



Public Interest and Accountability Committee

Press Release

1ST March, 2022

STATEMENT BY THE PUBLIC INTEREST AND ACCOUNTABILITY COMMITTEE (PIAC) ON THE PUBLICATION OF ITS REPORT ON THE ASSESSMENT OF 10 YEARS OF PETROLEUM REVENUE MANAGEMENT IN GHANA

The Public Interest and Accountability Committee (PIAC) has published a report titled “Assessment of the Management and Use of Ghana’s Petroleum Revenues (2011-2020)”.

The report assesses Ghana’s management and use of petroleum revenue over the past ten years (2011-2020) in line with the requirements of Ghana’s Petroleum Revenue Management Act (PRMA), 2011 (Act 815, as amended by Act 893) and Petroleum Revenue Management Regulations, 2019 (L.I. 2381).

It encompasses an assessment of the performance of the institutions assigned duties by the PRMA for the past decade and a thorough evaluation of the socio-economic impact of the management and use of petroleum revenue on the development of Ghana.

The study was carried out by Stobe Law Limited, and was funded by the State Secretariat for Economic Affairs (SECO) of Switzerland through the Governance for Inclusive Development programme (GovID) of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. The Committee is equally grateful to the Government of Ghana (GoG) for its continuous support.

KEY FINDINGS

Emerging issues after ten-plus years of oil and gas production

- ❖ Ghana has signed eighteen (18) petroleum agreements with various international and local oil companies since the early 2000s. Of these, three (3) producing fields, namely the Jubilee, Tweneboa-Enyenra-Ntomme (TEN) and Sankofa-Gye Nyame (SGN), account for petroleum revenues as of end-2020. The data shows that total production from Ghana’s three fields peaked in 2019 at an annual output of 71,439 barrels before commencing a decline to 66,926 barrels in 2020. Production will continuously decline if nothing is done through new in-fill developments on these existing fields or new fields coming on-stream. Peaking is further compounded by reservoir challenges leading to production losses on some fields. At the same time, the above-surface issues include



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FPSO reliability challenges and delayed gas processing infrastructure forcing gas re-injection, which is ultimately negatively impacting well performance.

- ❖ The country has made commendable efforts at increasing the revenue that accrues to the State by making changes in legislation to control petroleum costs claimed by the IOCs, statutorily increasing its Carried Interest stake, and contractually preventing the petroleum agreement from being a fiscal enclave in respect of taxes and imposts that the State can levy. However, there is the need for a laser-like approach to cost monitoring as this, along with transfer pricing, is one of the significant pathways the State loses money in the industry.
- ❖ The energy transition has caused a fundamental re-think of how things are done in the industry, including licensing. The challenge is attracting new investors to explore Ghana's acreage, given global efforts to move from fossil fuels to renewable energy. There is the need to consider the changing landscape and evaluate whether competitive bidding remains the best option for now.
- ❖ Ghana's upstream petroleum industry is still primarily an enclave with participation of local companies limited mainly to the non-technical aspects of the industry. The African Continental Free Trade Area (AfCFTA) has also necessitated a rethink of local content no longer exclusively on the local level but the regional.

❖ ***Hydrocarbon accounting: Petroleum production and revenue inflows***

- ❖ Cumulatively, we estimate that about US\$31.22 billion of value has been generated from all of Ghana's three producing fields, comprising both entitlements due to the contractor parties and the Ghana Group. The achieved selling prices of the Ghana Group's crude entitlement was closely aligned to traded Brent prices, reflecting a continuous and commendable effort to generate value for the country.
- ❖ The Ghana Group has earned US\$6.55 billion in total petroleum receipts between 2011 and 2020, equivalent to (9.97% of 2020 GDP). Regarding the breakdown of petroleum receipts by fiscal instrument, we find that carried & participating interest (CAPI) has by far generated the highest share for Ghana, accounting for 58% or US\$3.81 billion of the total US\$6.55 billion revenue earned. This is followed by royalties at 25% (US\$1.64 billion) and then corporate income tax at 17% or US\$1.08 billion.



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- ❖ Annual Budget Funding Amount (ABFA) has been allocated the highest amount of US\$2.6 billion (40%) over the period. This is followed by Ghana National Petroleum Corporation (GNPC) receiving US\$2.0 billion (30%). Also, the Ghana Stabilisation Fund (GSF) has received US\$1.39 billion (21%) of total revenues, whereas the Ghana Heritage Fund (GHF) has received US\$586 million (9%) of the total allocation. These allocations are broadly consistent with the PRMA as amended.

❖ GNPC's evolution and use of petroleum revenues

- ❖ Over the past ten-plus years, the Ghana National Petroleum Corporation (GNPC) has sought to maintain a sole focus on its commercial mandate by forming joint ventures and other forms of cooperation with international or local partners, particularly with IOCs and major supply chain companies.
- ❖ Of Ghana's US\$6.55 billion total oil revenue entitlements since the commencement of oil exports from 2011 to 2020, GNPC has received 30% (US\$2 billion) of this amount, representing both equity financing costs (Level A receipts) and other operational expenses (Level B receipts). GNPC's total equity financing costs (Level A receipts) amounted to US\$1.14 billion over the period, representing 55% of the total GNPC allocations. Level B receipts for other expenditures such as staffing and other operational costs amounted to US\$921 million or 45% of total allocations.
- ❖ Analysis of the data and trends over the past ten years reveals that GNPC has been used to meet other government priorities/needs/programmes, which are not aligned with the letter and spirit of the NOC's mandate as defined in PNDCL 64. The Corporation is subject to external interference or political capture, which often compels it to undertake quasi-fiscal expenditures and advances to other parastatals.

❖ Impact of petroleum revenues on Ghana's socio-economy and real sector

- ❖ Ghana has earned US\$6.55 billion in total petroleum receipts between 2011 and 2020, equivalent to 9.97% of 2020 GDP. Out of this amount, the Annual Budget Funding Amount (ABFA) has been allocated the highest amount of US\$2.6 billion (40%) over the period. This is followed by the Ghana National Petroleum Cooperation (GNPC) which has received US\$2.0 billion (30%), the Ghana Stabilisation Fund (GSF) an amount of US\$1.39 billion (21%) of total revenues, whereas the Ghana Heritage Fund (GHF) has received US\$586 million (9%) of the total allocation.



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- ❖ The ABFA has been a critical financing source for the national budget. Nevertheless, while total benchmark revenue allocations to ABFA amounted to GHS9.41 billion (US\$2.61 billion), allocations amounted to GHS8.51 billion (US\$2.28 billion), leaving the balance being swept into the Consolidated Fund under the government's Treasury Single Account (TSA) policy.
- ❖ In essence, ABFA investments have yielded some successes, but its overall impacts have been minimal, delayed, or negligible. Many stakeholders believe that the ABFA has not delivered on its expectations in maximising the rate of economic development and enhancing the well-being of citizens. Many of the challenges affecting the effective and efficient utilisation of petroleum revenues, especially the ABFA, are macro-fiscal in form. The potential for ABFA to deliver optimal outcomes is hinged on several underlying macro-fiscal factors, including the robustness of the existing systems for public financial management, efficient budget preparation, implementation, monitoring and evaluation, accountability, efficient macroeconomic management, among others. The evidence points to weaknesses in these underlying factors; hence the implementation of ABFA in the last decade has suffered from broader challenges associated with macro-fiscal management.

❖ Management of the Ghana Petroleum Funds

- ❖ The lack of a clearly defined investment policy has constrained the ability of Fund Managers to earn higher returns on the GPFs. These constraints were also compounded by the non-constitution of the Investment Advisory Committee (IAC) between 2017-2019, leading to organisations such as PIAC citing breaches of the PRMA. The GPFs' investment policy has been given impetus eight years down the line in the Petroleum Revenue Management Regulations, 2019 (L.I. 2381). The Minister for Finance has approved the policy and is awaiting Parliamentary approval. Another issue that stakeholders have raised over the years is the perceived politicisation of appointments onto the IAC.
- ❖ The study finds that 74 percent of the withdrawals from the GSF have been used for debt repayment, while 21 percent has been allocated to the Contingency Fund to deal with national emergencies such as the COVID-19 pandemic. Interestingly, only 4% has been utilised to shore up ABFA shortfalls for which the GSF was intended.



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- ❖ Given the historically low returns, there is a need to rethink the GPFs' investment strategy to generate comparable returns to a benchmark portfolio.

❖ Institutional assessment of petroleum revenue management

- ❖ The study finds that the Bank of Ghana, Auditor-General, Public Interest and Accountability Committee and Petroleum Commission have demonstrated satisfactory progress in implementing the relevant provisions of the PRMA. On the other hand, the Ministry of Finance, Parliament, The Ghana Revenue Authority, and The Ghana National Petroleum Corporation have demonstrated meaningful progress in implementing the relevant provisions of the PRMA. Lastly, The Investment Advisory Committee has demonstrated inadequate progress.
- ❖ There is a strong imperative to provide the GRA and other institutions such as the Petroleum Commission, IAC and Ministry of Finance with all the requisite human resources and tools to undertake their critical mandate of petroleum revenue management more effectively and efficiently.
- ❖ The requirements under 21(2) of the PRMA (as amended) for the ABFA to be used to (1) maximize the rate of economic development; (2) promote equality of economic opportunity to ensure the well-being of citizens; and (3) undertake even and balanced development of the regions, are yet to be fully attained.

RECOMMENDATIONS

- ❖ **Stabilisation agreements:** The Ghanaian state needs to ensure that a material change has been well-established before changes are made to a petroleum agreement. As Stephens and Acheampong (2021:21) have argued, “equilibrium economic balancing clauses, which were enshrined in Section 13 of PNDCL 84 and currently in Section 20 of Act 919, must be able to be triggered by the IOC only where there is demonstrable proof that material changes in circumstances have indeed occurred that adversely affects the economic balance of the agreement and must not be used as a backdoor to re-negotiate terms already agreed upon, thus rendering ineffective the licensing process”.



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- ❖ The Committee also advocates for official public criteria to guide the technical prioritisation of ABFA-funded projects by the Ministry of Finance and beneficiary MDAs.
- ❖ To improve effective disbursements of the ABFA, all beneficiary MDAs must be required to prepare ABFA projects, complete procurements, and ensure clear projects are ready for disbursements before they qualify to be funded by the ABFA.
- ❖ As a matter of priority, the Minister for Finance should forward to Parliament for approval the long-delayed investment policy and qualifying instruments for the overall management of the Ghana Petroleum Funds, which was drafted by the IAC and approved by the Minister in 2020.

PIAC is thankful to all stakeholders for the diverse contributions they made towards the successful implementation of this project. A copy of the full report can be accessed on PIAC's website, www.piacghana.org

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Chairman, PIAC

About PIAC

The Public Interest and Accountability Committee (PIAC) was established under Section 51 of the Petroleum Revenue Management Act (PRMA), to among others, provide independent assessment on the management and use of petroleum revenues. The Committee was inaugurated and commenced work on 15th September, 2011.

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