ACEP
Africa
Centre for
Energy Policy

No. 40 Patrice Lumumba Street Airpot Residential Area
P.O. Box CT 2121 Cantonments, Accra.
Website: www.acepghana.com
Tel: 0302 900 730 / 0208382222

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REPORT
JULY 2013

How a Good Law May Not Stop Oil Money From Going Down the Drain

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ACEP Staff

Mohammed Amin Adam | John Peter Amewu | Abdulai Abanga | Benjamin Boakye | Azara Salifu

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EXECUTIVE SUMMARY

Ghana discovered oil and gas in commercial quantities in 2007. Since then significant efforts have been made to ensure the transparent and efficient management of revenues generated from the exploitation of these resources. A Petroleum Revenue Management Act 2011 (Act 815) and a Petroleum Commission Act 2011 (Act 821) have been passed by Parliament. Local Content Regulations have been laid before Parliament. There are also new bills that are going through consultations for submission to Parliament. These include a Petroleum (Exploration and Production) Bill and Marine Pollution Bill. These efforts have been lauded as signs of a country working hard to avoid the curse of oil, the experience in many oil producing countries in Africa, where oil and gas resources have brought conflicts, corruption, and poverty.

However, it is becoming clear that the enactment of good legislations provides an environment for doing things right, but does not always guarantee that things will be done right. In this report "The two sides of Ghana – How a good oil revenue law does not stop oil revenues from going down the drain", captures cases of poor planning and spending decisions for oil revenues; inefficient investment management and "business as usual", two years since oil started flowing in the country.

It is now obvious that any country that is desirous of properly managing its oil and gas resources must be guided by a number of stylized facts. First, oil and gas projects involve the depletion of an exhaustible resource. Second, oil and gas resources are not permanent due to volatile prices and production volumes; and third, sustainability of the impacts of these resources requires that when resources are depleted, other sectors of the economy have the strength to continue to generate value added. Thus, decisions about sustainable impacts of these resources must be made whilst the resources are still flowing by taking into consideration;

1) Economic Program,

2) Social Program,

3) Environmental Program,

as part of a triple bottom line approach to development.

In the quest to manage exhaustible resources, there are important trade-offs between efficiency and wastefulness, between national interest and vested interest; and between long-term planning and short-termism. Thus, most resource rich countries would develop policies and laws to govern the management of these resources in a manner that achieves efficient investment; national interest and consequently improvement in the well being of the people.

Although too early to assess the impact of oil revenues in Ghana, the signs do not point to any optimism for a changed course. Indeed, it is "business as usual". This report is an attempt to assess the efficient management of Ghana's oil revenues and to propose a guide to the future. The analysis contained in this report examines revenue allocation efficiency, value for money of projects funded from oil revenues, and whether the policy objectives of Ghana's Petroleum Revenue Management law could be achieved.

Some major findings and conclusions from the analysis are:

- From 2014, allocation to GNPC for equity financing will decline further as its share of net carried and participating interests rises to support its other investments. However, there are growing fears that the corporation has not demonstrated a capacity to invest these revenues efficiently.

- In the past two years, allocation of the Annual Budget Funding Amount to some of the expenditure items did not demonstrate significant allocation efficiency as they were allocated to areas other than social and economic priorities.

- The exercise of discretion by the Minister of Finance could provide room for politically motivated project selection as was demonstrated by high political consideration for "equity" at the expense of efficiency and value for money.

EXECUTIVE SUMMARY

- Ghana is not deriving value for money from the infrastructure projects funded with oil and gas revenues as most of the projects have been delayed, operating under costly extensions and leading to cost over-runs.

- Whilst the projects funded from oil and gas revenues may have long-term economic prospects in project communities, the short-term social and economic impacts during the construction phase have been severely limited as contractors bring workers, food and materials mostly from non-project communities.

- The continuous allocation of oil and gas revenues to the Ghana National Gas Company is irregular, inconstant with the Act 815; and diverts revenues meant for development in the Budget to finance oil and gas infrastructure.

- Delays in the disbursement of the CDB loan, which is collateralized against the Annual Budget Funding Amount have increased the cost of the loan facility, increased the burden on future oil and gas revenues; and further demonstrated a case of low absorptive capacity of the economy.

- Lack of Project training Capacity of Low Absorption Capacity

The following are some major recommendations that could guide the Government in future management of oil and gas revenues for accelerated development.

1. First, the exercise of discretionary power by the Minister of Finance must be curtailed. Discretionary authority is regulated by article 296(c) of the 1992 Constitution of Ghana which requires that persons exercising discretion apart from a Judge must publish by constitutional instrument regulations to govern the exercise of those powers. The Minister of Finance must therefore comply with the provisions of the Constitution by developing and publishing regulations before the presentation of the 2014 Budget and Policy Statement of the Government to Parliament.

2. Second, the need for a Fiscal Responsibility legislation cannot be delayed any further judging from the quest by Government to borrow more against future oil and gas revenues which could impact negatively on future revenues. Government must present to Parliament a bill to set limits on borrowing against future oil and gas revenues. This ensures that the management of public resources is guided by predictability, credibility and transparency.

3. Third, the need for a Public Investment Management Plan cannot be delayed any longer. Projects funded from loans collateralized against future oil and gas revenues must be guided by transparent procurement processes and set strict timelines for the completion of those projects. There must be value for money audits on all projects funded with oil and non-oil revenues as condition precedent to the release of funds. Whilst equity considerations are important in the distribution of public investments, such considerations should not override efficiency.

1.0 INTRODUCTION

Ghana's oil and gas discovery brought along with it some new challenges in the economy. The oil revenues that followed the start of oil production in 2010 provided the Government with fiscal relief in the budget to finance much needed infrastructure which would have been financed from taxes or loans. In 2011, the Government of Ghana received US$444 million as its share of oil revenues from the export of oil and US$541 Million in 2012. These included receipts from royalties and carried and participating interest.

The Petroleum Revenue Management Act 2011 (Act 815) provides the framework for spending oil revenues through the budget. Section 19(1) of the Act provides in particular that, a percentage of oil revenues shall be transferred to the Government budget every year and this is called the Annual Budget Funding Amount (ABFA). In Section 21(5), the Minister of Finance and Economic Planning is further required to prioritize not more than four areas for the spending of the ABFA. In the 2011 Budget, the Minister prioritized – road infrastructure, agricultural modernization, amortization of oil and gas infrastructure loans and capacity building.

The disbursement of the Annual Budget Funding Amount (ABFA) must be followed strictly to ensure that oil revenues are efficiently invested to bring about tangible and sustainable development outcomes.

Ghana's history of public financial management shows that project spending does not take value for money seriously. The Auditor General has been undertaking financial audits without any emphasis on value for money. This has led to the delivery of poor quality projects. Project execution and their lifespan have become problematic as a result.

The need to track the disbursement of ABFA and undertake value for money audits on its funded projects is therefore very relevant at this level of the country's development; and lessons from this could be extended to all projects funded from the public purse.

The analysis of expenditure of oil revenues is to assess the efficiency of investing oil revenues in Ghana towards improving living conditions of the people living in project areas and the country as a whole. It is also aimed at developing standards for ensuring value for money in oil revenue investments and to enhance public integrity in the management of Ghana's petroleum wealth. This report will empower the Public Interest and Accountability Committee and citizens generally to evaluate the effective uses to which oil revenues are put, in line with its mandate provided for in the Petroleum Revenue Management Act.

The Specific Objectives of the Study include:

- **a.** Tracking disbursement of ABFA;
- **b.** Assessing the quality of projects funded from oil revenues;
- **c.** Providing platform to citizens for monitoring the spending of oil revenues;
- **d.** Increasing public awareness about the spending of oil revenues to improve public accountability.

The methodology used in the study consists of a combination of desktop analysis and field surveys. The team consulted Government Budgets, various reports and documents including the Petroleum Revenue Management Act 2011 (Act 815), the 2011, 2012 and 2013 Budget and Policy Statements, the 2011 and half 2012 Reports of the Public Interest and Accountability Committee (PIAC), Tender Evaluation Reports, Contract documents and the Master Facility Agreement of the Loan Facility between the Government of Ghana and the China Development Bank.

The field survey was guided by a questionnaire which covered a range of issues including contract transparency, contract cost assessment and socio - economic impacts of projects.

The Objectives of the Survey were:

i. To identify and assess the level of compliance with procurement regulations in award and execution of social and economic infrastructure projects funded from oil revenues,

ii. To verify the level of statutory and non-statutory disclosures in the project value chain.

iii. To ascertain the cost of the project including the impact of delays on cost and other factors that might have caused variation in project cost,

iv. To reconcile payments made in respect of work done on projects and whether the value of works merit such payments,

v. To assess the quality of the projects executed

vi. To assess the Social, Economic and Environmental impact of projects on communities (The triple bottom line approach)

In conducting the study a number of factors were considered in the selection of projects for study. These included; urban–rural distribution of projects, North-South geographical divide and the contract cost of projects. As a result, documents covering 10 out of the 16 projects were evaluated including field evaluation of 2 projects – the Asankragua-Enchi Road and the Navrongo-Tumu Road.

The study was limited by financial resource constraints and difficulty of accessing relevant documents.

2.0 LEGAL FRAMEWORK FOR SPENDING OIL AND GAS REVENUES

In line with best practice, the Government of Ghana sponsored a bill in Parliament to govern the management of oil and gas revenues in 2011. The bill was passed into law, in what has been earlier referred to as Act 815. The law has been described as one of the best in the world as a result of the clarity of its provisions on the inflows and outflows of oil and gas revenues, clarity of responsibilities; and strong transparency provisions.

One of the major provisions in Act 815captures the essence of government policy in the utilization of oil revenues. Section 18(2) of the Act provides for instance that "The exact percentage of the Benchmark Revenue which shall be allocated annually to be used as the Annual Budget Funding Amount shall be guided by a medium-term development strategy aligned with a long term national development plan, absorptive capacity of the economy and the need for prudent macroeconomic management".

The Act 815 further defines specific spending objectives of the Annual Budget Funding Amount in Section 21(2) as:

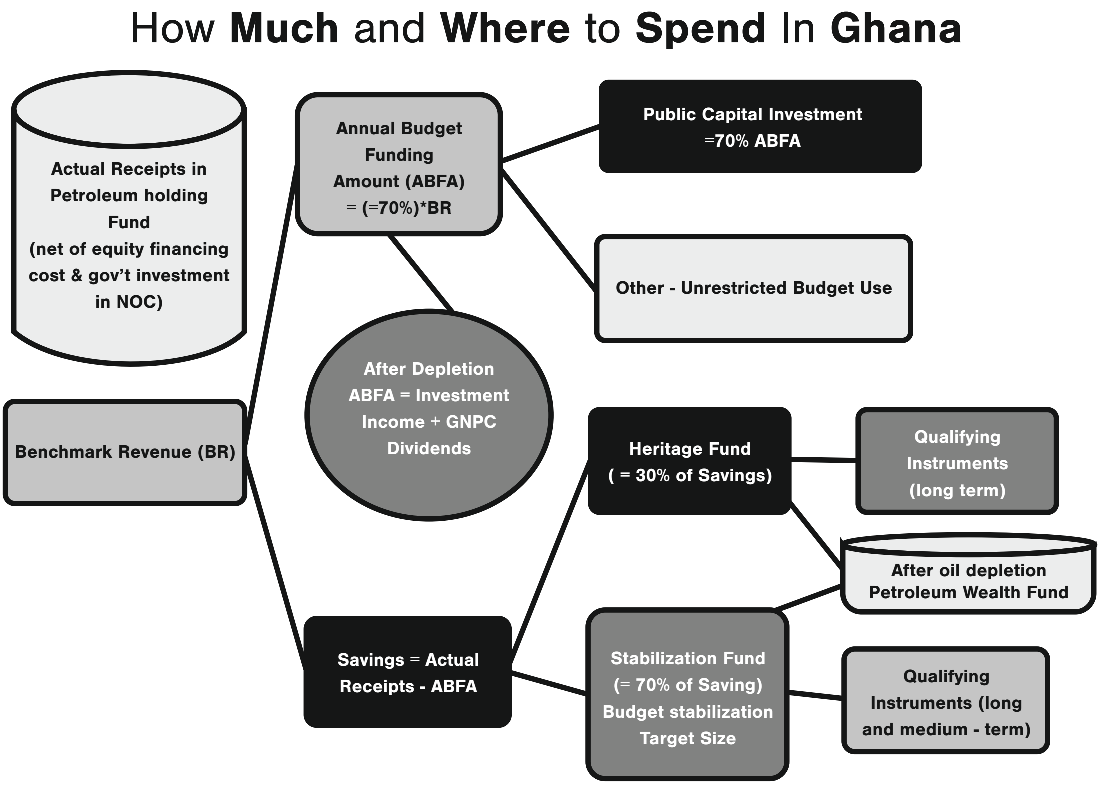
a. Maximize the rate of economic development;

b. Promote equality of economic opportunity with a view to ensure the well-being of citizens;

c. Undertake even and balanced development of the regions

The guide to spending oil revenues as comprehensively articulated in the law significantly affect the policy choices of how much to spend and save, how much to spend on capital assets and services. But the more important policy choice that has not been addressed in the law but through a good public financial management system and guided by Government's development objective is whether to place premium on spending efficiency in the distribution of projects funded by oil revenues.

Figure 1: Schematic Presentation of Ghana's Fiscal Model



The guide to spending oil revenues as prescribed provides statutory limits as well as discretionary powers in respect of the allocation and disbursement of revenues.

Some of the restrictions in the law are:

a. All oil and gas revenues received shall be accounted for in the Ghana Petroleum Holding Fund;

b. A portion of the revenues shall be transferred to the National Oil Company. This will consists of its equity financing costs and not more than 55% of net carried and participating interests to be used for investments;

c. The National Oil Company is to spend its share of net carried and participating interests on activities approved by Parliament;

d. There shall be determined a Benchmark Revenue before the 1st September of every year which is the balance of petroleum revenues received in the year after subtracting the amount transferred to the National Oil Company.

e. Not more than 70% of the Benchmark Revenue isto be transferred to the Government Budget as ABFA.

f. The balance of Benchmark Revenues after deducting the ABFA is to be transferred to the Ghana Petroleum Funds consisting of the Ghana Stabilization Fund; and the Ghana Heritage Fund.

g. Of the total transfers to the Ghana Petroleum Funds, a minimum of 30% to be transferred to the Ghana Heritage Fund, and the balance to the Ghana Stabilization Fund.

h. The Minister of Finance is to sign an Operational Management Agreement with the Bank of Ghana for the management of the Ghana Petroleum Funds including investing the Funds in conservative, less risky qualifying instruments

These restrictions are presented in the schematic fiscal model above. The Minister of Finance is required to formulate further regulations for the effective management of oil and gas revenues. These implementing regulations are expected to provide clarity on grey areas in the law as well as address operational challenges in the implementation of the law.

The Minster is yet to issue implementing regulations even though Act 815 came into effect March2011

The Public Interest and Accountability Committee (PIAC), established under Section 51 of the Act 815, reports that some of these statutory restrictions have been violated in the last two years.

Some of the reported violations in PIAC's 2011 Annual Report were:

i. The mid-year enactment of Act 815 led to the Benchmark Revenue being determined in July 2011 during the presentation of the supplementary budget for 2011, thereby revising the first projection of petroleum revenue estimated for that year in November 2010 prior to the passage of the law. The late determination of the Benchmark Revenue was therefore done as a special case considering the operational challenge of Act 815 in its first year of implementation.

ii. Not all payments expected to go into the Ghana Petroleum Holding Fund were reported on. Act 815 covers all oil receipts and Section 6 of Act 815 lists surface rentals explicitly as one of the revenue streams from petroleum. The surface rentals were paid into Government of Ghana Non-Tax Revenue Account in 2011 and not accounted for in the Petroleum Holding Fund, nor were payments from the Saltpond Oilfield Producing Company Ltd (SOPCL) included.

iii. The Minister of Finance and Economic Planning was yet to sign the Operational Management Agreement with the Bank of Ghana for the Ghana Petroleum Funds. Therefore the role played by the Bank in the investment of the Ghana Petroleum Funds was done outside of such an agreement.

There was a compensating error in the transfers to the Ghana Heritage Fund and the Ghana Stabilization Fund deviating from the provisions prescribed in Act 815. The Ghana Heritage Fund was under-declared by GH¢9 million whilst the Ghana Stabilization Fund was over-declared by the same amount.

The law also provided the Minister of Finance with some discretionary powers key among which are:

I. The prioritization of not more than four areas for the spending of the Annual Budget Funding Amount;

ii. The determination of allocation of petroleum revenues to the prioritized areas.

These discretionary powers have been exercised already since the 2011 Budget without regulations, contrary to the provisions of the 1992 Constitution of Ghana. Article 296 of the 1992 Constitution of Ghana spells out conditions for the exercise of discretionary power as follows:

"Where in this constitution or in any other law discretionary power is vested in any person or authority;

a. That discretionary power shall be deemed to imply a duty to be fair and candid;

b. The exercise of the discretionary power shall not be arbitrary, capricious or biased wither by resentment, prejudice or personal dislike and shall be in accordance with due process of law, and;

c. Where the person or authority is not a judge or other judicial officer, there shall be published by constitutional instrument or statutory instrument, regulations that are not inconsistent with the provisions of this constitution or that other law to govern the exercise of the discretionary power".

The absence of implementing regulations is not only a violation of the 1992 Constitution in respect of the exercise of discretion, but also providing room for complications in the interpretation of sections of the Act.

3.0 ALLOCATION OF OIL & GAS REVENUES

Allocation of oil and gas revenues to prioritized areas as required by law shows that Ghana's fiscal model favours higher spending over savings. It also favours higher capital spending over services. Both observations are significant for obvious reasons.

a. Naturally, most developing nations prefer to spend and invest their resource revenues to develop the country faster as they face high social and economic inequalities.

b. Many of these countries are faced with capital shortages and high infrastructure financing gaps; and it is imprudent to save substantial revenues while living on the income from financial assets.

These reasons are backed by empirical evidence. For countries faced with fiscal challenges and financing gaps, it is recommended for them to invest in human capital and physical assets through a front-loaded approach to ensure high current benefits without sacrificing inter-temporal benefits as well(Takizawa, 2004;Hartwick, 1977). Also, an increase in current consumption will raise income levels but also building on the capital stock for accelerating economic growth (Van der Ploeg and Venables (2008)).This is the popular Hartwick rule.

The prioritization of road and other infrastructure as well as agricultural investments (See Table 1 below) have been influenced by the social and economic challenges facing the country's development. These range from social and economic development gaps and infrastructure financing deficit.

[1] Takizawa, H., E. Gardner, and K. Ueda (2004) "Are Developing Countries Better Off Spending Their Oil Wealth Upfront?" IMF Working Paper 04/141. Washington, D.C.
[2] Hartwick, John M. (1977) "Intergenerational Equity and the Investing of Rents from Exhaustible Resources" American Economic Review 66: 972–74.
[3] Van der Ploeg, F. And Venables, A. J. (2009) "Harnessing Windfall Revenues: Optimal Policies for Resource rich Developing Economies" CESifo Working Paper, CESifo Group Munich.

Table 1. Priority Areas for Spending Oil and Gas Revenues in the Budget

Priority	2011	%	2012	%	Growth Rate
Expenditure and amortization of loans for oil and gas projects	20,000,000	8%	100,000,000	19%	400%
Road and other infrastructure	227,641,768	87%	232,403,269	45%	2%
Agricultural modernization	13,147,652	5%	72,471,824	14%	451%
Capacity Building	750,000	0%	111,959,738	22%	14828%
Total	261,539,430	100	516,834,831	100	98%

Source: Ministry of Finance, Budget and Policy Statement, 2012, 2013.

Recent data on the country shows that it is likely not to meet most of the targets under the Millennium Development Goals by 2015. The Social Indicators show that Ghana is not performing well in sanitation and is barely average in reducing infant mortality rate. In spite of the high drop in national poverty levels, rural poverty is still relatively high.

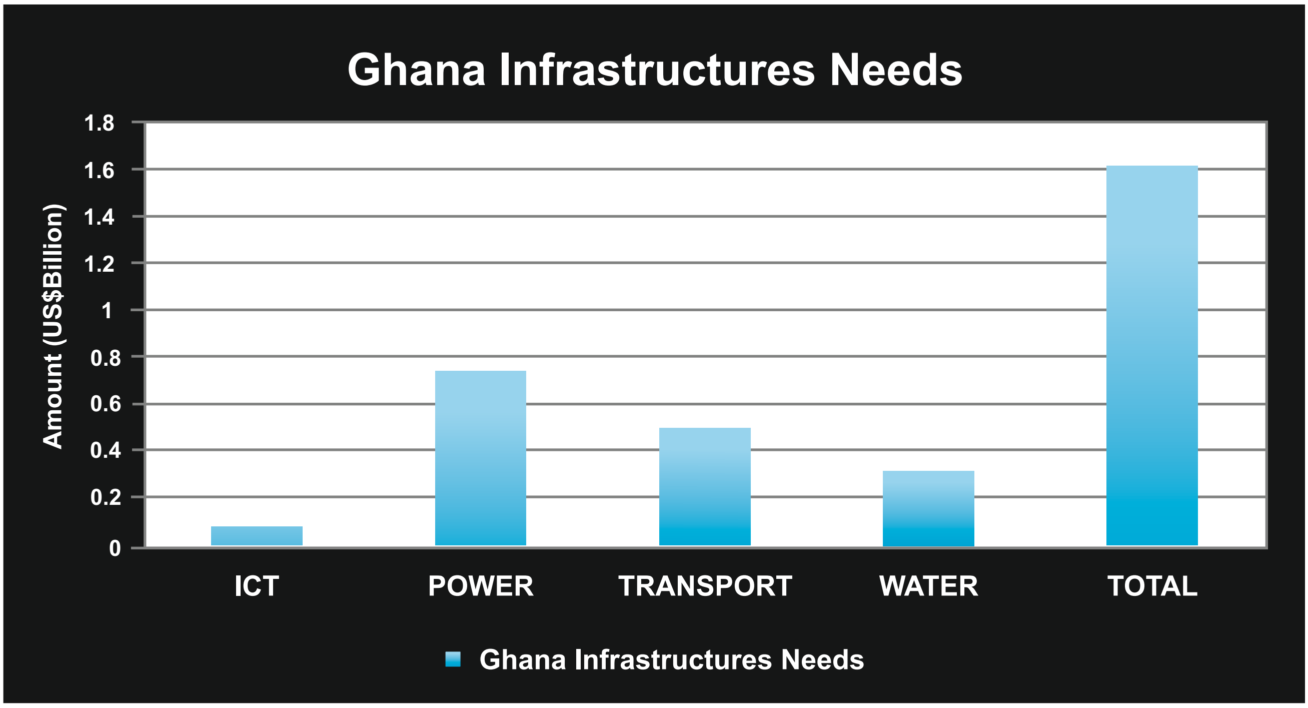
Table 2. Socioeconomic Indicators of Ghana

Indicator	Year	Rate
Poverty rate at national poverty line	2006	28.5%
Mortality rate – infant	2010	50%
Mortality rate – under 5	2010	74%
Literacy rate – adult total	2009	66.6%
Improved sanitation facilities	2008	7%
Rural population	2010	48.5%
Rural poverty	2006	39.2%

Source: World Indicators

The World Bank also reports that Ghana's infrastructure deficit is US$1.6 Billion annually which cannot be met by traditional sources of revenues. Thus, the discovery of oil offered the country fiscal relief to finance much needed infrastructure projects.

Figure 2. Ghana Infrastructure Needs



Source: Africa Infrastructure Country Diagnostic.

Thus, in terms of infrastructure, the country needs to make substantial investments since it is a necessary requirement for attracting foreign direct investments and the acceleration of industrialization and job creation. However, over the last two years, the growth of agricultural investment from oil revenues (451%) relative to road and other infrastructure (2%) shows that Government policy on agricultural modernization is now driving the spending agenda for petroleum revenues. This could impact positively on rural poverty reduction as majority of rural population in Ghana are engaged in agriculture.

It is important to state however that the Government of Ghana has taken a proactive path to financing infrastructure development by frontloading future oil and gas revenues through a loan facility of US$3 billion from the China Development Bank.

The Petroleum Revenue Management Act allows for the use of the ABFA as collateral for loans, and this was applied for the first time to the facility from China. Consequently, the Government of Ghana entered into a Master Facility Agreement that requires 70% of the commercial invoice value of each crude oil lifting by a Chinese Agent, UNIPEC, to be transferred into what is called a "Collection Account" among other things to be used to service the debts. Government has recently sought parliamentary amendment to the Master Facility Agreement after realizing that requirement for depositing oil proceeds into the account violated the Petroleum Revenue Management Act, which requires all proceeds from crude oil lifting by the Ghana group to be transferred to the Ghana Petroleum Holding Fund.

Under the new agreement, the government of Ghana will be required to transfer a defined amount into the Collection Account after each lifting and establish the SBLIC to cover the same amount, which will be limited to Government of Ghana's debt service obligation in each interest period adjusted by the number of crude oil lifting.

The major concern now is whether the projects funded from the oil revenues reflect national priorities and could provide solution to the country's socio-economic challenges. The efficiency of these investments is an important basis for the delivery of quality projects at competitive costs. These factors are analyzed in the next section of this report.

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[4] UNIPEC is lifting crude oil on behalf of the Lender through an Off taker Agreement between UNIPEC and GNPC. This is a condition precedent to the First Subsidiary Agreement.

[5] A "Collection Account" refers to the bank account opened by the Borrower with the Lender and designated as the "Collection Account" by the Borrower and the Lender.

4.0 ALLOCATION AND INVESTMENT EFFICIENCY OF OIL AND GAS REVENUES

The efficiency of spending oil revenues is evaluated on seven main factors. These include:

a. The spending of GNPC's share of oil revenues;
b. Allocation of the ABFA;
c. Ministerial discretion in prioritization of projects funded with oil revenues;
d. Value for money from the infrastructure projects funded with oil revenues;
e. Socio -economic impacts of projects funded with oil revenues, (triple bottom line approach to sustanable development;
f. Allocation of oil revenues to the Ghana Gas Company; and
g. The impact of delayed disbursements of the CDB Loan on future ABFA.

The analysis of the above issues revealed significant findings and has been categorized to facilitate understanding of how Ghana's oil revenues have been managed since the commencement of oil production in 2010.

1 ***From 2014, allocation to GNPC for equity financing will decline further as its share of net carried and participating interests rises to support its other investments. However, there are growing fears that the corporation has not demonstrated a capacity to invest these revenues efficiently.***

Total spending of oil revenues for 2011 and 2012 amounted to US$374.9 million and US$517.5 million respectively. This included US$207 million allocated to the GNPC in 2011 comprising an equity financing cost of US$132.5 million and additional US$75.5 million for investments. It also includes US$ 230.9 million allocated to the corporation in 2012. Thus, the growth of spending during this period was 38%. This was due to the increased oil revenues received by the Government.

Table 3. **Allocation of Oil Revenues**

Allocations	2011	2012	Growth Rate (%)
ABFA	166,955,067	286,554,461	72%
GNPC EQUITY	132,484,814	124,630,628	-6%
GNPC INVESTMENT	75,479,488	106,319,298	41%
TOTAL SPENDING	374,919,369	517,504,387	38%

Source: Ministry of Finance, Budget and Policy Statement, 2012, 2013.

Furthermore, development spending from oil revenues is likely to increase in future as equity financing cost allocation to the GNPC reduces. This is supported by evidence as allocation to the Budget increased from US$166.9 million in 2011 to US$286.6 million in 2012, about 71% growth; whilst allocation for equity financing costs reduced from US$132.5 million in 2011 to US$124.6 million in 2012, a decline by 6% over the period.

According to the Public Interest and Accountability Committee, GNPC disbursed its total allocation in 2011 and 2012 to the following projects shown in Table 4.

Table 4. GNPC Investments of Oil and Gas Revenues

Item	2011 (US$)	2012 (US$)
Total Expenditure		
Jubilee Equity financing cost	132,484,815	125,824,747
Acquisition, processing and interpretation of 2,612 km 2 of 3D Seismic Data for the South West Deep Tano Block	30,315,185	
Reservoir Characterization, Voltain basin project, South Deep water Tano projects, North & South Tano project expenses, ICT upgrade, organizational development		10,784,028
Gas project related Costs	28,119,624	5,587,779
Staff costs	7,661,475	9,013,162
General operational and administrative expenditure	9,383,204	16,269,839
Amount appropriated by Bank of Ghana as charges		1,796,156
Total Cash on Hand (Committed to Projects)		
North &South Tano projects		17,817,385
TEN		16,736,362
Voltain basin projects		3,090,224
South Deep water Tano project		7,227,672
Reservoir characterization		687,506
ICT upgrade & expansion		2,591,094
Data Centre upgrade		1,000,000
R&D Laboratory upgrade		1,500,000
Organizational development		2,102,500
Reserves towards corporate investment projects		8,921,473
Total Expenditure & Cash on Hand	**207,964,302**	**230,949,926**

Source: ***GNPC***

The GNPC's spending of revenues allocated to it so far demands serious scrutiny, which was not possible in this report. However, three issues which have generated interest among Ghanaians particularly civil society watchers are; the cost of GNPC's indebtedness to the Jubilee Partners in respect of its equity financing cost, the cost of gas related infrastructure and staff costs.

a. In 2011, a total of US$132.5 million was spent on repaying part of the money GNPC borrowed from the jubilee partners to pay for its $165.8 million share of field development costs incurred since 2008. The amount advanced on behalf of the GNPC consisted of US$130.1million for development related costs; US$20.5million for production related costs and interest accrued of US$15.2million. Thus, interest cost was 10.1% on development cost for 4 years (representing U$14.5 million) and 2.86% on the production cost over one year (representing US$0.58 million). These rates are very high considering that global interest rates had come down significantly as evident in the returns on Ghana's Petroleum Funds (about 0.19%) over one year.

b. The expenditure in respect of the 14km gas pipeline undertaken by the GNPC was US$28.1 millionin in 2011 and US$5.6 million in 2012 but this appears open-ended as the total cost of the project is not known. The project involved the installation of a 14 km-long rigid steel flow line as well as the engineering, fabrication and installation of one Pipeline End Termination (PLET), a contract which was executed by Technip. In addition to this, Aker Solutions AS of Norway supplied a Vertical Connector System (VCS) which was used to couple the Pipeline End Termination structure to the flexible FPSO gas export riser at a contract sum of US $410,000.00. However, with a reported cost of US$2.1 million per km of the pipeline, the total cost of the 14km pipeline project was $29.4 million. This shows an over-allocation to the project by US$3.9 million.

c. Staff costs appear to be on the high side relative to the economic circumstances of the country. However, a comparison with some of its Jubilee Partners shows that GNPC's staff cost is not too high as indicated in the Table below.

Table 5. Annual Average Staff Cost (2012)

Company	Staff Cost	Staff Strength	Average Staff Cost
Tullow Oil	226,400,000	1415	160,000
PetroSA	96,620,194.43	1861	51,918.4
GNPC	9,013,162	175	51,503.8

***Source:** Annual Reports, and Annual Financial Accounts*

[6] Ghana Extractive Industries Transparency Initiative - Report on the Aggregation/Reconciliation of oil and gas sector payments and receipts: 2010-2011(February, 2013)
[7] Civil Society Platform on Oil and Gas found in http://www.isodec.org.gh/print.php?print=146.

With a current staff strength of 175, the annual staff cost of US$7,661,475 in 2011 works up to an average of US$43,779. The increase in staff cost to US$9,013,162 in 2012 increased the average to US$51,503. There is no doubt that GNPC staff must be paid well to retain its technical staff as more technical workforce in the global oil and gas industry retire at unprecedented rates whilst replacement is slow.

In addition to the issues above, procurements in GNPC revealed alleged conflict of interest and the likelihood that the revenues provided to it are being doled out to individuals in the name of "services" to the corporation. For example, the award of legal services contract of US$147,000 to one of its Board Members has been strongly defended by the CEO of the corporation. He argues as follows:

"When the National Democratic Congress (NDC) was handed the responsibility of administering the country on January 7, 2009, it took over six months before the GNPC Board was inaugurated. Before the Board came into being, so many urgent matters that needed to be addressed had cropped up. There were so many urgent things that needed to be attended to. There were issues on how to plan the development of the Jubilee Field, because it was supposed to be developed on a fast track basis. There was a unit and unitization operating agreement that also needed to be negotiated. All this while, our partners were on us. So, the Board decided that somebody like that (name withheld) should be remunerated to help us. So the Board had to settle on him because of his rich legal experience in the oil industry,"

On whether there was a conflict of interest in the said procurement, he further argued that "There is a provision, even in the service code, which provides for members of the board to decide, through a resolution, for a director to act in his or her professional capacity on behalf of the corporation".

The uncertainty about GNPC's ability to invest efficiently revenues allocated to it has supported claims that such revenues should be allocated to the National Budget to finance development projects. The World Bank in a recent report observed that its analysis shows that "while gross 2014 petroleum revenues are expected to be roughly US$1 billion, the amount available for the current budget is likely to be around US$500 million. The effect of reduced remittances to the Petroleum Holding Fund resulting from surplus retention by GNPC should be considered within Ghana's budget framework"10

[8] GNPC found in http://www.gnpcghana.com/aboutus/orgStructure.asp. [9] Ghanaian Chronicle, SHAKE-UP AT @ GNPC..Some Board Members, Staff To Be Axed Over Kick-Backs" 25 March 2013 found in http://ghanareporters.com/2013/03/25/.

2 ***In the past two years, allocation of the Annual Budget Funding Amount to some of the expenditure items did not demonstrate significant allocation efficiency as they were allocated to areas other than social and economic priorities.***

As already explained earlier, allocation of oil revenues in the budget is based on priorities set by the Minister of Finance. The broad priorities were: Expenditure and amortization of oil and gas loans; Road and other infrastructure; Agricultural Modernization and Capacity building. Detailed information on allocations to these priorities in 2011 was not available at the time this report was written. However, the break down by Ministries of the allocations in the 2012 and 2013 Budget are as follows:

Table 6. **Expenditure Allocation by Ministries (% of Total MDA allocation)**

MDA	2012	2013
Administration	18%	10%
Office of Government Machinery	11%	4%
Parliament of Ghana	1%	
Ministry of Finance and Economic Planning	1%	5%
Ministry of local government	2%	1%
National Development Planning Commission		0%

[10] World Bank *Energizing Economic Growth in Ghana: Making the Power and Petroleum Sectors Rise to the Challenge*, Energy Group, Africa Region, June 2013

Table 6. Expenditure Allocation by Ministries (% of Total MDA allocation)

MDA	2012	2013
Economic	41%	30%
Ministry of Food & Agriculture	9%	4%
Ministry of Lands & Natural Resources	6%	
Ministry of Trade & Industry	2%	1%
Ministry of Envir, Science & Technology	4%	0%
Ministry of Energy	21%	25%
Ministry of Tourism and Creative Arts		1%
Infrastructure	21%	38%
Ministry of Water Resources, Works& Housing	3%	11%
Ministry of Roads and Highways	7%	19%
Ministry of Transport	11%	8%
Social	8%	8%
Ministry of Education	3%	2%
Ministry of Employment & Social Welfare	2%	
Ministry of Youth & Sports	4%	
Ministry of Health		6%
National Labour Commission		0%
Public Safety	4%	4%
Ministry of Interior	4%	4%
MDAs Total	**94%**	**90%**
Total	**100%**	**100%**

*Source: **Ministry of Finance, Budget and Policy Statement, 2012, 2013.***

However, the intra-sectoral allocation did not prove to be consistent with the objectives of the ABFA as prescribed in Section 21(2) of Act 815– to maximize the rate of economic development; promote equality of economic opportunity with a view to ensure the well-being of citizens; and to undertake even and balanced development of the regions.

In the Table 6 above, whilst infrastructure expenditure showed an improvement, moving from 21% in 2012 to 38% in 2013, the choice of infrastructure type were likely not to inject the anticipated productive multiplier effect. For instance, the Office of the President (also referred to as Office of Government Machinery) was allocated 11% of the ABFA for infrastructure spending in 2012 and 4% for recurrent spending in 2013, more than what was allocated to social services comprising education, health, employment and social services; youth and sports, and the Labour Commission (8% in 2012 and 2013); or to Public Safety (4% in 2012 and 2013)[See Appendix 1 & 2 for detailed allocations of the ABFA]. The attention given to the Office of the President at the expense of social services and public safety raises questions on the allocation efficiency of the ABFA.

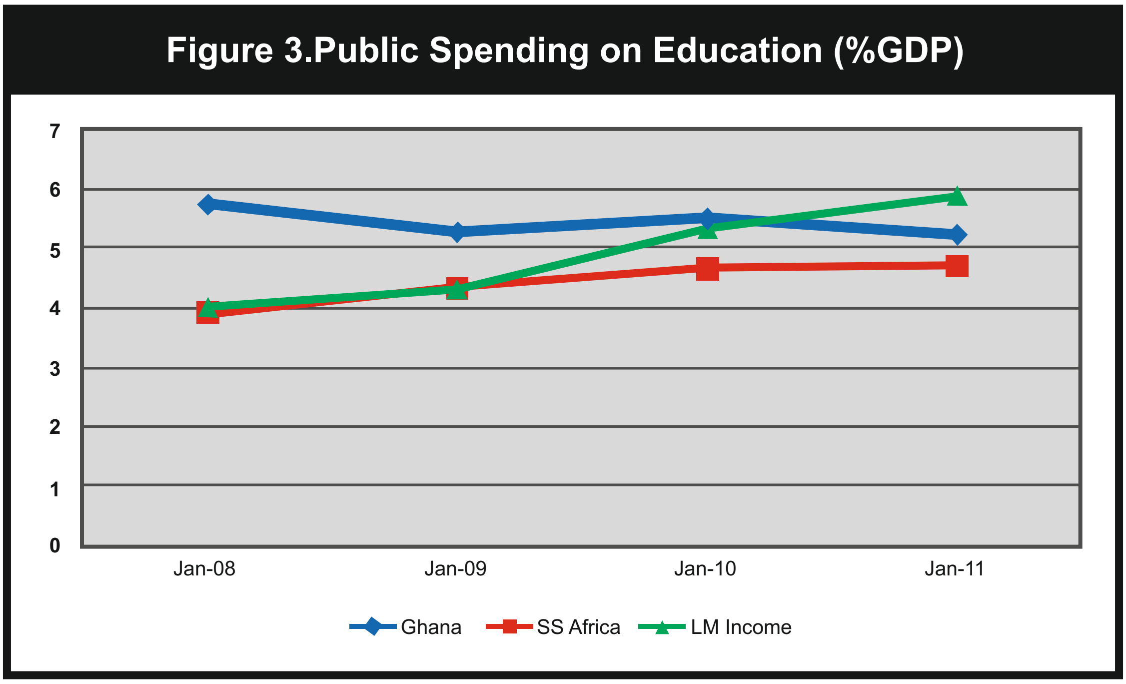
It must be stated that the Office of the President covers many other Agencies including the Office of the Chief of Staff, Public Records & Archives Administration Department, Ghana Investment Promotion Centre, Office of the Head of Civil Service; and Management Services Division. Notwithstanding this, the allocation of GHS65 million in 2011 (about US$34.4 million at the time)to the office for capital spending casts worrying doubts about the choice of capital assets the Government is building with oil and gas revenues to support current and future development challenges of the country. This no doubt is a misplaced priority.

It must also be emphasized that the allocation of to the same office being part of the 30% of ABFA which is required by law to be spent on goods and services was not appropriate. Even though Act 815requires that this is done, the services spent on were not necessarily pressing as the country continues to be faced with serious socioeconomic challenges including thousands of schools under trees, lack of good drinking water, poor health infrastructure, etc.

Government has often argued that the social services sub-sectors is already receiving substantial amount of resources including poverty reduction spending. Moreover, the social sector has other statutory mechanisms for financing their projects, such as the Ghana Education Trust Fund (GETFUND) for education infrastructure; and the National Health Insurance Fund for health sector financing. However, most of this expenditure goes to recurrent spending on goods and services. As a result of this, Ghana has been unable to achieve established standards for financing requirement for social services like education and health. For instance, the Figure 3 below shows that Ghana's public spending on education and health as a proportion of GDP has been declining to the levels below lower middle income average, indicating that Ghana could be spending lower than her peers in the lower middle income category.

[11] Government of Ghana - Budget and Policy Statement, 2013.

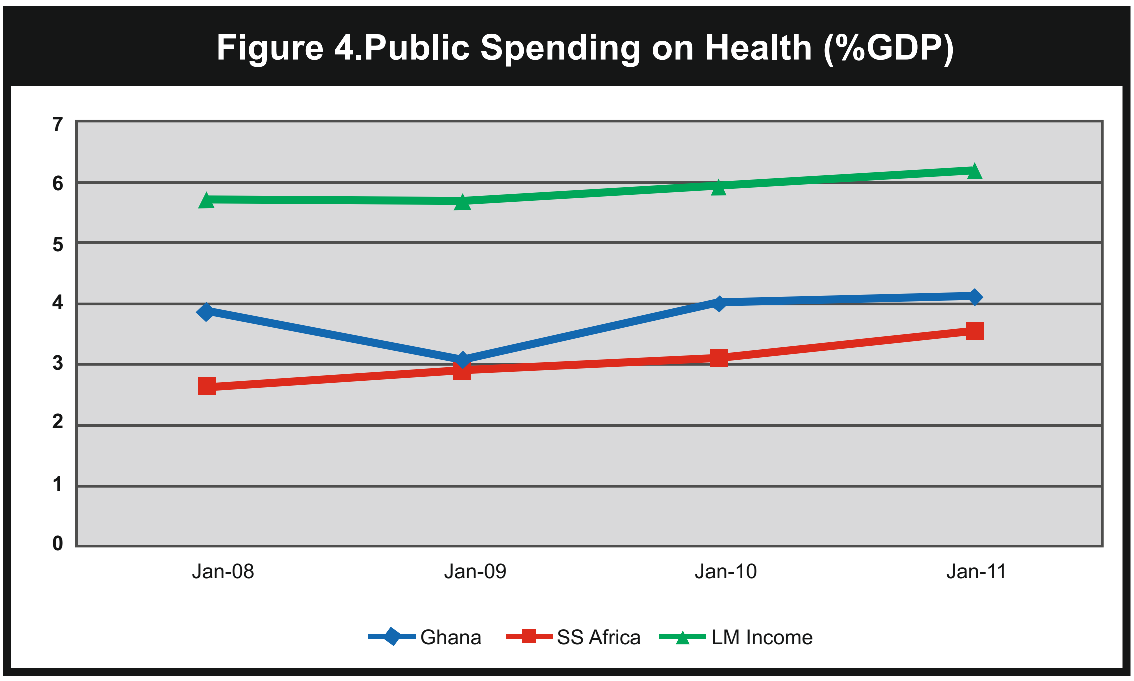
Figure 3. Public spending on education (%GDP)



Source: ***Source: CIA Fact-book 2012***

The case of public spending on health is more revealing. Even though the country has performed better than the average for sub-Saharan Africa, it is still significantly lagging behind lower middle income average. As a Middle Income Economy, Government must conduct due diligence on its priorities before allocating financial resources to them. Oil and gas revenues are depletable and must not be sacrificed for projects that would not bring about sustainable development for the people.

Figure 4. Public spending on health (%GDP)



Source: ***CIA Fact-book 2012***

3 ***The exercise of discretion by the Minister of Finance could provide room for politically motivated project selection as was demonstrated by high political consideration for "equity" at the expense of efficiency and value for money.***

Another feature of oil revenue use in Ghana is the spread of limited revenues over too many projects. In 2011, 2012 and 2013, about 16 road projects have been allocated oil revenues from ABFA. This can be attributed to the wide discretionary powers given to the Minister under Section 21(6) of Act 815, to determine priority areas and allocations of oil revenues. Such discretions do not only provide room for politically motivated project selection but also, this method of financing projects with relatively lesser resources leads to unnecessary delays in the completion of projects resulting from slow disbursement of funds. It is difficult to understand the basis for spreading oil revenues thinly across many projects in all the ten (10) regions of Ghana if not for the political considerations of "equity" in the distribution of the revenues. As a result, the following road infrastructure projects which are partly funded from oil revenues are at different stages of completion with a few actually completed.

Table 7. Investments of the Annual Budget Funding Amount (Road Infrastructure, 2011)

No	Name of Project	Amount (GH¢)
1	Upgrading of Sefwi Bekai-Eshiem-Asankragwa Road	11,530,624.76
2	Reconstruction of Asankragua-Enchi Road	5,416,022.34
3	Emergency Rehabilitation works on Dansoman main road	3,320,581.31
4	Rehabilitation of Anyinam-Konongo Road, Nkawkaw by-pass (Adden No.2)	24,133,425.39
5	Partial Reconstruction of Bomfa Junction-Asiwa and Bewai-Ampaha Asiwa Road	5,387,778.17
6	Upgrading of Tainso-Badu-Adentia Road	8,553,812.88
7	Reconstruction of Berekum-Sampa Road (Km32-88)	9,664,568.64
8	Construction of Kpando-Worawara Dambai Road Phase III	5,094,442.01
9	Emergency works on the upgrading of Ho – Adidome and Adaklu Xelekpe-Aduadi Road	3,271,079.63
10	Construction of Twifo Praso-Dunkwa Road	1,500,000.00
11	Construction of steel bridge over river Amunam and over River Kakum on Kwaprow-Ankaful Road	1,053,931.83
12	Reconstruction of Navrongo-Tumu Road	1,650,000.00
13	Construction of Wa-Han Road	2,012,082.59
14	Construction of Bamboi-Bole road (Bamboi-Tinga Section)	5,099,412.00
15	Accra-Kumasi Highway Dualisation Project: Kwafokrom – Apedwa Section	34,300,601.28
16	Reconstruction of Sunyani Road in Kumasi (Sofoline Interchange	12,114,004.37
17	**Total**	**134,102,367.20**

*Source: **PIAC Semi-Annual Report, June, 2012.***

As already observed, this allocation inefficiency is borne out of political consideration for equity in the distribution of projects, apparently in response to the requirement for even and balanced regional development. But this could have been achieved without spreading revenues thinly across too many projects. Whilst all areas in Ghana are entitled to benefit from oil and gas revenues as a constitutional requirement, Government could have been more efficient by executing the projects in phases, to ensure timely and scheduled completion of projects. Thus in the current practice, efficiency has been sacrificed in favour of equity, which cannot stand the test of basic public financial management standards.

Notwithstanding the attempt to site projects in every region to demonstrate equity considerations in the allocation of oil and gas revenues, the evidence as shown in Table 8 below does not still meet this objective as the value of the projects differ between regions contrary to the objective of ensuring even and balanced regional development. The following road projects were grouped according to the region of location.

Table 8 Regional Distribution of Road Infrastructure Projects partly funded from Oil and Gas Revenues

RegionAmount	(GH¢)	(%)
Greater Accra	3,935,581.31	2.3
Ashanti	12,864,004.37	7.7
Eastern	63,821,794.84	38.13
Western	16,946,647.10	10
Central	2,553,931.81	1.5
Volta	8,365,521.64	5
Brong Ahafo	18,218,381.52	10.8
Northern	5,099,412.00	3
Upper East	1,650,000.00	1
Upper West	2,012,082.59	1.2
Total Roads (%ABFA)	134,102,367.20	80
Ghana Gas Company + Others (% of ABFA)	33,897,652.00	20
ABFA	**168,000,019.20**	**100**

Source: PIAC Semi-Annual Report, June, 2012; Ministry of Finance, Budget, 2012

[12] Section 21(2) of the Petroleum Revenue Management Act 2011 (Act 815)
[13] The Eastern Region was allocated more because it was spent on substantial portions of the Accra-Kumasi High Way which falls within the Eastern Region. The resources were not applied to urban or town roads as occurred in most regions.

From Table 8, except Greater Accra, the regions with least allocations were also the most poor and deprived regions in Ghana – Northern Region, Central Region, Upper East Region and Upper West Region. Thus, the issue of equity was not supported by evidence.

In addition, since oil revenue allocations are based on projections of crude oil prices and production volumes, the inability of Government to meet its revenue target could be detrimental to its planned spending as was seen in 2011 and 2012. In 2011, about GHS395.9 million of projected ABFA were not realised. Similarly in 2012, another GHS97.72 million of the projected ABFA was not realised. This led to many projects being left out and those that were started are now at different stages of completion.

Poor planning and poor revenue forecasting continue to be a major setback in achieving the spending objectives of the Government as it has made it difficult to match projects against volatile revenues. These high projections have also negatively affected the growth of the Ghana Petroleum Funds for the purpose of insuring against cyclicality in the budget and achieving intergenerational equity. It is expected that by the time new spending priorities of oil revenues are selected in October 2013, about 30% of the projects would not have been completed raising doubts about priority setting for the next three years.

4 ***Ghana is not deriving value for money from the infrastructure projects funded with oil and gas revenues as most of the projects have been delayed, operating under costly extensions and leading to cost over-runs.***

A Value for Money Audit conducted on some of the road projects funded from oil revenues revealed that Ghana was likely not to get required value for the investments being made. This has been the bane of many oil producing countries as several billions of dollars thrown in investments projects have often been associated with one or more of the following features:

a. Delays in project completion

b. Non-completion of projects

c. Poor diligence in procurements

d. Cost over runs

Over the last two years, the allocation of oil revenues to many projects not withstanding limited revenues adversely affected the completion of some of the projects except those that were carried over from the pre-oil era. The practice has left most of the projects behind schedule, with a lot of them now being done under extension periods. The projects that were reported to have been completed included the construction of steel bridge over river Amunam and over River Kakum on Kwaprow-Ankaful Road; and the construction of Bamboi-Bole road (Bamboi-Tinga Section). Other projects which, were completed by the end of 2012 also included Emergency Rehabilitation works on Dansoman main road, and the Rehabilitation of Anyinam-Konongo Road, Nkawkaw by-pass (Adden No.2).

Table 9. Completion Stage of Roads Infrastructure Projects funded with Oil and Gas Revenues

No	Name of Project	Amount (GH¢)	Completion (%) - 2011	Completion (%) - 2012
1	Upgrading of Sefwi Bekai-Eshiem-Asankragwa Road	11,530,624.76	54	67.9%
2	Reconstruction of Asankragua-Enchi Road	5,416,022.34	91	
3	Emergency Rehabilitation works on Dansoman main road	3,320,581.31	97	
4	Rehabilitation of Anyinam-Konongo Road, Nkawkaw by-pass (Adden No.2)	24,133,425.39	97	99%
5	Partial Reconstruction of Bomfa Junction-Asiwa and Bewai-Ampaha Asiwa Road (36.2km)	5,387,778.17	64	68.8%
6	Upgrading of Tainso-Badu-Adentia Road	8,553,812.88	90	
7	Reconstruction of Berekum-Sampa Road (Km32-88)	9,664,568.64	84	78.3%
8	Construction of Kpando-Worawara Dambai Road Phase III (70km)	5,094,442.01	65	71.1%
9	Emergency works on the upgrading of Ho – Adidome and Adaklu Xelekpe-Aduadi Road	3,271,079.63	44	
10	Construction of Twifo Praso-Dunkwa Road	1,500,000.00	4	
11	Construction of steel bridge over river Amunam and over River Kakum on Kwaprow-Ankaful Road	1,053,931.83	100	
12	Reconstruction of Navrongo-Tumu Road	1,650,000.00	38	60
13	Construction of Wa-Han Road (30km)	2,012,082.59	18	15.2%
14	Construction of Bamboi-Bole road (Bamboi-Tinga Section)	5,099,412.00	100	
15	Accra-Kumasi Highway Dualisation Project: Kwafokrom – Apedwa Section	34,300,601.28	45	46.2%
16	Reconstruction of Sunyani Road in Kumasi (Sofoline Interchange)	12,114,004.37	72	
17	**Total**	**134,102,367.20**		

Source: Ministry of Roads and Highways (2011), Minister of Roads – Meet the Press (4th December, 2012).

[14] Note: 2011 completion rates were provided by the Ministry of Energy to the PIAC, whilst the 2012 completion rates were provided by the Minister of Roads and Highways in a Meet the Press Series on 4th December, 2012.

However, the projects which were uncompleted within the contract period were many. According to Government, the following projects which are on-going among others are expected to achieve significant progress during the 2013 fiscal year – Nsawam-Suhum–Apedaw road, La-Teshie road, Sunyani road in Kumasi, Eastern corridor roads, Asikuma junction-Have, Enchi-Dadieso road, Asankragua-Enchi road, Berekum-Sampa road, and Navrongo-Tumu road. The others are Bomfa junction-Asiwa-Bekwai, and Sefwi-Bekwai-Eshiem-Asankragua. Thus, if these projects are not completed in 2013, they will spillover into 2014, the period when new priority projects will be implemented.

There were also discrepancies in the reported completion rates of some of the projects with the Minister of Roads and Highways providing lower rates for the project in 2012 against the 2011 rates provided to the PIAC by the Ministry of Roads and Highways (See Reconstruction of Berekum-Sampa Road (32-88km) and the Construction of Wa-Han Road (30km)).

[15] Government of Ghana, Budget and Policy Statement, 2013.

Figure 5. State of the Navrongo - Tumu Road as at June, 2013

Some of these projects as at the time of issuing this report were under approved extension periods. For example, the Navrongo-Tumu road was awarded in 2010 with a schedule completion in April 2013 but the road was about 60% complete as at June 2013. The base of the total 25km stretch was done, with prima on 14km. Also, 11km of the 14km was first sealed. The contractor indicated that it needed an additional year to complete the project and blamed the delay largely on irregular payments and weather conditions. The scarcity of water for compaction also brought operation to a halt until the rains came in.

Also, a study of the project documents revealed several cases of cost-over-runs associated with long periods between the dates of contract award and contract completion.

Figure 6. State of the Asankragua-Enchi Road as at June 2013

One important example of such contracts is the Asankragua-Enchi road awarded in 2007 to a Chinese company, Top International Engineering Corporation Ghana Limited at the original cost of GHS24.1 million, to be completed in 3 years. The work involved double sealed bituminous surface, improvement of the road geometry, provision of bus-bays, taxi stopping lanes in towns, drainage structures, crash barriers and speed calming measures. However, this project had not been completed since June, 2013. With an estimated 5 km of work left, the current contract sum of US$48 million dollars shows a significant cost over-run.

Another case of interest was the Twifo Praso-Dunkwa. The total funding requirement for the project was secured by 2002 but why this project is funded partly from oil revenues could be attributed to diversion of the originally secured funds or cost over-runs. As a consequence of this, only 4% of the works were reportedly completed as at the end of 2011. For the Bole-Tinga section of the Bole-Bamboi road, it took a period of 10 years to complete it as against a contract period of 2 years involving huge cost over-runs.

The projects further exposed the weaknesses in project planning and selection. There were no feasibility studies covering most of the projects. Therefore in spite of the stringent specifications in the contract documents for these projects, the lack of feasibility studies made it difficult to assess compliance with works specifications, socioeconomic impacts and environmental impacts.

The difficulties that confronted the efficient execution of projects funded partly from oil revenues adversely affected the quality of the projects. This has been confirmed by the Parliamentary Select Committee on Roads in its report to Parliament over the 2013 Budget and Policy Statement of the Government, in which it states, "A discourse with beneficiary communities during a field tour by the Committee in 2012 and indeed observations made by the Committee brought to the fore, the high rate of deterioration of most of the newly constructed urban and feeder roads nationwide". This is attributed to "poor design of roads, the use of inferior construction materials, and inadequate supervision by the Engineers

5 ***Whilst the projects funded from oil revenues may have long-term economic prospects in project communities, the short-term social and economic impacts during the construction phase have been severely limited as contractors bring workers, food and materials mostly from non-project communities.***

[16] Ghana NewsLink - http://www.ghananewslink.com/business/index.php?id=16476
[17] IMF, "Ghana: Poverty Reduction Strategy Paper Annual Progress Report", Country Report No. 04/207

Road infrastructure is an important requirement for enhancing economic growth. The emphasis of oil revenues on road infrastructure therefore has medium to long-term growth prospects. However, in the short-term, the positive social and economic effects of some of the projects were very limited as they did not provide many direct and indirect job opportunities for the people in the project communities. Limited opportunities were provided to women who swept the roads and cooked for workers in some cases for an average monthly wage of GHS100 (US$50). Food sellers complained that contractors bought food and vegetables from markets outside the project communities, but in a limited case, the Accra-Kumasi Highway project generated significant market opportunities for bread and vegetable sellers.

In some communities, reported road accidents involved human and animal lives due to poor safety mechanisms. Consultations between project managers, contractors and community members were not regular; and therefore in most cases, the communities did not know the completion period of the projects. This negatively affected the ability of community members from monitoring the projects.

A COMPARATIVE ANALYSIS OF THE SOCIAL AND ECONOMIC IMPACTS OF TWO PROJECTS – ASANKRAGUA-ENCHI AND NAVRONGO - TUMU ROADS ARE PRESENTED AS FOLLOWS.

a. Employment Opportunities

The projects provide direct employment to few people in the communities. Men were engaged in laborer work while women swept the road prior to the application of bitumen on the road, engaged in laundry services and cooking for the workers. The key technical staff on the project came from outside the communities.

While the Navrongo-Tumu project employed 100% Ghanaian content, the Asankragua-Enchi project employed Chinese as Supervisors. There was no visible indirect employment in the communities because procurement of food and diesel were done outside the communities.

Figure 7 Workers on the Navrongo - Tumu Road

b. Resettlement

Resettlement was not necessary for the Asankragua-Enchi road because it was an old road reconstructed but with few diversions which did not affect property belonging to private persons or corporate bodies.

Even though the Navrongo-Tumu road had never been constructed, the construction over an existing path also made resettlement unnecessary. The demarcation of the road had long been established.

c. Community Compensation

Compensations were not an issue on the Asankragua-Enchi project. Several interactions with the community members did not reveal any problems related to compensation.

The situation was quite different on the Navrongo-Tumu road. Most farmers who gave their lands for gravels used for the construction were not compensated. And where compensations were paid, they were not adequate to measure up to the economic loss of the people. A retired teacher, Mr. Sebastian, in Nakong recounted how he lost 40 Shea nut trees without being compensated. He said his "persistent demand for compensation had fallen on deaf ears".

d. Safety Measures

The signage on the Asankragua - Enchi road was properly done. The only thing left was the road marking. Even though they provided speed ramps, the communities complained that they needed more to control over speeding, which had already claimed lives of their animals. On the Navrongo-Tumu stretch, road signs were not done. But the contractor indicated the road signage would be done when the 2nd seal is completed. However, inadequate signs at that stage of completion was causing the community economic loss with the killing of their animals. This makes temporary speed ramps and signs very critical on construction sites to avert accidents. The contractor has the temporary signs but most of them were locked up in the premises of the contractor.

There were also a few vehicular accidents taking human lives and injuring many on both projects and the communities were very concerned about the trend.

e. Social Responsibility

The Asankragua-Enchi road project had very little corporate social intervention programmes instituted by the contractor. The only visible social responsibility effort was the tarring of a section of the Wassa Dunkwa Market.

On the contrary, the contractor on the Navrongo-Tumu project constructed 3 boreholes to compensate for the use of the dam that served as a source of drinking water in some communities along the road. Although this is commendable, it was also detected that some technical defects in the construction of the boreholes rendered them non-functional. It took so long for the first drop of water to come out of the ground.

The contractor also provided books for the community, de-silted the dam of Nakong and plans to hand over its office premises to the community for a clinic upon the completion of the project.

Figure 8 Road Safety Sign on the Asankragua-Enchi Road

f. Community Engagement

The communities on the Navrongo-Tumu road had better relationship with the contractor. The communities confirmed regular consultation among the chiefs, local authorities and the contractor. However they were not directly involved in the monitoring of the project, except their informal relations with the contractor. This developed into a monitoring tool on their part. On the other hand, communities along the Asankragua-Enchi road had very little or no interactions with the contractor.

g. The Quality of work done

The Asankragua–Enchi Road looks well done. The erosion control at the shoulders of the road could extend the life of the project. The only concern is the type of road being constructed given the economic activity in the area. A lot of heavy-duty trucks ply the road carting cocoa and foodstuff to the Cities. Similar roads in the area lasted barely 5 years. Asphalt would have been ideal to provide the needed resistance to the trucks. Similarly the Navrongo-Tumu road looked solid. The compaction done for such a new road is commendable. It is hoped that the final work would reflect the specifications of the project. However, the only concern is the poor erosion control measures in some portions of the road. It was observed that erosion had already started eating into the road. But the contractor indicated that they would compact the edges before the end of the project.

Figure 9 Consultations with Traditional Leaders in the Jomoro District of Western Region

6 ***The continuous allocation of oil revenues to the Ghana National Gas Company is irregular, inconstant with the Petroleum Revenue Management Act 2011 (Act 815); and diverts revenues meant for development in the Budget to finance oil and gas infrastructure.***

In the last two years, part of the ABFA has been allocated to the Ghana National Gas Company in the name of "Expenditure and amortization of loans for oil and gas infrastructure". In 2011, GHS20 million (approximately US$10.6 million) was allocated to the company.This was increased to GHS100 millionin 2012 (approximately US$51 Million). These allocations could not be justified under the law since oil revenues are not allowed to be spent on any oil and gas related projects beyond what is statutorily provided for in Section 7 of the Act 815. This requires allocations for the equity financing cost of GNPC and not more than 55% of net carried and participating interest.

It is instructive to note that at the time the Petroleum Revenue Management Act was passed in March 2011, the Ghana National Gas Company had not been established and the law could not have anticipated its establishment. Hence, no provision was made in the law on how to finance the activities of the company unlike the GNPC.

If the allocations to the Ghana Gas Company are to continue, it must be regularized by amending the law to incorporate it.In this wise, what the Minister of Finance has done in the last two years has been to allocate oil revenues wrongly to an institution whose dividend policy has not been established under the law.

This irregularity must be cured to prevent further diversion of oil revenues meant to finance development projects through the annual budget to oil and gas infrastructure, a situation that demonstrates violation of the law and abuse of the objectives of spending oil revenues for accelerated development.

7 *Delays in the disbursement of the CDB loan, which is collateralized against the Annual Budget Funding Amount have increased the cost of the loan facility, increased the burden on future oil and gas revenues; and further demonstrated a case of low absorptive capacity of the economy.*

In order to accelerate the development of the country, the Government of Ghana decided to front load the future oil revenues allocated to the budget through a collateralization arrangement which led to the signing of a US$3 Billion loan facility with the China Development Bank.

The projects lined up for financing under this facility are:

a. Accra Metropolitan Area Intelligent Traffic Management Project;
b. Accra Plains Irrigation Project;
c. Coastal Fishing Harbours and Landing Sites Project;
d. Eastern Corridor Multi-Modal Transportation Project;
e. Western Corridor Gas Infrastructure Project (Helicopter Surveillance Fleet for Western Corridor - Oil Enclave);
f. Western Corridor Petroleum Terminal Project;
g. Western Corridor Infrastructure Renewal Project (Western Railway Line Modernization and Takoradi Port Rehabilitation/Retrofit);
h. Sekondi Free Zone Project;
I. Development of ICT Enhanced Surveillance Platform for Western Corridor - Oil Enclave; and
j. SME Projects Incubation Facility.

So far only 2 projects are under construction – the Gas Infrastructure project and the Development of ICT Enhanced Surveillance Platform for Western Corridor Oil Enclave. Disbursements of the facility for the other projects have been delayed for reasons associated with implementation challenges. In spite of these delays, Ghana has been fulfilling its commitment under the contract – the implementation of the Crude Oil Off-taker Agreement under which Ghana sells crude oil to China and an Agent of the lender, UNIPEC, has been lifting crude oil on its behalf. Ghana has also continued to bear the costs of the delays by paying its commitment fee of 1% per annum on the "undrawn and un-cancelled portion of the total facility commitment during the period" and which "ends on the final utilization date under the subsidiary agreements for each project selected for financing". The Government of Ghana has already paid US$60 million in commitment fees for the past one year.

The delay in the disbursement of the facility has led to the main contractor Sinopec threatening to leave the site citing Government of Ghana indebtedness of about US$400[18] million. Accordingly, the President directed the Minister of Finance to look for bridge-financing to save the project as a result of the financial challenges which could also be a new cost to the state

[18] Daily Graphic - "Gas project in limbo", 19 June 2013. http://graphic.com.gh/General-News/gas-project-in-limbo.html

Figure 10 Top right and Bottom right – Gas Processing Plant Site. Bottom left – Chinese workers on the project site.

The interest in this facility is occasioned by the fact that the facility has been collateralized against future allocations to the ABFA. Thus the cost of the delay in disbursing the facility as already indicated above puts undue burden on future oil revenues in the event of a default by the Government of Ghana.19

In addition to the poor value for money argument, the legality of the projects currently under construction has been challenged especially the Gas Infrastructure Project, whose contract (between the Ghana Gas Company and Sinopec, a Chinese firm) is yet to receive approval from Ghana's Parliament although the project is at advanced stage of completion. As an international contract, the Gas Infrastructure project requires parliamentary approval to become effective in accordance with article 181(5) of the 1992 Constitution of Ghana. This may raise future costly litigation if the legal status of the contract is contested in the Supreme Court, the highest Court of Ghana.This has become more compelling following a recent ruling by the country's highest Court in the case of Martin Amidu Versus the Attorney General and 2 others in which the Court directed Waterville Holdings to refund €47 million judgment debt paid them by the State in respect of a contract which the court said did not receive the approval of Parliament and was therefore nullified.10

Also worrying about the facility is the lack of feasibility studies on the projects earmarked for financing. The projects under the CDB facility are likely not to deliver quality impacts without feasibility studies. The lack of feasibility has led to a wide range in the costs of the projects as Government is unable to provide the exact costs. This has provided room for corruption with serious implications for future oil revenues.

Daily Graphic – "Government to arrange alternative funding for Gas Project", on 27 June 2013, http://graphic.com.gh/Business-News/government-to-arrange-alternative-funding-for-gas-project.html

It is generally not a bad idea to font-load oil revenues through collateralization, but the danger is often associated with the efficient spending or investment of the resources as any poor management of the resources could deny future generations the benefits of poorly delivered current investments. It is important to note that the full cost of the projects are yet to be ascertained and will have serious impacts on future oil revenues. Also, if the completion of the projects is delayed as a result of low absorptive capacity it will have adverse impacts on prices and associated cost overruns, thus undermining value for money.

[20] The ruling was issued on Friday, 14th June, 2013.
[21] Each eligible project is to be financed through a Subsidiary Agreement

5.0 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The findings from the analysis generally show that oil revenues have not been managed efficiently so far as the projects evaluated are concerned. This is due to multiple factors including but not limitedto poor project selection, project delays, operational lapses, and low absorptive capacity as a result of high social and economic cost of investments. Thus, the spending of the ABFA has not yet met the highest standard of efficiency. This conclusion is based on the following findings:

- From 2014, allocation to the GNPC for equity financing will decline further as its share of net carried and participating interests rises to support its other investments but there are growing fears that the corporation has not demonstrated its capacity to invest these revenues efficiently.
- In the past two years, allocation of the Annual Budget Funding Amount to some of the expenditure items did not demonstrate significant allocation efficiency as they were allocated to areas other than social and economic priorities.
- The exercise of discretion by the Minister of Finance could provide room for politically motivated project selection as was demonstrated by high political consideration for "equity" at the expense of efficiency and value for money.
- Ghana is not deriving value for money from the infrastructure projects funded with oil and gas revenues as most of the projects have been delayed, operating under costly extensions and leading to cost over-runs.
- Whilst the projects funded from oil and gas revenues may have long-term economic prospects in project communities, the short-term social and economic impacts during the construction phase have been severely limited as contractors bring workers, food and materials mostly from non-project communities.
- The continuous allocation of oil and gas revenues to the Ghana National Gas Company is irregular, inconstant with the Petroleum Revenue Management Act 2011 (Act 815); and diverts revenues meant for development in the Budget to finance oil and gas infrastructure.
- Delays in the disbursement of the CDB loan, which is collateralized against the Annual Budget Funding Amount have increased the cost of the loan facility, increased the burden on future oil and gas revenues; and further demonstrated a case of low absorptive capacity of the economy.

The following recommendations are being proposed to address the challenges militating against the efficient management of oil and gas revenues.

a. The exercise of discretionary power by the Minister of Finance must be curtailed. Discretionary authority is regulated by article 296 of the 1992 Constitution of Ghana which requires that persons exercising discretion apart from a Judge must publish by constitutional instrument regulations to govern the exercise of those powers. The Minister of Finance must therefore comply with the provisions of the Constitution before the presentation of the 2014 Budget and Policy Statement of the Government to Parliament.

b. The need for a Fiscal Responsibility legislation cannot be delayed any further judging from the quest by Government to borrow more against future oil and gas revenues without efforts at minimizing the burden on future revenues. Government must present to Parliament a bill to set limits on borrowing against future oil and gas revenues. This ensures that the management of public resources are guided by predictability, credibility and transparency.

c. The need for a Public Investment Management Plan cannot be delayed any longer. Projects funded from loans collateralized against future oil and gas revenues must be guided by transparent procurement processes and set strict time lines for the completion of those projects. There must be value for money audits on all projects funded with oil and non-oil revenues as condition precedent to the release of funds. Whilst equity considerations are important in the distribution of public investments, such considerations should not override efficiency.

APPENDIX 1

Allocation of the Annual Budget Funding Amount by Ministries

SECTORS	2012			
	Goods & services	Asset	Total	%
ADMINISTRATION	2,000,000	111,128,064	113,128,064	18%
Office of Government Machinery	0	65,000,000	65,000,000	11%
Parliament of Ghana	0	5,000,000	5,000,000	1%
Ministry of Finance and Economic Planning	2,000,000	7,000,000	9,000,000	1%
Ministry of local government	0	15,000,000	15,000,000	2%
ECONOMIC	82,930,610	171,950,000	254,880,610	41%
Ministry of Food & Agriculture	10,500,000	42,500,000	53,000,000	9%
Ministry of Lands & Natural Resources	33,840,000	0	33,840,000	6%
Ministry of Trade & Industry	3,590,610	9,450,000	13,040,610	2%
Ministry of Envir, Science & Technology	25,000,000	0	25,000,000	4%
Ministry of Energy	10,000,000	120,000,000	130,000,000	21%
INFRASTRUCTURE	40,000,000	91,000,000	131,000,000	21%
Ministry of Water Resources, Works& Housing	0	21,000,000	21,000,000	3%
Ministry of Roads and Highways	0	40,000,000	40,000,000	7%
Ministry of Transport	40,000,000	30,000,000	70,000,000	11%
SOCIAL	42,000,000	10,000,000	52,000,000	8%
Ministry of Education	10,000,000	10,000,000	20,000,000	3%
Ministry of Employment & Social Welfare	10,000,000	0	10,000,000	2%
Ministry of Youth & Sports	22,000,000	0	22,000,000	4%
PUBLIC SAFETY	0	25,000,000	25,000,000	4%
Ministry of Interior	0	25,000,000	25,000,000	4%
MDAs Total	166,930,610	409,078,064	576,008,674	94%
Overall Total	**184,363,350**	**430,181,149**	**614,544,499**	**100%**

APPENDIX 2

Allocation of ABFA by Ministries, Departments and Agencies

SECTORS	2013			
	Goods & services	Asset	Total	%
ADMINISTRATION	48,850,000	5,000,000	53,850,000	10%
Office of Government Machinery	20,000,000	0	20,000,000	4%
Ministry of Finance	27,350,000	0	27,350,000	5%
Ministry of Local government	0	5,000,000	5,000,000	1%
National Development Planning Commission	1,500,000	0	1,500,000	0%
ECONOMIC	5,300,000	155,000,000	160,300,000	30%
Ministry of Food & Agriculture	0	20,000,000	20,000,000	4%
Ministry of Trade & Industry	0	5,000,000	5,000,000	1%
Ministry of Envir, Science & Technology	300,000	0	300,000	0%
Ministry of Energy	0	130,000,000	130,000,000	25%
Ministry of Tourism & Creative Arts	5,000,000	0	5,000,000	1%
INFRASTRUCTURE	600,000	198,917,043	199,517,043	38%
Ministry of Water Resources, Works & Housing	600,000	58,917,043	59,517,043	11%
Ministry of Roads and Highways	0	100,000,000	100,000,000	19%
Ministry of Transport	0	40,000,000	40,000,000	8%
SOCIAL	300,000	39,900,000	40,200,000	8%
Ministry of Education	0	10,000,000	10,000,000	2%
Ministry of Employment & Social Welfare				
Ministry of Youth & Sports				
Ministry of Health	0	29,900,000	29,900,000	6%
National Labour Commission	300,000	0	300,000	0%
PUBLIC SAFETY	0	23,000,000	23,000,000	4%
Ministry of Interior	0	23,000,000	23,000,000	4%
MDAs Total	55,050,000	421,817,043	476,867,043	90%
Overall Total	**105,454,261**	**421,817,043**	**527,271,304**	**100%**

APPENDIX 3

Investment Projects – Roads

No	Name of Project	Amount (GH¢)
1	Upgrading of Sefwi Bekai-Eshiem-Asankragwa Road	11,530,624.76
2	Reconstruction of Asankragua-Enchi Road	5,416,022.34
3	Emergency Rehabilitation works on Dansoman main road	3,320,581.31
4	Rehabilitation of Anyinam-Konongo Road, Nkawkaw by-pass (Adden No.2)	24,133,425.39
5	Partial Reconstruction of Bomfa Junction-Asiwa and Bewai-Ampaha Asiwa Road	5,387,778.17
6	Upgrading of Tainso-Badu-Adentia Road	8,553,812.88
7	Reconstruction of Berekum-Sampa Road (Km 32-88)	9,664,568.64
8	Construction of Kpando-Worawara Dambai Road Phase III	5,094,442.01
9	Emergency works on the upgrading of Ho – Adidome and Adaklu Xelekpe-Aduadi Road	3,271,079.63
10	Construction of Twifo Praso-Dunkwa Road	1,500,000.00
11	Construction of steel bridge over river Amunam and over River Kakum on Kwaprow-Ankaful Road	1,053,931.83
12	Reconstruction of Navrongo-Tumu Road	1,650,000.00
13	Construction of Wa-Han Road	2,012,082.59
14	Construction of Bamboi-Bole road (Bamboi-Tinga Section)	5,099,412.00
15	Accra-Kumasi Highway Dualisation Project: Kwafokrom – Apedwa Section	34,300,601.28
16	Reconstruction of Sunyani Road in Kumasi (Sofoline Interchange)	12,114,004.37
Total		**134,102,367.20**

APPENDIX 4

Investment Projects - Agriculture

No	Project	Amount (GH¢)	%
1	Fertiliser Subsidy	8,240,000.00	62.7
2	Agricultural Mechanisation	236,100.00	1.8
3	Tsetse Project	1,207,635.00	9.2
4	Youth in Agriculture Project	2,000,000.00	15.2
5	Counterpart Funds for Afram Plains Area Development Project	615,000.00	4.7
6	Inland Valley Rice Development Project	346,060.00	2.6
7	Root Tuber Improvement Programme	260,975.00	2.0
8	Northern Rural Growth Programme	241,882.00	1.8
	Total	**13,147,652.00**	**100**

APPENDIX 5

Poverty Reduction Spending

Sectors	2011	2012	2013
Total Government Expenditure	11,890,727,660	17,631,190,499	23,241,704,616.00
Total Poverty Reduction Expenditure	2,888,257,749	5,350,298,138.93	5,366,347,101.68
Ratio	24%	30%	23%
Education Sector Expenditure	3,084,995,730	4,992,134,084.07	3,783,886,261.09
Basic Education Expenditure	1,475,124,693	2,514,340,985.70	1,975,460,993.97
Ratio	48%	50%	52%
Health Sector Expenditure	1,989,925,775	2,345,331,906.05	1,010,035,443.12
Primary Health Care Expenditure	587,783,114	1,090,704,452.64	733,551,372.36
Ratio	30%	47%	73%
Agriculture Sector Expenditure	223,871,626	163,939,468.44	184,047,630.08
Poverty Agriculture Expenditure	223,183,569	152,820,061.19	173,422,455.13
Ratio	100%	93%	94%
Works and Housing Expenditure	562,428,771	101,117,975.86	143,188,314.78
Rural Water Expenditure	121,623,460	6,485,611.50	28,289,375.74
Ratio	22%	6%	20%
Roads and Transport Expenditure	689,787,153	523,749,418.54	139,473,124.00
Feeder Roads Expenditure	48,616,572	85,774,763.82	69,275,628.06
Ratio	7%	16%	50%
Energy Sector Expenditure	419,518,656	485,375,284.55	170,082,634.16
Rural Electrification	43,988,243	205,395,138.11	111,376,079.56
Ratio	10%	42%	65%

APPENDIX 6

QUESTIONAIRE VALUE FOR MONEY AUDIT

1.Contract Transparency

Assessment Area	Transparency/Disclosure Questions	Notes
Project Identification	Project specification Purpose Location Intended beneficiaries Feasibility study	
Project funding	Budget Engineer's estimate	
Tender process (contract for project supervision)	Tender procedure Number expressing interest Number short listed Number submitting tender	
Tender process (main contract forworks)	List of tenderers Tender evaluation report Tender procedure Number of companies expressing interest Number short listed Number submitting tender	
Contract award (main contract forworks)	Contractor name Contract price Contract scope of work Contract programme	

2.Project Cost Assessment

Assessment Area	Cost Questions	Notes
Contract Execution	Significant changes to contract price, programme, scope with reasons Contract Price at award Variation orders Claims Payment certificates Details of any re-award of main contract	
Post contract completion details (main contract for works)	Contract Price at completion Total payments made Actual contract scope of work Actual contract programme Project evaluation reports (on completion and ongoing)	

3.Socio-economic Impacts

No	Assessment Area	Notes
1	Employment opportunities (Direct and Indirect)	
2	Resettlement of affected people	
3	Community consent (Chiefs, Community members, interested parties)	
4	Compulsory acquisition of affected property	
5	Adequate compensation	
6	Economic and non-economic trees	
7	Environmental concerns (discharges, lost of vegetation cover, harmful chemicals)	
8	Accidents caused by poor safety measures (lives lost, injuries)	
9	Migration of people from other communities to project communities	
10	Human rights concerns (poor conditions of service, arbitrary dismissals, ban of labour unionization, social security)	
11	Social Concerns (criminal activity, prostitution, child labour, etc)	