghana than in Nigeria or neighboring Côte d'Ivoire. Al Qaeda's jihadist message does not resonate in Ghana.

Land Tenure

The profound conservatism of Ghanaian society is reflected in the power wielded by the heads of extended families over land. Customary land law governs the allocation of property rights in Ghana, and even in the capital city of Accra, the local Ga chiefs regularly intervene to oppose development projects and land transfers supported by the mayor and the City Council. Control over the allocation of land under customary law rests with the head of the family, and only he has the authority to sell, mortgage, or lease the property. This can lead to frequent conflicts, especially because the customary laws of different tribes are sometimes diametrically opposed. For example, the Akan are matrilineal people, which means that inheritance passes from the immediate family to the wife's brother and his family; but by contrast, the Ga are patrilineal.

Ghana's chaotic land laws hold back the development of the national economy. Frequent challenges over land ownership under customary law act as a brake on the use of land as security for mortgages, hindering the capitalization of peasant agriculture along with urban development. The introduction of short-term leases will provide some degree of rationalization and basis for credit, but the full-scale capitalization of rural agriculture and small urban businesses will continue to be limited.

Country Assessment

Of the underlying conditions described in the preceding background section, the two which pose a significant risk to Ghana's stability in the next decade are

- patronage politics and weak institutions; and
- structural weaknesses in the economy, notably its failure to provide jobs.

The combination of Ghana's system of patronage politics and its weak institutions has a deleterious effect on public life, encouraging corruption, fueling ethnic rivalries, and leading to bad governance. The patronage system turns politics into a zero-sum game, increasing the risks of violence surrounding elections and raising concerns that the results will not be accepted by the losing side.

The combination of Ghana's system of patronage politics and its weak institutions has a deleterious effect on public life, encouraging corruption, fueling ethnic rivalries, and leading to bad governance.

Ghana's economy is unable to provide enough jobs for its growing working-age population. The cocoa sector, which for the past century has been its major commercial crop, contributing approximately half its export earnings, is in long-term decline. The

manufacturing sector is chronically weak, and the mining sector does not provide many jobs. These trends are likely to be exacerbated by the expansion of petroleum production.

Three major catalysts interact with these two structural vulnerabilities and threaten to magnify their destabilizing impact during the next decade:

- the social and macroeconomic impact of oil;

- drug trafficking, particularly its increasing role in financing patronage politics and its corrosive effect on the police, customs, and the judiciary; and
- widespread and growing youth unemployment in both urban areas and the rural north.

There is a risk that these destabilizing forces might be set loose by a single, contentious event. The next election in 2012 has the potential to act as such a trigger. A number of factors raise the specter of violence surrounding the next election: the even divide between the two main parties, residual tensions from the 2008 contest, and the high political stakes given that the winner will preside over Ghana's newfound oil wealth.

Social and Macroeconomic Impact of Oil

The start of large-scale oil production presents opportunities and dangers to Ghana. If well managed, petroleum revenues could drive economic growth and confirm Ghana's status as a middle-income nation. Whether or not the country's political elite has the ability to manage this revenue surge in the interests of the public remains an open question. The temptation to waste money on nonproductive projects and use the windfall to indulge in patronage politics will be ever present in the coming years. If the government chooses to follow this path, there are few institutional barriers to stop it. The country's weak Parliament provides few opportunities for the opposition party to exert influence during this pivotal period.

A number of factors raise the specter of violence surrounding the next election: the even divide between the two main parties, residual tensions from the 2008 contest, and the high political stakes given that the winner will preside over Ghana's newfound oil wealth.

The rancorous effect of petroleum politics on public life is already in evidence, with the two main parties accusing each other of corrupt dealings over oil production contracts. The complex dispute over Kosmos Energy's stake in the Jubilee Oil Field is a case in point. The NDC government, which took office in 2009, suspected that individuals close to former president Kufuor, and perhaps Kufuor himself, had profited from the oil contract with Kosmos, believing that the terms were too favorable to the company. The new government began inquiries into the contract negotiations, and events came to a head when Kosmos attempted to sell its stake in the Jubilee field to ExxonMobil. The adverse publicity that arose in Ghana over the prospective sale eventually led ExxonMobil to back away from the purchase, clearing the way for an offer from a rival coalition, which included Ghana's state oil company, the Ghana National Petroleum Corporation (GNPC). In March 2011, this new consortium's bid was rejected by Kosmos. The episode raised U.S. suspicions over official interference in the aborted ExxonMobil deal, although there is no evidence that the Ghanaian government placed undue political pressure upon Kosmos. The incident did however highlight the potential conflict of interest that arose from GNPC's dual role as both an oil producer and industry regulator.

The scramble to benefit from oil at the national level is replicated at the regional level. Leaders in the western region, which is closest to the offshore fields, have proposed that at least 15 percent of oil revenues should be allocated to the area. Oil has exposed regional grievances in Ghana for the first time in 50 years and will likely play a part in voting patterns in the next presidential election, in 2012.

These national and regional debates are closely followed by Ghana's media and informed civil society groups, which have voiced concerns about the "oil curse" and drawn attention to the negative experiences of other oil producers in the region, such as Nigeria. They have also tried to manage expectations about the likely impact of Ghana's oil windfall on ordinary people. Total revenues per citizen are likely to be comparatively modest.

Ghana's transition into a major oil producer will force the government to make important decisions about how to absorb and responsibly invest the enormous influx of foreign exchange revenue. Estimates suggest that foreign exchange earnings from oil production will constitute up to 35 percent of government revenue when production reaches full potential, roughly equivalent to the amount currently provided by foreign aid. Such a dramatic increase in government revenue

is likely to induce powerful inflationary pressures unless aggressive fiscal and monetary countermeasures are adopted.

Estimates suggest that foreign exchange earnings from oil production will constitute up to 35 percent of government revenue when production reaches full potential, roughly equivalent to the amount currently provided by foreign aid.

The Kiel Institute for the World Economy in Germany has tested various econometric models in order to identify the optimum use of oil revenue.⁴ It has concluded that a "spend all" strategy would have the greatest immediate effect on the economy by fostering short-term growth. It would, however, inevitably result in the appreciation of the cedi with adverse effects on the competitiveness of agri-

cultural exports and the incomes of rural households. A "save all and invest interest only" strategy would generate very little immediate growth, although the country would continue to benefit from interest payments long after the oil fields had been exhausted. Such an approach, however, would preclude large-scale investment in modernizing infrastructure. The Kiel Institute concluded that the approach most likely to result in sustainable prosperity would require close cooperation between the Ministry of Finance and the Bank of Ghana to balance the requirements of growth, distribution, and stability by moving between infrastructural spending and saving at different phases of the economic and petroleum extraction cycles.

The debate about the best approach to take raged in Parliament throughout late 2010. In March 2011, Parliament passed the Petroleum Revenue Management Bill by a unanimous vote, albeit three months after production had commenced. The bill allows the government to use 70 percent of oil revenues to support its budget or as collateral for loans, while the other 30 percent of revenues is to be saved in what are called "heritage and stabilization" funds. Using oil revenues to support the budget and to stabilize the debt ratio may generate growth if it is responsibly invested. But allowing the government to use oil revenues as collateral for government loans—a move that has been highly controversial—also allows the government to take on risky debt, which it has already proven eager to do.

The petroleum bill contains robust monitoring, auditing, and transparency requirements, but it remains to be seen whether Ghana has the technical capacity to adequately enforce these provi-

4. Clemens Breisinger, Xinshen Diao, Rainer Schweickert, and Manfred Wiebelt, *Managing Future Oil Revenues in Ghana: An Assessment of Alternative Allocation Options*, Kiel Working Paper 1518 (Kiel: Kiel Institute for the World Economy, 2009).

sions. It also fails to tackle some crucial structural weaknesses in Ghana's economic governance structure; the GNPC retains its contradictory position as both the state-owned corporation and the primary regulatory agency in the oil sector. The dangers of this situation are compounded by the fact that the GNPC's leadership is made up of influential members of the ruling NDC party, and it is considered to be one of the most politicized government institutions.

The next decade will determine whether Ghana's oil wealth is appropriated by the ruling elite as in Nigeria, Angola, and Equatorial Guinea, or whether it is used for the public good. Popular pressures for immediate consumption may well overwhelm those technocrats and members of civil society who see the merits of taking a more sustainable approach. Oil has the potential to be a force for economic good or a major source of instability. Much will depend on the economic and political decisions made by the government that presides over this windfall.

The Impact of Drug Money

The development of Accra as a hub for the cocaine and heroin trade from Latin America, along with Central and Southeast Asia, is threatening to transform criminal activities and corrupt political life in Ghana. The profits to be obtained from the transshipment of drugs are too great to forgo, and a new class of educated, politically well-connected drug entrepreneurs is emerging. The UN Office on Drugs and Crime estimates that 60 tons of cocaine, worth more than \$2 billion, passes through West Africa each year.⁵

Weak institutions and poorly monitored borders and coastlines have allowed the drug trade to take root in Ghana. Morale in the police force and the customs service is low, salaries are poor, and the temptation to take rewards from the new, big-spending drug lords are all too evident. When the police or customs do intercept drug shipments and make arrests, corrupt judges have released those charged on small surety bonds, worth only a fraction of the drugs impounded, or officials have misplaced the evidence when cases come to trial. The standings of the judiciary and of the legal profession in general are threatened by their inability to prosecute drug traffickers.

The penetration of drug money into party politics is already evident. In January 2004, police and customs seized 675 kilograms of cocaine, estimated to have a street value of \$140 million, from a frozen storage facility in Tema Harbor owned by a Ghanaian businessman of good standing, who turned out to be a drug baron. A judge subsequently released the drug traders on a surety of only \$200,000, to the consternation of the minister of the interior and the attorney general. The judgment was overturned by a superior court, and the men were not released. Then, in November 2005, an NPP member of Parliament, Eric Amoateng, was arrested in New York by U.S. law enforcement officials and charged with conspiring to transport and distribute \$6 million worth of heroin. Although he initially denied the charges, he subsequently pleaded guilty.

Leaked cables from the U.S. Embassy in Accra suggest that Ghana's drug problem is increasing in scope. In February 2010, President Atta-Mills reportedly told the U.S. assistant secretary of state for African affairs, Johnnie Carson, that Ghana was struggling with drug trafficking and increased

5. United Nations Office on Drugs and Crime, *Drug Trafficking as a Security Threat in West Africa*, November 2008, <http://www.unodc.org/documents/data-and-analysis/Studies/Drug-Trafficking-WestAfrica-English.pdf>.

drug use and that he feared “a bleak future for the Ghanaian people.”⁶ Three months earlier, a cable from the U.S. ambassador to Accra, Donald Teitelbaum, reported that Atta-Mills wanted drug screening introduced in the presidential lounge at Accra airport to deter any member of his entourage who might be tempted to smuggle drugs.⁷ A separate cable suggested that the president knew that members of the government had been compromised by involvement in the trade and added that airport officials were known to tip off traffickers about impending operations by the Ghana Narcotics Control Board.⁸

The UN Office on Drugs and Crime has likened the security implications of West Africa’s drug trade to “a spark on dry tinder.”⁹ Unless concerted attempts are made to combat the drug trade, there is a danger that it will corrode the effectiveness of the police, customs service, and the

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legal system, and ultimately undermine the legitimacy of the state. The NDC has made serious accusations against the NPP for alleged links to drugs money during its time in office. But it is difficult to believe that either party will remain immune to the attractions of drug money as the crucial 2012 election, which will determine who controls Ghana’s oil money, draws near. The temptation to tap every resource—legal and illegal—may prove irresistible.

Youth Unemployment and Migration from the North

The third major catalyst of instability is youth unemployment or underemployment in the informal sector, exacerbated by large-scale migration from northern Ghana to the coastal cities. Ghana simply does not provide jobs in sufficient numbers for its expanding working-age population, and the failure to revitalize cocoa production or promote the manufacturing sector has intensified the problem. Few of the many thousands of young people who leave the countryside each year in search of work find jobs in the nation’s towns and cities. Estimates suggest that the underemployment rate in the main coastal cities is between 70 and 80 percent.

The presence of large numbers of unemployed youth in cities like Accra places an enormous strain on urban services. Accra has about 4.5 million inhabitants, and its population is likely to double in the next 20 years, partly as a result of natural increase but also as rural residents flock toward the urban areas and the coast. The city’s road, water, and sewage systems are already overwhelmed. Traffic gridlock hinders economic activity. As electricity supply fails to keep up with demand, the manufacturing industry remains inefficient and incapable of competing on the

6. “U.S. Embassy Cables: Ghanaian President Fears ‘Bleak Future’ As Drug Trade Grows,” *Guardian*, December 14, 2010, <http://www.guardian.co.uk/world/us-embassy-cables-documents/249017>.

7. “U.S. Embassy Cables: Ghana President Wanted His Entourage Checked for Drugs,” *Guardian*, December 14, 2010, <http://www.guardian.co.uk/world/us-embassy-cables-documents/234015>.

8. “U.S. Embassy Cables: Ghana President Claims Government Compromised and Airport Officials Tip Off Traffickers,” *Guardian*, December 14, 2010. <http://www.guardian.co.uk/world/us-embassy-cables-documents/214460>.

9. United Nations Office on Drugs and Crime, *Drug Trafficking*.

international market. And few of the 38,000 students at the elite University of Ghana at Legon are likely to find full-time jobs in the formal sector.

The revolutions and protests that have spread across North Africa since the start of 2011 illustrate how the grievances of unemployed youth can be a potential source of unrest. Though there are clear differences between conditions in Ghana and those in North Africa, not least Ghana's robust democracy, the failure to provide enough jobs for an increasingly youthful population is a shared concern. The start of large-scale oil production in Ghana is likely to intensify these pressures. The petroleum industry is capital intensive and will not directly generate many jobs. Moreover, without careful macroeconomic management, the oil industry could squeeze the job market even further. The exporting of oil is likely to cause the value of the cedi to appreciate, which would make Ghana's other exports less competitive. This would have potentially serious consequences for the cocoa industry and harm the prospects for producing new commercial agricultural crops, such as tropical fruits, which are sold on very low profit margins.

The 2012 Elections

The risk of disorder in Ghana is significantly raised at election time, when political passions are running high and competition for patronage is at its most intense. The importance of the 2012 election as a potential trigger of instability in Ghana cannot be overemphasized. Although the NDC government currently enjoys the privilege of influencing the terms of the oil revenue management bill, the winner in 2012 will claim a much bigger prize: the chance to allocate oil revenues during the peak years of production. Both sides know that the ability to distribute patronage, jobs, and infrastructural investment on a grand scale could sustain them in office for the foreseeable future. As the incumbent, the NDC views victory in 2012 as an opportunity to shatter the two-party system and pull away from its closest competitor. The NPP, meanwhile, fears being left out in the cold and is desperate for the chance to preside over the country's economic boom.

The importance of the 2012 election as a potential trigger of instability in Ghana cannot be overemphasized.

Ghana had a lucky escape during the last presidential election in December 2008. The razor-thin failure of the NPP candidate, Nana Akufo-Addo, to win the presidency on the first ballot (he missed out by less than 8,000 votes) briefly tempted the NPP to hang on to power and challenge the official results. In the hours following the election, then-president Kufuor played a vital role in urging his NPP supporters to accept the need for a second round. When the NDC candidate, Atta-Mills, won the second round by the narrow margin of 0.46 percent, President Kufuor again urged acceptance of the result. But given that he is now in retirement, Kufuor is unlikely to be able to exert a moderating influence in 2012. And the NPP hard-liners seem to have seized control of the campaign.

Given the stakes involved, the 2012 election campaign is likely to be far more confrontational and potentially violent. Paradoxically, Ghana's experiences with democratic transfers of power may actually contribute to the animosity. Both parties have now had a chance to experience at least a term in government and sample the spoils of power, including not only the distribution of preferential access to political constituents and business allies but also the opportunity to reverse

the previous government's policies. Each party has taken advantage of this opportunity: The NPP spent its first two years in office in 2001–2003 righting the alleged mismanagement of the economy by the NDC, but ended its term in 2007–2008 with a last-minute spending and patronage spree, leaving the NDC government with serious macroeconomic problems, including high inflation. President Atta-Mills has worked hard to curb inflation, but it seems highly unlikely as Ghana heads into its next election cycle that his civil servants in the Ministry of Finance and the Central Bank will be able to resist the demands of NDC activists for a significant relaxation of economic discipline. Meanwhile, the NPP has keenly felt the reduced economic opportunities that come with being out of office. There has already been a noticeable ratcheting up of political rhetoric in advance of 2012, with both parties accusing each other of corruption and misconduct.

Mitigating Factors

The above-noted catalysts of instability are significant both individually and in combination but must be weighed against the four key “shock absorbers” of Ghanaian society, which are more robust than those in many neighboring countries. First, Ghana has a vibrant and proud civil society. Its elite is well educated, respectful, and cares deeply about the direction of the country. The number of civil society organizations operating in Accra is a reflection of the pride Ghana-

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ians have in their democracy: Many of them ardently pursue their role as government watchdogs and participate in a robust debate. Political discussion is not limited to elites; cab drivers, market traders, and others participate in an almost constant dialogue about the state of politics in Ghana. When all is on the line, many Ghanaians insist that they would stop at

nothing to protect the stability and integrity of their country.

Second, the increasingly entrenched democratic tradition in Ghana, already cited as a potential weakness, is also a source of strength. With each successful multiparty election, the memory of military government recedes further into history, and the electorate grows increasingly committed to democratic rule. Roughly 80 percent of Ghanaians express confidence in their political system, and 55 percent of them claimed in 2008 that they lived in a full democracy, the highest proportion making such a claim anywhere in Africa. Respect for the rule of law and freedom of opinion is widespread. So, too, is the belief that even the president and the government are subject to the law. And few believe that the military will be tempted to intervene in political affairs, despite the fact that they experienced 20 years of military rule in their first 35 years of independence.¹⁰

Third, Ghana's economic institutions, especially the Bank of Ghana, are highly professional and internationally well respected. Its financial technocrats seem well trained to manage the

10. Daniel Armah-Attah, Joseph Asunka, and E. Gyimah-Boadi, *Popular Satisfaction with Democracy Grows in Ghana: Afrobarometer Round 4 Findings of Survey Conducted in March 2008*, Research Paper 18 (Accra: Ghana Center for Democratic Development, 2008), 13–17. See also Afro-Barometer, “Summary of Results: Round 4 Afrobarometer Survey in Ghana,” revised June 10, 2009; and Robin Luckham with E. Gyimah-Boadi, William Ahadzie, and Nana Boateng, *The Middle Classes and Their Role in National Development*, CDD/ODI Policy Brief 3 (Accra and London: Ghana Center for Democratic Development and Overseas Development Institute, 2005).

economic consequences of the advent of oil and to keep “Dutch Disease” under control—if politicians can resist the temptation to co-opt the process.

Fourth and finally, Ghana’s Constitution is under review for the first time since 1992, and the review process is already sparking a spirited debate. In the long term, a strengthened Constitution could redress important structural weaknesses in Ghana’s political system. However, at this early stage the prospects of meaningful reform remain unclear; the powerful presidency is unlikely to give up its “imperial” powers without a struggle.

Scenarios

What awaits Ghana in the next decade? In the near term, much will depend on whether the two main parties can overcome the potential flashpoint of the 2012 election. Beyond that, much will depend on the ability of the winner to manage the country’s oil-producing economy, provide jobs for its young people, rein in its patronage system, and protect its fragile institutions from the pernicious influence of the drug trade.

Endogenous Growth

Under a plausible but optimistic scenario, changes in the age structure of the population would stimulate economic growth. One prominent development expert has suggested that the likely expansion of Ghana’s productive age cohort during the next 40 years will generate endogenous demand, ensuring growth of at least 5 percent a year.¹¹ Oil revenue, wisely invested or spent, could transform that to 8 or even 10 percent by raising investment to 40 to 50 percent of GDP. By African standards, Ghana is well placed to take off into self-sustained growth and to expand both its agricultural and manufacturing sectors.

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Sensible investment on roads and other infrastructural projects in the Greater Accra Region would further promote economic growth. Ghana’s coastal urban belt is likely to continue to grow rapidly, attracting migrants from the northern Savanna regions and from Burkina Faso. In the past, the country’s development has suffered from urban bias. This is likely to continue, but the area immediately to the north of the coastal cities in the rain forest zone has the potential to become the food granary of the new West African megalopolis that is likely to stretch from Douala in Cameroon to Abidjan in Côte d’Ivoire, if not beyond, and that thus will envelop all of Ghana’s coastal towns and cities. Further north, the Savanna could grow rice and vegetables for the expanding urban population, providing an incentive for the local population to remain in place as prosperous farmers rather than move to the coastal cities. These processes could be facilitated by the careful expenditure of oil revenues to construct new rail links and roads, especially the secondary and tertiary roads that bring produce from the rural countryside to the towns.

11. Comments by the head of French agency from 2001 to 2010.

A Contested Election Result

A second, low-to-medium-probability but high-impact scenario would be a violently contested presidential election in December 2012, which would have the potential to produce chaos. If either party perceives a loss in 2012 to represent an existential threat, then the loser may give in to the temptation to mobilize, or even merely allow, a violent challenge to the election results. The result would likely produce violence by unemployed youths, straining the loyalty of the army and security services, and testing the independence of the judiciary. The role of the NPP leader and expected presidential candidate, Nana Akufo-Addo, will be crucial, and early signals suggest reason for worry. Akufo-Addo is desperate to mobilize support, and he has played the ethnic card, referring to the NPP as “We the Akans,” urging his supporters to “all die be die”—that is, they should be willing to die to ensure the NPP’s victory.¹² If neither side is willing to accept defeat, then it is likely that rival “foot soldiers” recruited from unemployed youth supporters of the NDC could take to the streets of Accra and other urban centers and begin to fight. Military intervention in any case remains highly unlikely, but it is not impossible. Such an intervention, even if brief, would shatter Ghana’s reputation as a stable democracy and discourage foreign direct investment, setting back three decades of progress.

Poor Economic Management

Another negative scenario is driven more by economic than political failure. In this scenario, profligate expenditure of oil revenue, encouraged by populist political rhetoric and fueled by Ghana’s patronage style of competitive politics, would lead to increasing imports, the appreciation of the currency, and a decline in the competitiveness of the country’s agricultural exports. Gradually, the rural market economy would contract, and farmers would turn to subsistence cultivation. Oil revenues would for a short time sustain imports, but these would undercut the domestic production of both food crops and manufacturing, destroying local production so that when the oil was exhausted, the country would have neither a manufacturing base nor a thriving agricultural sector to fall back on. With population growth continuing and more and more people moving from the north to the coast, cities like Accra, Tema, and Sekondi-Takoradi would be overwhelmed. Of course, some of the most significant economic variables associated with oil are largely outside Ghana’s control. The international price of oil during the next decade, and the quantities of reserves that are discovered, could help expose Ghana’s vulnerability or could cushion the cost of economic mismanagement.

“Muddling Through”

The most likely scenario is that Ghana will neither make the most of the opportunities provided by the discovery of oil nor relapse into a Nigeria-style nightmare but will simply muddle through in the way that it has done for the last 50 years. The oil windfall will not be as much as expected; some of it will be wasted on prestige projects or to sustain current expenditures on social services, but some will be ploughed into positive expenditures on essential infrastructure and some will be invested in a trust fund for the future. The cocoa sector may contract, but new crops like fruit and rice will gradually be developed. Accra will become even bigger and more dysfunctional, but ring roads and new water and sewer systems will be financed.

12. Quoted by Rosemary Atiemo, “Ghana: How 2012 Is Shaping Up,” *Africawatch* (New York), February 2011, 16.

The NDC and NPP will continue to alternate in power. The presidency will remain too powerful, Parliament will be too subservient, and politics will remain driven by patronage and ethnicity. There will continue to be disrupting shifts in civil service and military personnel as the fortunes of the different parties change. Professionalism will be hindered, and development plans will be disrupted. Corruption will increase and erode confidence in state institutions and the judiciary. Ghana will not become an “African Tiger”—if such a thing ever exists—but neither will it become a failed state. Changes in the demographic structure will increase production and stimulate demand for goods and services, helping to ensure an endogenous growth rate of about 5 percent a year for the foreseeable future. Ghana will muddle through and become firmly established as a middle-income country.

Conclusion

Like every other country in Africa, Ghana faces major social, economic, and political problems. But it is well placed, particularly given the windfall discovery of substantial petroleum deposits, to tackle these problems. By contributing an expected 30 percent to government revenue, oil provides the means for Ghana to address its social problems and to generate continuing economic growth. It has the chance not only to entrench its position as a middle-income country but also to escape many of the social and economic constraints that confront African nations. But does it have the political will? Politics as usual, founded on patronage with its all-too-obvious links to corruption and potentially destructive links with Ghana’s emerging drug barons, stands in the way. The political elite can all too easily destroy Ghana’s opportunity. President Kwame Nkrumah’s 1949 slogan, “Seek ye first the political kingdom and all will be added unto it,” unfortunately remains true. Ghana’s patronage politics is the main obstacle to development, democracy, and stability. Oil is both the solution and the temptation. Government revenue from oil must be safeguarded and carefully deployed to improve essential infrastructure that will contribute to further economic growth.

Ghana’s patronage politics is the main obstacle to development, democracy, and stability. Oil is both the solution and the temptation.

Of the countries in the African “stress-testing” study of which this report is a part, Ghana most resembles Kenya. Both are potential success stories: Both have an expanding, sophisticated middle class; both have a comparatively well-developed banking and financial services sector; and both have a reasonably well-educated, politically informed, and outspoken population. Civil society is strongly established, although it is still largely dependent on outside funding. Progress in both countries is limited by corruption and patronage politics, which appeal to ethnic animosities, and a decaying infrastructure of roads, electricity provision, and overstretched urban water and sewage systems. Ghana, however, is better placed than Kenya. The advent of oil provides a financial windfall with which to address these infrastructural deficiencies. Ethnicity, meanwhile, is a less divisive force in Ghana than in Kenya.

Social discontent and continuing high levels of underemployment are the greatest threat to stability in both countries. Violent crime is already high in Kenya, and the infusion of drug money could produce a similar deterioration in a short time in Ghana. Both countries, however, are well placed to succeed and must be counted among the half dozen most likely success stories in

sub-Saharan Africa. Equally, however, it would not take much—a contested election, prolonged failure of the rains, a major fall in commodity prices—to provoke social disintegration.



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