ANALYSIS OF THE FINANCE MINISTER'S STATEMENT ON THE ECONOMIC IMPACT OF THE COVID-19 PANDEMIC ON THE ECONOMY OF GHANA

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The Minister of Finance presented the economic impact statement on the effect of COVID-19, the global pandemic, to parliament on the 30th of March 2020. ACEP had earlier recommended to African governments, particularly oil producing nations, to reexamine their fiscal projection for the year in order to account for the slumping oil price. It is, therefore, commendable that Ghana, like Nigeria and Algeria, has taken steps to revise expectations for the year. Certainly, the moment is an extraordinary one that requires significant recalibration of the budget to prop the economy and flatten the curve of the COVID-19 cases.

The statement highlighted fiscal challenges arising mainly from oil revenue and tax revenue from imports, both of which are under severe attack by the effects of the pandemic and the attendant low oil price. The Minister projects a revenue loss of GHS5.6 billion, about 54 percent of projected loss of revenue, from oil and non-oil revenue loss of GHS2.254 billion. Additionally, the programmed initial intervention in the health sector to contain the spread of the disease required GHS572 million. This, in addition to GHS1,250 million for the new Coronavirus Alleviation Programme (CAP) to support businesses and households, widens the fiscal gap for the financial year. Hence, yielding a total fiscal unplanned deficit of GHS9.505 billion.

The oil revenue shortfall is estimated using a projected average price of $30 per barrel. This is prudently conservative to mitigate further shocks as the oil market remains unstable with declining demand at the peak of supply and raging battle for market share by Saudi Arabia and Russia. ACEP however maintains that oil price is likely to average $40 for the year.

The measures proposed by the Minister of Finance to realign the budget from the oil revenue perspective include the following: cutting expenditure by GHS1,248 million; lowering the cap on the Ghana Stabilization Fund (GSF) to cream off the excess for financing the CAP; reducing revenue allocation to Ghana National Petroleum Corporation (GNPC); perhaps the most controversial of the measures is the proposal to amend the Petroleum Revenue Management Act (PRMA) to allow the use of the Ghana Heritage Fund (GHF) to support the budget.

It is important to recognize that the socio-economic impact of the pandemic cannot be avoided by any nation on earth, though countries have varied economic power to deal with the disease domestically. However, either rich or poor, countries have soothing fiscal and non-fiscal mechanisms that help to manage the impact of such rare occurrences. In the foregoing conversation about Ghana's preparedness and the Economic Impact Statement presented by the Finance Minister to Parliament, the country is exposed on two fronts:

inadequate fiscal buffers and constrained health system. This analysis focuses on the inadequate fiscal buffers which if improved, could have helped to minimize the impact of the pandemic on Ghana, particularly its impact on the budget; examines the impact of the proposed cut on GNPC cashflow; the justification of the proposed attack on the Ghana Heritage Fund (GHF) as part of measure to deal with the impact of the pandemic; and the silence on the Finance Minister on the implication of the COVID-19 pandemic for the power and gas sectors.

The Fiscal Buffers

Two important buffers are recognized in law: Contingency Fund in the constitution for mitigating unforeseen but critical expenditures of the country and Stabilization Fund established under the Petroleum Revenue Management Act to smoothen the oil revenue component of the budget.

Contingency Fund

The Contingency Fund is the only fund apart from the Consolidated Fund that is established by the constitution under Article 175. The constitution under article 177 further details the power structure around the fund. In Clause 2 of Article 177, the power to allocate (not to approve) money into the fund is resident with the Legislature. One of the rare instances parliament is cloth with such powers.

“There shall be paid into the Contingency Fund moneys voted for the purpose by Parliament; and advances may be made from that Fund which are authorised by the committee responsible for financial measures in Parliament whenever that committee is satisfied that there has arisen an urgent or unforeseen need for expenditure for which no other provision exists to meet the need”.

This means also that the power to utilise the Contingency Fund is the prerogative of the Finance Committee of Parliament, not the Minister of Finance. Again, to ensure, that at all times, there is money in the Fund, Clause 2 of Article 177 provides;

“Where an advance is made from the Contingency Fund a supplementary estimate shall be presented as soon as possible to Parliament for the purpose of replacing the amount so advanced”.

In the eyes of the constitution, it must be impossible to have zero balance[1] in the Contingency Fund. Therefore, how this constitutional impossibility became a norm points to a dysfunction of the Finance Committee and to a large extent parliament on its oversight over the Contingency Fund.

As made evident in budget statements over the years, the issue of contingency is not taken seriously. In the 2019 budget, the Minister of Finance allocated GHS50 million into the Contingency Fund and disbursed zero. The Finance Committee, with such definitive oversight over the fund raised no concerns on the failure to disburse the GHS50million when the minister came back to parliament with an appropriation of GHS177 million for the

[1] The Fiscal data of the Ministry of Finance shows a zero balance in the Contingency Fund as at the end of 2019

Contingency Fund in the 2020 budget. The trend shows that disbursement, on fair chance, was not going to happen in 2020, even though GHS6 per capita allocation from the GHS84.5 billion budget to the contingency fund is inadequate to address existential threats like COVID-19.

The PRMA also provides the parliament a source of revenue into the Contingency Fund. The law grants the Minister of Finance the discretion to cap the Ghana Stabilisation Fund (GSF). When the Minister caps the GSF, two destinations are allowed for the excess over the cap: Contingency Fund and or the Debt Service Account. However, Debt Service Account has largely been prioritised since oil production as show in the table below.

Table 1. Transfer of excess over GSF Cap into contingency funds from 2011 to 2018

Year	GSF cap ($M)	Transfer of Excess over the Cap ($M)	Contingency disbursed ($M)
2011	No cap	0	0
2012	No cap	0	0
2013	No cap	0	0
2014	$250 million	305.7	17.4
2015	$150 million	71.3	23.8
2016	$150 million	0	0
2017	$300 million	0	0
2018	$300 million	284	0

Source: Ministry of Finance, Petroleum Reconciliation Report.

This recurrent neglect of the Contingency Fund is not right and must not be lost at all in the hard conversations about how Ghana finances emergencies even beyond COVID-19.

Ghana Stabilisation Fund (GSF)

This mechanism exists to help the country to smoothen the budget expenditures of the Annual Budget Funding Amount (ABFA) of petroleum receipts. Unlike the Contingency Fund, GSF mechanism is anchored on a fair chance of occurrence either through oil price volatility or production shortfall arising from unanticipated but possible production challenges. For so long, the oil price is established to oscillate beyond the influence of pure market variables. Few market leaders are able to influence the price of the commodity for geopolitical reasons. The remedy for the shock to national budget when expected revenue is not realised is the GSF.

ACEP has over the years been advocating that the GSF should maintain a minimum balance of 40 percent of the projected gross annual revenue to be able to address significant shortfalls in oil revenue. Following this rule, the 2020 budget required a minimum of $627 million (GHS3,573.9 million) to stabilise the expected revenue for ABFA. Had the fund accumulated this buffer, it would have been enough to offset the projected deficit of GHS3,526 million.

The low capping of the GSF over the years has rendered the fund unable to deal with revenue shocks. This occurred in 2015 and has repeated itself in 2020. The double dose of COVID-19 and low oil price further stretches the ability of the fund as a buffer for the budget. The

Minister of Finance, in the economic impact mitigation plan for COVID-19, has reduced the cap on the GSF from $300 million to $100 million to allow the transfer of the $200 million excess over the cap for contingency spending, leaving the GSF (with a new balance of $100 million) much more unable to stabilise the ABFA .

Impact of the ineffective GSF on GNPC

The Cashflow of GNPC must be largely market driven as a commercial entity. The low oil price automatically means the share of revenue from Net Equity Participating Interest (Net CAPI) will reduce. The original 2020 budget programmed 30 percent allocation of Net CAPI to GNPC. This has been reduced to 15 percent in the revised projection to mitigate the impact of the low oil price on the budget, which the stabilisation fund fails to do. This reduces the Net-CAPI expectation of GNPC from $145 million to about $43 million.

This will leave the corporation less money for investment and its programme for 2020. With administrative expense of about $30million in 2019 and trended growth rate of above 30 percent, the Net CAPI will significantly be consumed by the administrative budget of the corporation. The only option left will be for the corporation to borrow. However, the discretionary cuts by the Finance Minister injects further uncertainty into the cashflows of GNPC and escalates the risk premium of the Corporation beyond the oil price, making it difficult for GNPC to borrow.

The Ghana Heritage Fund (GHF)

The conversation is here again: to spend now or save some of the oil revenue for the future. Beyond the minor routine conversations on the GHF, this is the third major national scale discussions on the fund. The first was initiated by Mr. Asiedu Nketia, the General Secretary of the National Democratic Congress (NDC) in 2014. The second was initiated by the current Senior Minister, Mr. Yaw Osafo Marfo, in 2017 when he was quoted as saying that government was going to use the GHF to finance the Free Senior High school (SHS) programme. Interestingly the Finance Minister, Mr. Ken Ofori-Atta, who doused the controversy in 2017 is the one to introduce the third debate.

To put things in proper perspective, the Minister of Finance at all times, has control over 91 percent of oil revenues every year either as ABFA expenditure, buffer for the budget in GSF, debt service, or Contingency spending. What goes into the Savings for the future is only nine percent. Constituting an average of $65 million a year since Ghana started producing oil. At the same time, an average of $360 million has gone into the budget annually.

The context of the recent announcement makes it easy to reduce the debate to emotional jazz to sooth the pain of COVID-19. It is now a question about "shall we keep the money and let people die?" This is clearly jumping the debate from any understanding of what the Minister is seeking to do. The proposed utilisation of the GHF is not different from what Mr. Asiedu Nketia and Mr. Osafo Marfo proposed in the past, to support the budget in the face of developmental needs of the country and challenging times. But the truth is that if the money had been utilised in the past it would not have been available today. The discipline for the country to continue saving for the future must be understood to face challenges along the way. But in the midst of those challenges, care must be taken not to discourage sustainable planning and sacrifices by successive leaders for the future. If the heritage fund is used today, it will be fair to see the past Finance Ministers wailing in regret for not using the money. It also becomes a major disincentive for future Finance Ministers to save because they cannot be sure another Minister will protect the fund.

There is also a certain myth and misconception around the GHF. Some construe the GHF as savings for some future children who will be born fifty to hundred years from now. This is not in the contemplation of the law. The future is explained to mean when Ghana no longer receives oil revenue. This can be ten, twenty or fifty years from now. The future is relative in this context. No one can predict accurately what the future of oil looks like because it is heavily subjected to internal and external dynamics; to a great extent, production profile of the country and energy transition. Many other unknown events are quantifiable in that future equation to justify why savings into the GHF is important as a future income earner to support the budget as envisioned by the framers of the PRMA.

Power and Gas Sector Challenges

The statement of the Minister was surprisingly silent on the fiscal implications of the COVID-19 for gas supply and power generation. The rate of debt accumulation resulting from gas and power supply could increase in 2020. In 2019 and before the advent of the coronavirus crisis, government's debt to Independent Power Producers (IPPs) was over $1 billion.

Gas supply for power production has largely been dependent on supply from the OCTP partners. Average supply from Jubilee and TEN between 22nd March and 2nd April 2020, were 22.6mmscfd and 38.2mmscfd respectively. The unending challenges with Jubilee's gas production continue to affect export of gas to the Ghana National Gas Company. In recent times, the offshore pipeline has been experiencing throughput challenges which require a pigging exercise to be conducted to remove blockages.

The challenges with Jubilee have required OCTP to ramp up production between 160.51mmscfd and 209.75mmscfd to meet critical demand by the power sector. The OCTP gas has therefore become the backbone of domestic gas supply. However, because of cashflow challenges in the power sector, OCTP gas has not been paid for in the last 4 months resulting in a debt accumulation of about $192 million prior to Ghana's first confirmed case of COVID-19. If the power sector was unable to pay for gas utilization before COVID-19, the critical question then is how the sector would meet its payment obligations for gas supply in the midst of the pandemic. The economic impact of the pandemic and the effect of government's measures such as lockdowns are likely to affect the disposable income of consumers. This has implications for revenue collection in the power sector.

The challenges in the power and gas sectors required definitive interventions from government to ensure that the debt situation is not worsened. One key policy intervention could have been a fast-track implementation of cash waterfall mechanism which has been on the drawing board for so long to ensure continuous liquidity of the sector players.

Conclusion and recommendations

It is commendable that the Finance Minister has revised expectation for 2020 while mobilizing resources to contain the spread of COVID-19 and reduce the economic impact of the disease on business and the larger society. It is also encouraging to note that the energy of citizens and businesses are united to support efforts by government to provide resource to contain COVID-19. However, the challenges provide valuable lessons to ensure that Ghana lives sustainably to address unforeseen fiscal and non-fiscal challenges. There are enough laws to aid that effort. Adjusting systemic neglect of the laws is essentially the missing link. The following recommendations are therefore made to support sustainable planning for the future;

1. **Parliament should strengthen oversight over the Contingency Fund.** The COVID-19 pandemic has shown that Ghana needs a reasonable buffer for unanticipated expenditure to allow swift responses to such threats.

2. **The Finance Minister should recognise that the Stabilisation Fund is not a substitute for Contingency spending.** The Contingency Fund is more readily available to address urgent expenditures. This is not the same on the availability of the GSF which has to be withdrawn from investment instruments before it be utilised. Also, the volatility of oil revenues is an ever-present threat to oil producers. This requires significant buffer (a lot of sacrifice) in the GSF to smoothen the budget.

3. **There is the urgent need for further rules on the GSF.** To enable the fund to deliver on its object, consistency is required on the withdrawals and capping of the Fund. The past practice shows that the discretionary power to cap the GSF is too loose and renders the Fund unable to mitigate revenue shortfalls. A clear and consistent formula is necessary. ACEP maintains that the balance of the stabilisation fund at all times should be a minimum of 40 percent of the projected oil receipt for the fiscal year.

4. **GNPC needs consistency in allocation of NET-CAPI.** Recognising that GNPC is a commercial entity its cashflow volatility should be market driven. Extra discretion to cut their allocation only increases the risk premium for the corporation to borrow in an already risky oil business.

5. **The Heritage fund will not solve Ghana’s problems if spent today.** The discipline to save for the future is a difficult one but must be encouraged and sustained. Spending the heritage fund today is akin to telling citizens to go for their pension because they are faced with challenges in a COVID-19 world. The future of oil is more uncertain today than it has ever been. The fund is envisioned to provide support for the budget when Ghana is no longer receiving revenues from oil and that is an important foresight that should not be crucified today.

6. **Government should immediately implement the cash waterfall mechanism in the power sector.** The plan to institutionalize this mechanism has overly delayed. This is further obstructing the flow of cash from the Electricity Company of Ghana (ECG) to players in the value chain. In times of this economic difficulty, a transparent system is required to ensure that revenues collected are not monopolized by the distribution companies.

Signed

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