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The role of country-level institutional factors in escaping the natural resource curse: Insights from Ghana

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ABSTRACT

Empirical research shows that developing countries that are rich in natural resources tend to suffer slow economic growth and development due to various factors such as quality of institutions, governance, among others. The phenomenon of slow growth is widely known as the 'natural resource-curse' within the energy sector literature, and past research suggests that the membership of international non-governmental organisations and transparency are key factors in supporting economic development. However, limited research has been conducted to explore the key factors and their impact on the 'natural resource-curse'. This study utilizes 222 cases from 18 of Ghana's key stakeholders and finds that the membership of country's Extractive Industries Transparency Initiative (EITI) and petroleum revenue management policies are insufficient to avert its 'resource-curse' unless they are complemented with country-level institutional factors such as the quality of institutions, quality of governance, government effectiveness, accountability, corruption control mechanisms, natural resource sustainability and effective accounting practices. Consequently, the study contributes to the deeper understanding of complex macro-level factors interlinked with the 'natural resource-curse'. We also discuss the theoretical and practical implications of these findings, along with suggestions for future research.

1. Introduction

Since oil discovery and exports have positively affected the economies of developed countries (Larsen, 2006), one would naturally conclude that petroleum discovery in developing countries, particularly in Sub-Saharan Africa (Yates, 2006), would be similarly advantageous to those economies. However, the likelihood that petroleum discovery in developing countries would be a blessing rather than a curse is an issue that is regularly debated within the energy sector literature and amongst policy makers in the resources rich countries (Ablo, 2015). The widely researched issue on the 'natural resource-curse' hypothesis (Atkinson and Hamilton, 2003; Papyrakis and Gerlagh, 2004; Kopiński et al., 2013; Satti et al., 2014) also called 'the paradox of plenty' (Karl, 1997) assumes that developing countries that are rich in natural resources (Mikesell, 1997) are susceptible to petroleum revenue mismanagement, poor governance (Watts, 2004), rent-seeking behaviour (Kopiński et al., 2013), corruption (Roberts, 2015), socio-economic and political crisis and regional conflicts (Le Billon, 2006) that can weaken democratic processes (McFerson, 2010), stability, growth and development (Robinson et al., 2006; Mehlum et al., 2006). This phenomenon is hypothesised that resource-rich developing countries tend to grow more slowly than their less resourced counterparts (Sachs and Warner, 1995, 1997, 2001; Humphreys et al., 2007). Though this paradox has attracted significant academic attention, studies have primarily focused on transparency and accountability, including efficient and equitable management of natural resource wealth in developing countries as being the antidote to the natural resource sustainability (Torvik, 2002, 2009; Collier et al., 2011; van der Ploeg, 2011; Ackah-Baidoo, 2012; Corrigan, 2014).

Subsequently, decades of intervention from the World Bank and the various structural adjustment and economic recovery programs by the International Monetary Fund (IMF), Ghana is said to be one of the fastest growing economies in Sub-Saharan Africa (Adams et al., 2017). It is seen as a beacon of democracy and progress in Africa, where international businesses strive, due to its socio-economic-political stability and peaceful environment (Adams et al., 2017). Ghana's recent discovery of oil in commercial quantities prompted their membership in the Extractive Industries Transparency Initiative (EITI) and the implementation of policies supporting natural resource sustainability, in anticipation of achieving faster economic growth and development. In

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this ideal environment, and despite the misfortunes of some of the oil-rich Sub-Saharan African (SSA) countries, one would expect Ghana to achieve significant economic growth and development as a natural outcome. It is against this background that Kopiński et al. (2013) come to their own conclusion that Ghana's oil discovery cannot be a curse, but at worst, a treatable disease. However, studies into Ghana's natural resources (e.g., Gyampo, 2016 and Gyimah-Boadi and Prempeh, 2012) reveal gaps in the legislative and institutional frameworks within Ghana's petroleum sector. It is against these mixed findings, coupled with Ghana being a recent developing economy to join the Africa's oil export giants and EITI and hence we have chosen Ghana as the setting for this work for a number of these reasons.

Consequently, studies into the underlying causes and ultimate prevention of the 'natural resource-curse' phenomenon reveal that there is a relationship between oil-rich developing countries, and weak instiitutional climate resulting into corruption, ineffective accounting and control systems, revenue mismanagement, poor institutional quality, and ultimately economic stagnation. However, in contrast to the 'natural resource-curse' hypothesis, an investigation into the stimulating role of natural resource abundance with regard to financial development finds that natural resource abundance contributes to financial development and that economic growth and financial development are positively correlated (Shahbaz et al., 2017).

In examining the 'resource-curse' phenomenon, Kopiński et al. (2013) establish that developing countries having rich natural resources are more vulnerable to the petroleum revenue 'rent-seeking behaviour' of multinational corporations (MNCs). Kolk and Lenfant (2010) also argue that MNCs that lobby SSA governments to provide remarkably long term operational licenses and tariff protections are prevalent. In addition, Kolstad and Wiig (2009) and Frankel (2010) agree that natural resource revenue mismanagement seems to be one of the major factors contributing to a weakening in SSA's democratic processes and economic development. There seems to be a consensus amongst many authors (Atkinson and Hamilton, 2003; Auty, 2002; Brunnschweiler and Bulte, 2008; Davis and Tilton, 2005; Humphreys et al., 2007; Mehlum et al., 2006) that oil discovery in developing countries, particularly in Africa, remains a 'curse', rather than yielding economic advantage or sustainable development for those countries.

Recently, several studies have focused this area of research towards a wider stakeholder-management approach. These studies suggest that quantity of resource deposits and geographical concentration (Corrigan, 2014) including membership of the EITI could help natural resource-rich developing countries to escape the 'natural resource-curse' (Van Alstine, 2014; Sovacool and Andrews, 2015; Sovacool et al., 2016; Kasekende et al., 2016). Based on these arguments, measures to sustain accountability frameworks, quantity of resource deposits, and geographical concentration including efficient accounting and reporting systems and standards have become core requirements as developing countries attempt to escape the 'natural resource-curse' to ensure lasting economic transformation.

Fresh insights have been presented by Abdo and Kouhy (2016) and Siakwah (2017) who argue that issues of oil boom periods ('peak periods') and their associated low world oil prices have become widespread and increasingly problematic. The combined daily output of global oil producers reaches its peak and subsequently begins to decline. It is then argued that this results into oil windfall mismanagement which impacts negatively on individuals, oil firms, and governments in developing countries (Papyrakis and Gerlagh, 2004, 2006) such as Ghana. Moreover, given the low standard of democratic and weak institutional structures (Gyampo, 2016), the call to examine the revenue management of new oil discoveries in SSA, in particular, is timely.

The fundamental research question driving this paper is: *To what extent can EITI membership, corruption mitigation strategies, the quality of institutions and quality of governance work to influence the escape from the resource-curse for natural resource-rich countries in Africa?* Having been unable to cite any study which combines economic advantage (resource-curse) theories and transparency theories with EITI membership and corruption mitigation strategies, this paper contributes to the current resource-curse debate by explaining how the implementation of country-specific institutional initiatives could guarantee transparency and accountability in SSA's energy sector. It therefore enriches the understanding of how oil-producing developing countries could overcome the resource-curse issue. Specifically, this work could help Ghana to adopt resource-curse escape strategies and implement policy changes, which could contribute to its sustainable development and economic growth.

The paper examines the literature around accountability and transparency, leading to the development of a conceptual framework for the research. The research context, and methodology adopted in collecting and analysing the data are then explained. Results are presented and conclusions outlined. The paper closes with a discussion around the potential limitations of the study, implications for policy development, and finally, identifies avenues for future research.

2. Literature review and theoretical framework

2.1. Quality of institutions, quality of governance and government effectiveness

Transparency and accountability for oil resources (Belal et al., 2013; Koessler and Lambert-Mogiliansky, 2013; Cimpoeru and Cimpoeru, 2015) and financial reporting (Porter et al., 2003), including the EITI (Kasekende et al., 2016; Öge, 2016; Sovacool et al., 2016), and their influence on economic growth (Sachs and Warner, 1997) and resource-curse and its possible escape (Collier et al., 2011; Al-Kasim et al., 2013; Bhattacharyya and Hodler, 2014) have been widely studied. Transparency protagonists, such as Corrigan (2014) and Kasekende et al. (2016) are of the view that the adoption of principles and memberships of organisations such as the EITI could help countries to escape the oil resource curse. However, Kolstad and Wiig (2009) argue that transparency alone is insufficient to eliminate corruption and avert the resource curse. In order to eliminate corruption, transparency must focus on improved access to information. Studies that have examined contextual issues in Africa (e.g., Gyampo, 2016 and Gyimah-Boadi and Prempeh, 2012) contend that the gaps in legislative and institutional frameworks in Ghana's petroleum sector have signalled substantial inadequacies in the nation's contemporary democratic dispensation. The authors' description of the Ghanaian context as "factional," "venomous," and "acrimonious" suggests that Ghana's oil discovery has resulted in a disintegration of politics and political culture. Personal attacks and ad hominem accusations have replaced principled policy-based disagreements and discussions. Regular instances of political grandstanding and gamesmanship have marked the economic and political landscape since the discovery of oil in Ghana. In contrast to this, Kopiński et al. (2013) argue that Ghana's stable political system, coupled with their relative full-flavored diversified economy and civil society strength, makes it impossible for the oil discovery to ruin the economy. They hold the opinion that the 'curse' must be seen as a 'treatable disease'.

The debate on the resource-curse, according to Corrigan (2014), has its roots in the economic advantage and transparency philosophies, from which accountability, the quality of institutions, quality of governance, and corruption mitigation strategies emanated. The resource-curse theories explain the economic effects of natural resources abundance and relevant sustainable development. Robinson et al. (2006) believe that accountability, the quality of institutions, and the quality of governance all work to mitigate corruption. Furthermore, Sachs and Warner (2001) and Mehlum et al. (2006) argue that weak institutions impede growth rates in resource-rich countries and transparency and accountability have an effect on institutional quality, which then determine fiscal transparency and higher governance quality (Andreula et al., 2009; Boschini et al., 2007; Collier and Gunning, 1999; Sala-i-