ACEP'S ANALYSES OF THE 2019 BUDGET STATEMENT AND ECONOMIC POLICY OF THE GOVERNMENT OF GHANA

20th November 2018

The Africa Centre for Energy Policy (ACEP) has examined the 2018 Budget and Economic Policy of the Government of Ghana and presents our analyses below. The analyses focus on interrogating government's programme and general governance in the energy sector for the 2018 fiscal year and projections for 2019.

The 2017 ABFA Balance

The ABFA had an unspent balance of GHS403.7 million which was not reported in the 2017 reconciliation reports of petroleum fund. After several push for disclosure of the whereabout of the funds, the Ministry of Finance responded to the Ghanaian Times publication of 8th October 2018 that the "amount of GH¢403.7 million was transferred into the Treasury Main Account in 2017" in line with Section 46 of the Public Financial Management Act (PFMA), 2016 (Act 921), which requires that all government balances should be part of TSA. In the 2018 Petroleum Report, the Dollar equivalent of the amount has been refunded into the ABFA, which translates to GHS 440.8 million.

ACEP commends the Ministry for heeding to calls to refund the money. However, the amount remains unutilised in spite of the development challenges the country faces

1.0 OIL AND GAS SUB-SECTOR

OIL REVENUE ALLOCATION AND UTILIZATION

The total oil production between January and September 2018 was about 45 million barrels with an average daily production of 166,767 barrels. The gas exports to the domestic market also averaged 139 million standard cubic feet (MMscf) (table 1). Oil production per day is projected to be 173,764 barrels in 2019.

Table 1: Oil and Gas Production from Various Fields (Jan-Sept. 2018)

Field	Oil (barrels)	Gas (MMscf)
Jubilee	20,599,845	14,750.65
TEN	17,530,233	8,010.29
SGN	6,897,116	14,668.55
Total	**45,027,194**	**37,429.49**
Daily Average	**166,767**	**139**

Source: 2019 Budget Statement and Economic Policy (2018)

The share of Ghana was 8,896,049 barrels for royalty and carried and participation interest which constitute about 20% of the volume produced. The sale of Ghana's share of production yielded $604,085,878 for the period. This in addition to corporate income tax, surface rentals and interest on Petroleum Holding Fund (PHF) amounted to total revenue of $723,549,247. The total revenue was shared in line with the Petroleum Revenue Management Act (PRMA) to GNPC and the Benchmark Revenue. GNPC received $223,429,486 for equity financing cost and its share of carried and participating Interest. The balance of $500,119,762 was transferred to the ABFA and the Ghana Petroleum Funds in line with Section 11 of the PRMA as amended.

Ghana is still not lifting Carried and Participating Interest (CAPI) from the Sankofa Gye Nyame (SGN) field which continues to be encumbered for amortising the GNPC's debt on the field development owed to the partners. The details of the arrangement relative to outstanding balance of the debt and the number of liftings that will be used to offset the debt is still not known to the public.

GNPC's Share of Net Carried and Participating Interest (CAPI)

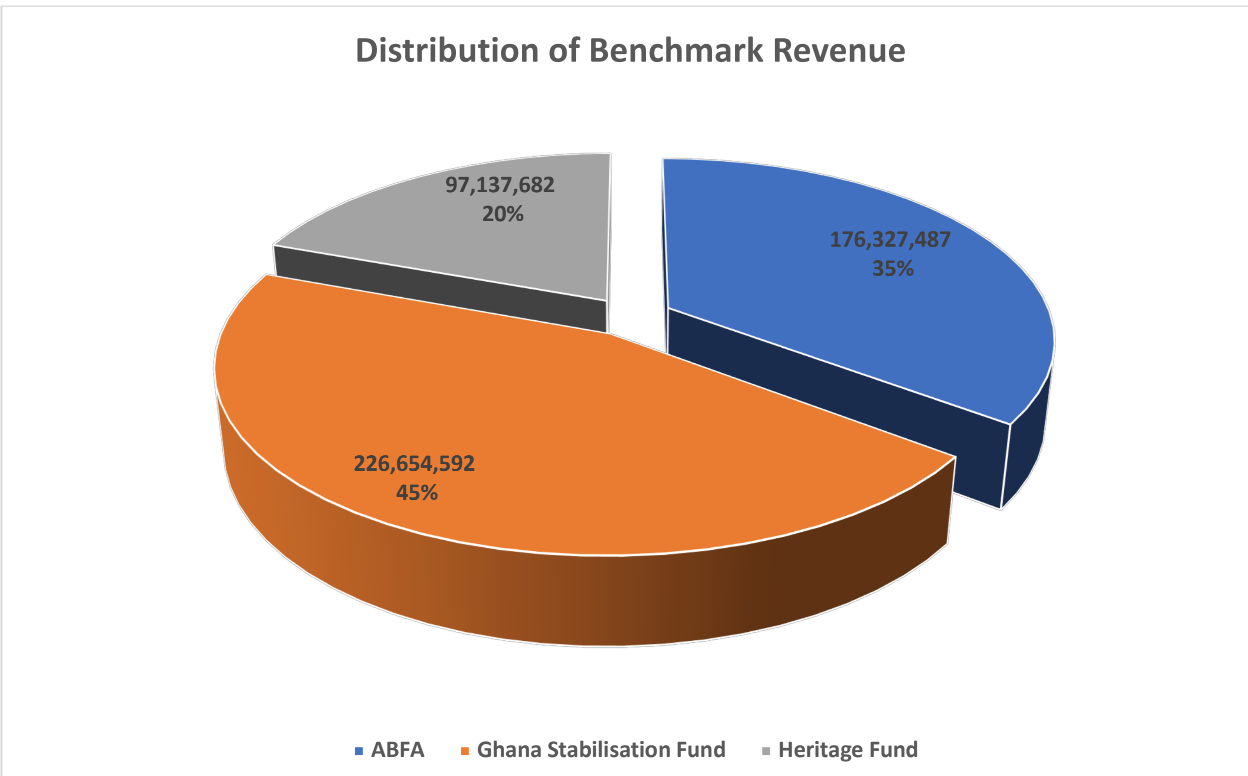
The 2018 budget proposed a Net CAPI of $64,566,021.59 which was appropriated by parliament. However, the disbursement as shown in the 2019 budget indicates that $73,714,425 was paid to GNPC in 2018 in respect of their share of Net CAPI which represents 14% more than allocated.

This is a repetition of the 2017 disbursement to the National Oil Company. This practice ridicules the authority of parliament for approving the expenditure of the government and its agencies. Any amount in excess of approved expenditure should go back to parliament for approval.

Analysis of Net Petroleum Revenue (January to September 2018)

The net petroleum revenue over the period was $500,119,762. This was shared in accordance with the Petroleum Revenue Management Act (PRMA), Act 815, as amended.. The Ghana Stabilisation Fund (GSF) received the highest amount of $226.6 million. The Annual Budget Funding Amount (ABFA) received $176.3 million whiles the Ghana Heritage Fund (GHF) received $97.2 million.

Figure 1: Distribution of benchmark revenue (Jan-Sept. 2018)

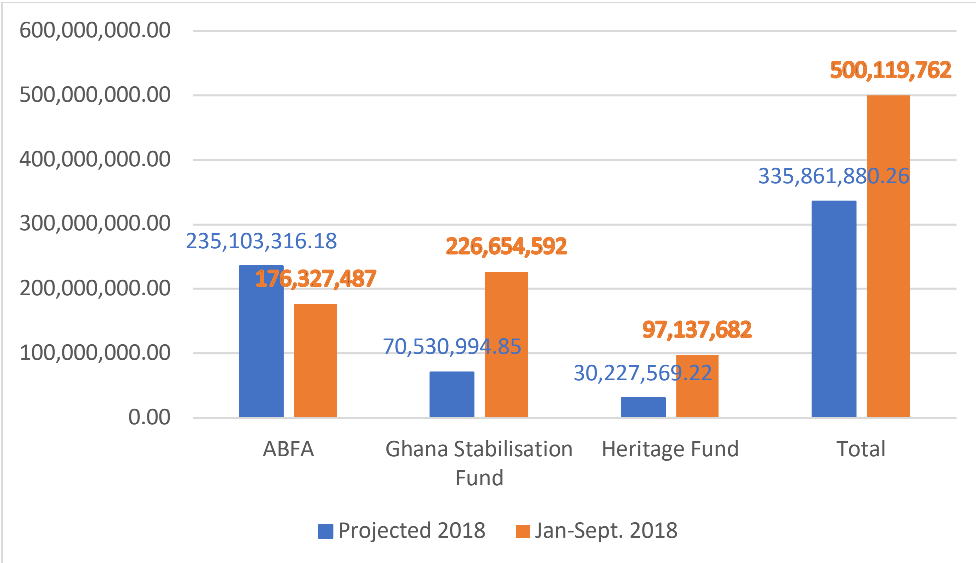


Source: 2019 Budget Statement and Economic Policy(2018)

Increased appetite for debt servicing

The total BR projected for 2018 was $335.86 million. This was exceeded within the third quarter of 2018 to $500.12million. However, the sharing of the actual petroleum receipts shows significant discrimination against the ABFA. While the ABFA was underfunded (25%), the GSF and GHF were overfunded by 221% (figure 2).

Figure 2: Budgeted and Realised Petroleum receipts (Jan-Sept. 2018) in USD



Source: 2019 Budget Statement and Economic Policy(2018)

The balance of GSF was in excess of the $300 million cap by the end of 2017. Therefore, any further allocations to the GSF would automatically be transferred to either the contingency or sinking fund in accordance with section 23(3) and (4) of the PRMA.There was therefore no urgency to push more money into the GSF for further transfer into the Sinking Fund for debt servicing when the budgeted ABFA had not been met. The opportunity cost of pushing more money into the GSF is the forgone provision of the much-needed public investment through the ABFA.

This deliberate engineering to push more petroleum revenues to debt servicing implies that the Minister in 2018 did not comply with the expenditure plan as approved by parliament per the Appropriation Act.

ABFA expenditure in 2018

The utilization of petroleum revenues for 2018 follows a consistent expenditure pattern witnessed in 2017. The total disbursement of oil receipts to the ABFA from Jan- Sept 2018 amounted to GHS 846,371,937.60 of which GHS 606,597,431.98 was spent. The unspent amount of GHS 239.8 million was enough to have funded more than 90% of the variances for the Agriculture and Health priority areas (see Table 2) Additionally, it is observed that planned expenditures were not followed.

Table 2: Planed and Utilized ABFA (Jan-Sept. 2018)

Source: 2019 **Budget Statement and Economic Policy (2018)**

	Planned Expenditure	Actual Sectoral Expenditures	Variance	% of realized ABFA Spent
Agriculture	251,465,991.00	34,656,067.43	216,809,923.57	4.09%
Physical Infrastructure and Service Delivery in Education	465,913,085.00	417,045,522.97	48,867,562.03	49.27%
Physical Infrastructure and Service Delivery in Health	50,000,000.00	11,265,085.38	38,734,914.62	1.33%
Road, Rail & Other Critical Infrastructure Development	773,997,875.00	142,630,756.20	631,367,118.80	16.85%
Public Interest and Accountability Committee (PIAC)	5,000,000.00	1,000,000.00	4,000,000.00	0.12%
Total	**1,546,376,951.00**	**606,597,431.98**	**939,779,519.02**	**71.67%**

The distribution of ABFA among the priority areas shows a crowding out of the other priority areas by the education sector; a trend that has been consistent for the past couple of years. The largest ABFA expenditure realized (49.27%) was in the education sector. This highlights expenditure emphasis on the education sector with government's flagship Free SHS initiative. It is also an indication of the level of dependency the Free SHS program has on oil revenues.

As a stop-gap measure, ACEP has no difficulty with oil revenue investments in education. However, with oil production averaging about 170,000 barrels per day, revenues from oil production are too small to guarantee the sustainability of the education policy, bearing in mind the cyclicality of the sector and volatility of international oil prices. ACEP is of the opinion that with growing domestic revenue, which ACEP has been promoting under the Ghana Revenue Reforms Programme (GRRP), a portion of tax revenue should be programmed to replace oil revenues. This will free up oil revenues for capital expenditure in the economy.

Additionally, the health sector received the least financial disbursement in the 2018 ABFA expenditure among the priority areas. Of the meagre GHS 50 million allocated for the sector, GHS 11 million was spent as at September 2018. This constituted 22% of the allocated ABFA for health and a paltry 1.33% of the realised ABFA. This is quite surprising and disappointing in the light of the current issue of insufficient healthcare facilities and abandoned projects in the sector across the country. One would expect that there would be an increase in expenditure to the health sector to enable the sector function more effectively.

The agriculture sector also witnessed a similar story. Of the projected GHS250 million allocated to the sector, GHS 34.7 million was utilized. Against the background of significant imports of food and feed for human and animal consumption, the sector requires investment to promote cutback on import bill of the country. Also, the promotion of one district one factory concept requires active production of the inputs or raw materials needed to attract investment into the programme. It is therefore intriguing that only 4.09% of the realised ABFA was spent on agriculture in the first three quarters of the fiscal year.

Our Observations

Based on the analysis above, the following observations are made:

1. **More oil money for debt financing**: The expectation of the PRMA for prioritising public investment is being eroded by attempts to push more money for debt servicing. If this is not checked, the ABFA will continue to suffer through prioritisation of debt service.

   Repeat of 2017 encumbrance of the balance of ABFA: The ABFA had an unspent balance of GHS403.7 million which was not reported in the reconciliation reports of petroleum fund. After several push for disclosure of the whereabout of the funds the ministry responded to Ghanaian Times publication of the 8th October 2018 that the "amount of GH¢403.7 million was transferred into the Treasury Main Account in 2017" in line with Section 46 of the Public Financial Management Act (PFMA), 2016, (Act 921), which requires that all government balances should be part of TSA. In the 2018 Petroleum Report, the Dollar Equivalent of the amount has been refunded into the ABFA, which translates to GHS 440.8 million.ACEP commends the Ministry for heeding to calls to refund the money. However, the amount remains utilised in spite of the development challenges the country faces. The expenditures for the three quarters of 2018 points to similar occurrence.
2. **Poor planning for the ABFA**: Under-expenditure of ABFA in some priority areas shows that there is no plan that spreads out disbursement to the prioritized sectors every year.

Our recommendations

1. To check the deliberate use of oil revenue for debt servicing at the expense of public investments, the regulations to the PRMA should be passed to define rules for capping the Ghana Stabilization Fund (GSF). This will bring clarity to the basis for capping and remove perceived discretionary powers of the Minister in the treatment of oil revenues and the GSF.
2. To prevent encumbrances of unutilized ABFA, the Ministry of Finance must ensure that existing infrastructure projects yet to be completed are adequately funded by the ABFA. Fully utilizing ABFA will prevent time and cost overruns of existing uncompleted projects.
3. Linked to the proposed solution to prevent encumbrances on the ABFA is the need for detailed annual expenditure planning with clear timelines for projects under the priority areas. This must be published together with the budget to enable CSOs to track ABFA investments.
4. ACEP proposes that the 2017 ABFA balance should be used to fund one major national project that all citizens can identify with.

2019 ABFA allocations

The 2019 ABFA priority areas will be the final of the three-year medium-term period under the PRMA for 2017, 2018 and 2019. The 2020 budget will either propose new areas or maintain the existing priorities of Agriculture; Physical Infrastructure and Service Delivery in Education; Physical Infrastructure and Service Delivery in Health; and Road, Rail and Other Critical Infrastructure Development. The table 3 shows that for the first time, recurrent expenditures are almost at par with expenditures on physical infrastructure. The allocation for goods and services constitutes 45% of the expected revenues against 55% for capital expenditures.

The weakness with financing goods and services from resource revenue is usually with tracking performance of the expenditure. The Ministry of Finance will have to provide more data to support tracking of the performance of the revenue.

Table 3: Projected ABFA Expenditure for 2019

Priority Areas	Goods and Services	Capital Expenditure	Sub-Total	% of Total
Agriculture	300,000,000	88,042,691	388,042,691	18%

Physical Infrastructure and Service Delivery in Education	679,629,869	-	679,629,869[1]	31%
Physical Infrastructure and Service Delivery in Health		47,500,000	47,500,000	2%
Road, Rail and Other Critical Infrastructure Development		1,059,021,129	1,059,021,129	49%
Public Interest and Accountability Committee (PIAC)	2,978,028	-	2,978,028	0.1%
Total	**982,607,897**	**1,194,563,820**	**2,177,171,717**	100%

Source: **Budget Statement and Economic Policy, 2019**

Key observations from the priority areas are as follows:

EDUCATION

- ABFA funds under education have been committed to goods and services under the Free SHS programme. Bearing in mind that the double track system was introduced as a stopgap measure for infrastructure deficit in second cycle education, expending entire allocation of oil revenues for the sector on goods and services while government's commitment to CAPEX as share of total budgetary allocation to the sector is 0.07% is very alarming.
- Again, that the Free SHS program to be funded solely with receipts from the ABFA raises questions of sustainability. In the event of deficits in petroleum revenue receipts, the Free SHS program could suffer. It is prudent to identify more stable revenue sources for the program to cushion it against shocks occasioned by revenue shortfalls from petroleum resources.

AGRICULTURE

- The goods and serves component of the agriculture priority areas is GHS300 million. This entire allocation will go into planting for food and Jobs without details of specific

[1] This figure is quoted as 720,070,682 in appendix 4A of the 2019 budget; indications of data inconsistencies.

expenditure items. ACEP is yet to sight a detailed annual plan for implementation of that programme.

- Allocation to the Planting for Food and Jobs program from the ABFA has seen an increase of approximately GHS 130.5 million representing 52.3% from 2018 allocations. With regards to fisheries and aquaculture development, ABFA allocation has quadrupled from GHS 2 million in 2018 to a little over GHS 8 million in 2019. All the allocated funds for the sub-sector will go into capital expenditure. Although inadequate, this move by government is commendable in the sense that investment in the agriculture sector impacts a significant proportion of the poor. Thus, ABFA expenditure in this area would hopefully meet ABFA objective of promoting equality of economic opportunity with a view to ensuring the well-being of citizens.

HEALTH

- The health sector has consistently been the least financed under the priority areas for ABFA. The allocation has declined from GHS 50 million in 2018 to GHS47 million in 2019. This low level of allocation and abysmal disbursement questions why the government prioritises the sector.

RAIL, ROAD AND OTHER CRITICAL INFRASTRUCTURE DEVELOPMENT

- Infrastructure development in these sectors are heavily reliant on allocations from the Annual Budget Funding Amount. Some of the projects have been listed in the budget to allow for tracking of performance as promised by the Ministry of Finance during its engagement with civil society organisations and think tanks. The downside, though, is that the projects are not segregated into oil funded and GoG funded to allow for effective tracking.

PIAC

- Allocation to PIAC in 2019 is GHS 2,978,028, down from the 2018 allocation of GHS 5,000,000. This represents a 40.4% reduction in 2019. Given that only 1,000,000 of the 2018 allocation was disbursed by the end of the third quarter, better particulars of the PIAC allocation should be made available to enhance transparency of allocation and disbursement to PIAC.

GAS REVENUE

The Ministry made an interesting proposal to waive $181 million gas revenue from VRA for 2019 and gas from Sankofa Gye Nyame (SGN) field . The reality is that even before the official application for waiver, VRA has not been paying for gas consumption. However, after years of nonpayment coupled with the effort to remove distribution challenges through the implementation of the concession arrangement under the Millennium Challenge Compact II, the government is rather willing to entrench the practice of denying the Petroleum Holding Fund (PHF) revenue from gas. Since 2014, government's effort at providing a sound market in the power sector through its utilities has been abysmal; government debt settlement and ECG power purchase settlements continue to support IPPs over VRA, the latter being the primary consumer of domestic gas.

The gas revenue is part of the receivables of the PHF. Therefore, VRA must be made to pay for the gas. The debt of VRA is supposed to be part of the energy sector debts to be recovered under the Energy Sector Debt Recovery Levy Act (ESLA). Thus far, no amount from the ESLA bonds has been paid into the PHF in respect of gas revenues.

Revenue from SGN is also being deferred to cut back on production and its financial consequences on the country for the inability to create consumption for the take or pay gas. This was avoidable if the necessary arrangements were made in time to ensure that the power plants were properly located to make use of the gas. Since 2014 it was known that the SGN will be produced in the western part of the country. At the same time more power plants were being sited in the east. Plants such as the Karpower, AKSA and Asogli phase 2 could have been sited close to the gas market. The alternative of reversing the gas through the West Africa Gas Pipeline (WAGP) has had sluggish attention. It has taken more time to build the FPSO and the other infrastructure for the production, processing and transportation of the gas onshore.

Data concerns:

Errors in the petroleum data of the budget create further ambiguity and challenges easy analysis of the oil revenue component in particular.

1. The value quoted in paragraph 197 which is a total of GH¢610.18 million as being utilized at the end of 2018 does not tally with the 606 million quoted in table 15 of the 2019 budget statement and economic policy document. Additionally, the paragraph indicates that this value of GH¢610.18 million represents 49.0 percent of total ABFA receipts. This is also inaccurate. The value represents 72% of total ABFA receipts (i.e. GH¢846,371,937.6) from January to September 2018, and also represents 39% of planned expenditure of GH¢ 1,546,376,951 as stated in the 2018 budget. These discrepancies are not good for an important document as the budget.
2. Under Appendix 4A, GHS 654,792,553 from the ABFA has been allocated to the Ministry of Special Development Initiatives for 2019, but under Appendix 5, GHS 584,021,129 has been stated instead.

3. Data inconsistencies in the allocations from ABFA to Free SHS; under Appendix 4A, GHS 720,070,682 has been allocated to Free SHS whilst allocation to Free SHS under Appendix 5 is GHS 679,629,869.
4. Data inconsistencies in the allocation from ABFA to Ministry of Food and Agriculture in regards of Goods and services; under Appendix 4A, there is no allocation but under Appendix 5, GHS 300,000,000 has been allocated.

2.0 THE POWER SECTOR

The power sector did not see any big-ticket policy announcements in the budget which are not already being done. There was a rehash of governments commitment to renewable energy; extending the distribution of electricity to Island communities, distribution of 24,770 solar lanterns and installation of 26 micro-grids for health facilities in remote areas of Northern, Western and Brong Ahafo Regions. Additional 100,000 lanterns are proposed for distribution in 2019.

Also, government has commenced the installation of solar panels on roof of public institutions, starting with a 65KW for the Ministry of Energy. This is encouraging because it reduces government's reliance on the grid and the attendant hefty bills which it struggles to honor.

VALCO's Second Potline

Perhaps the biggest intervention is the plan to revive an additional Potline for VALCO. The current excess generation capacity of electricity requires heavy load consumers to be mobilized quickly to consume the contracted take-or-pay power. Another Potline could consume up to 100MW of power. This still leaves significant excess capacity which needs government intervention.

With the current installed capacity of about 4200MW, the generation additions in 2019 will largely be surplus of requirement which can create a financial burden on government if the electricity market is not expanded to utilize the power. In 2019, the generation addition will be 679MW from Cenpower, Early Power and Amandi. These surplus requirements have a composite capacity charge of about $200 million.

Recommendations

ACEP therefore makes the following recommendations for government's attention:

1. Suspend the sale of VRA thermal Plants: Government planned on divesting its interest in the thermal plants of VRA. However, when sold to private companies, it will require additional Power Purchase Agreement with take or pay conditions. This will increase the

surplus requirement and consequently, government's commitment to capacity charges. Government can rather retire the plants for emergency use and allow IPPs to generate power for domestic consumption. This will ensure that the IPPs do not become idle and still get paid.

2. Increase the hydro Tariff for VRA and assign cheap power for industry: The need to consume the excess capacity requires that industry benefits from cheaper power to increase consumption and productivity. Government should increase the hydro tariff to offset the loss of revenue to VRA for shutting down their thermal plants. Government can then blend some thermal plants from the IPPs with VRA's hydro to achieve internationally competitive tariff for heavy industry.
3. Develop a robust mechanism to monitor the availability of power plants: The Energy Commission must have a robust dispatch monitoring system for all the IPPs to ensure that all plants declaring availability are genuinely available. This will prevent invoices from plants that are not supposed to bill the consumer.