

**THE BOOM, THE BUST AND THE  
DYNAMICS OF OIL RESOURCE  
MANAGEMENT IN GHANA**

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## Background

- ✓ Ghana found oil with great expectation! “Even without oil, we are doing so well. With oil as a shot in the arm, we're going to fly” (President Kufour).
- ✓ Paper shows that Ghana is a fairly modest oil producer that has made some effort to learn proper oil governance from the experiences of other countries, but has not always managed to implement properly the lessons learned.
- ✓ Ghana has a good number of institutions and sound regulations to ensure that the benefits from oil production are translated into broader-based development, but they have not been effective. The management of oil revenues has not been protected from generally poor fiscal management.

# Organisation of this Paper

- ✓ Introduction
- ✓ Petroleum Exploration and Development
- ✓ Transparency and Accountability Measures
- ✓ Petroleum Revenue Management framework
- ✓ Oil and Macroeconomic Performance
- ✓ Summary and Conclusion

## **Petroleum Exploration and Production in Ghana**

- ✓ Oil exploration began around 1800 led by the West African Oil and Fuel Company.
- ✓ Ghana has four main sedimentary basins: Central basin (Saltpond), Western basin (Tano), the Eastern basin (Accra-Keta) and the inland Voltaian basin
- ✓ Government intensified oil search by passing the Oil and Mining Regulations 1957 (L1 221), the Mineral (Offshore) Regulations 1963 (L1 257) and the Minerals (Oil and Gas) Regulations, 1965 (LI 257).
- ✓ These regulations and international collaborations led to the discovery of the first non-commercial oil in 1970 by Signal and Amoco Oil Company Limited at Saltpond Offshore field

## **Ghana's exploration history can be classified into four phases.**

- ✓ First phase 1896-1969, characterised by wildcat drilling and non-systematic exploration activities. The acquisition of the first 2D seismic coverage in 1968.
- ✓ Second phase focused more on international oil companies-led offshore exploration activities and spans 1970-1984. First offshore deep water well was drilled by Phillips Petroleum in 1978.
- ✓ Third phase saw the establishment of the Ghana National Petroleum Corporation and the involvement of a national oil company in exploration. Major laws and regulations governing the petroleum sector were passed.
- ✓ Current phase, 2001 to date has involved restructuring and resourcing of GNPC and the passing of several legislations, including the Petroleum Revenue Management Law and the new Exploration and Production Law.

## Petroleum Fiscal Regime and Reserves

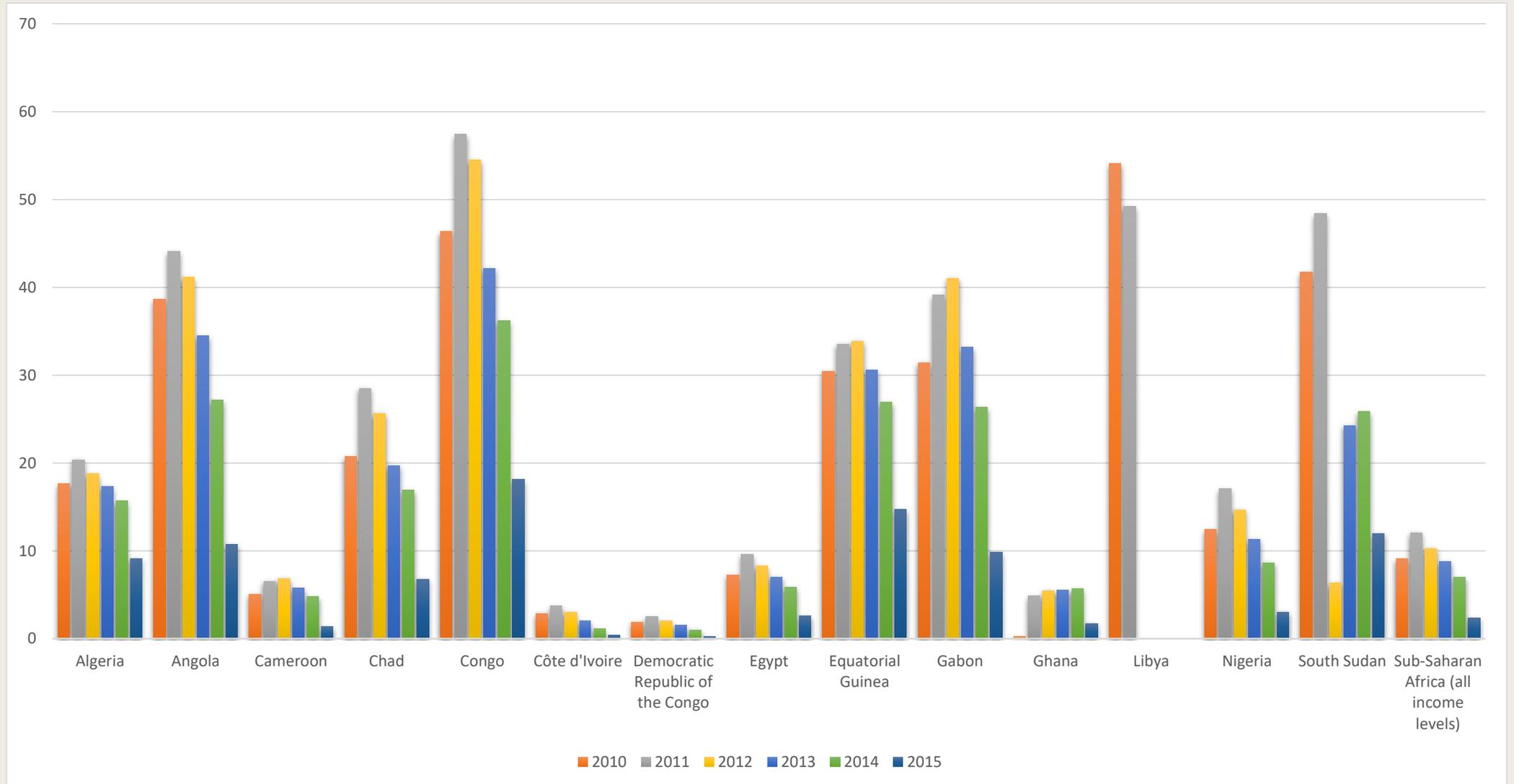
- ✓ Ghana uses a hybrid fiscal regime. The main elements of Ghana's petroleum hybrid fiscal regime include royalty, corporate income tax, surface rentals, carried and participating interest, and additional oil entitlements
- ✓ The royalty rate is not fixed and ranges from 4% to 12.5% of gross production of oil. In the case of natural gas, the royalty ranges from 3% to 10%. The Ghana Model Petroleum Agreement (MPA) provides for a minimum of 10% initial carried interest in all petroleum agreements and a negotiated participating interest thereafter.
- ✓ The private sector participants in the **Jubilee field** are Tullow (the operator who owns 35.64%), Kosmos Energy (24.08%), Anadarko (24.08%), and Petro SA (2.73%), (Tullow 2017). In the case of the **TEN field**, the operator Tullow has 47.18% share, while Kosmos has 17%; Anadarko, 17%; GNPC, 15%; and Petro-SA, 3.82%. Finally, the project partners for the **Sankofa** field include ENI (44.4%), GNPC (20%) and Vitol (35.56%).

- ✓ The Jubilee field produced a total of 161,929,171 barrels of oil between 2010 and 2015. The Ghana Energy Commission reported in 2017 that the Jubilee field produced 26.9 million barrels in 2016; that is, 94,200 barrels per day on average.
- ✓ Ghana's three operating fields had a total estimated reserve of 2,279 billion cubic feet (bcf) of natural gas and 898 million barrels of oil as at the end of 2016.

## Ghana Vs Africa

- ✓ Africa has an estimated reserve of 129.1 billion barrels, representing 7.6% of total global reserves in 2015. Libya and Nigeria have the largest petroleum reserves in Africa with an estimated value of 48.4 billion and 37.1 billion barrels respectively in 2015. Angola and Algeria follow with 12.2 and 12.7 billion barrels respectively.
- ✓ Together, Libya and Nigeria contribute 5% of global reserves and 66.2% of Africa's total reserves.
- ✓ With regard to production, Africa produced 8,375,000 per day in 2015 contributing 9.1% of global production.
- ✓ Nigeria was the highest producer in 2015 with 2,352,000 barrels per day (Ghana's production for 22 days), followed by Angola 1,826,000 barrels per day and Algeria with 1,586, 000 barrels per day (BP, 2016).

# Oil rents as a percentage of GDP in selected African Countries



## **Oil Rents and GDP**

- ✓ Oil rents contributed 12.09% of GDP in 2011 but this declined to 2.38% in 2015 in SSA due to reduced oil prices.
- ✓ Angola recorded the average highest contribution of oil rent to GDP with 32.72%.
- ✓ Ghana recorded only 3.92% over the period 2010 to 2015. The implication is that oil price shocks should generally not have as much impact, that has not been the case!
- ✓ The oil price fall in 2015 led to the request for an IMF facility, and a huge cut to the capital budget by an estimated 52.4 %.

## **Transparency and Accountability Measures**

- ✓ In 2007, Ghana became a candidate country by producing and publishing its first EITI report covering the period 2004-2006. The country finally assumed the status of a compliant country after completing the validation process in 2010.
- ✓ The Exploration and Production Law, 2016 (Act 919), the Petroleum Revenue Management Act, 815(2011) (amended in 2015 as Act 893), Petroleum Commission Law, 2011 (Act 821) and the Local Content Regulations (LI 2204) all make provision for transparency and accountability
- ✓ For instance, section 56 (1 and 2) of the Petroleum Exploration and Production Law, 2016 (Act 919) mandates the Petroleum Commission to establish and maintain a public register of all petroleum licenses among others.

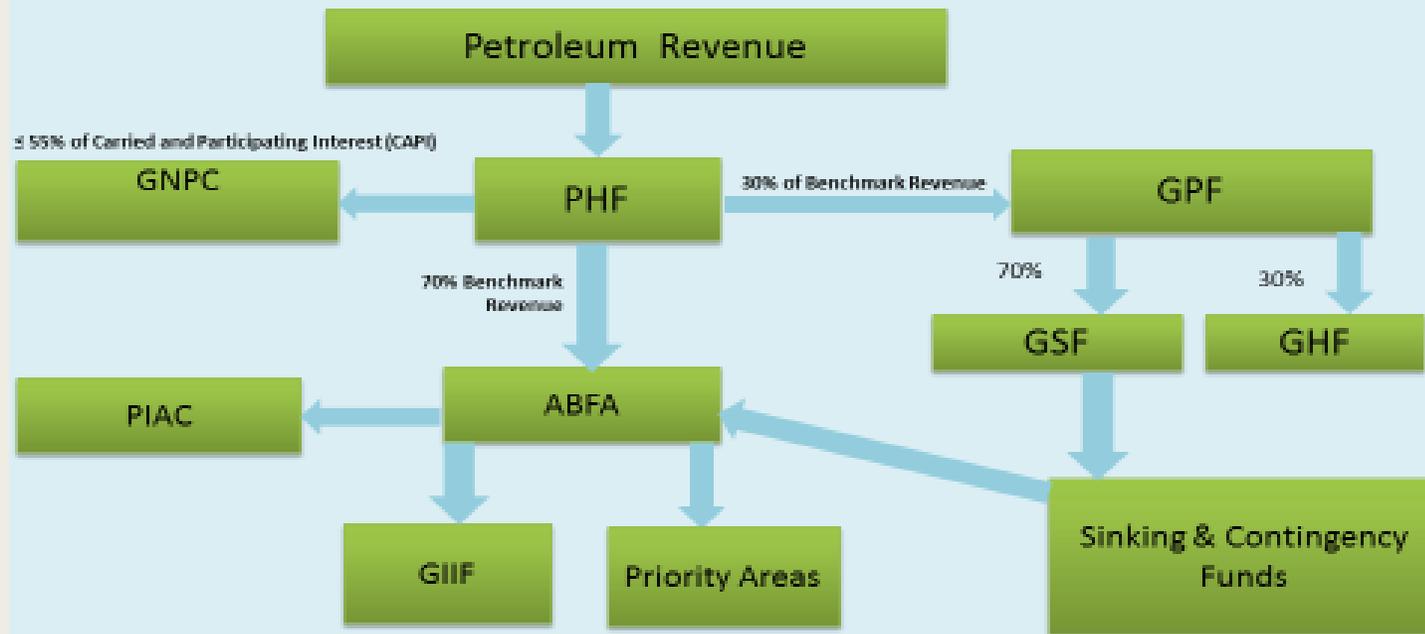
- ✓ The Public Interest and Accountability Committee (PIAC) is charged under section 51 of the Petroleum Revenue Management Act (PRMA) to monitor and evaluate compliance with the Act.
- ✓ In addition, Section 48(2)(b) of the amended Petroleum Revenue Management Act, 2011 (Act 815) mandates the Minister for Finance to publish the status of implementation of oil funded projects annually.
- ✓ Section 8 (1,2,3) of the PRMA requires that the records of petroleum receipts in whatever form, shall simultaneously be published by the Minister in the Gazette and in at least two state owned daily newspapers,
- ✓ The PRMA also requires Bank of Ghana to present to the Minister and to the Investment Advisory Committee, quarterly reports on the performance and activities of the Ghana Stabilisation Fund and the Ghana Heritage Fund

## **Petroleum Revenues Framework**

- ✓ All petroleum revenues are deposited in the Petroleum Holding Fund (PHF). The PHF is an intermediary fund designed to collect and disburse petroleum revenues
- ✓ The Ghana National Petroleum Corporation (GNPC) receives 55% or less of the carried and participating interest. The budget receives 70% or less of the benchmark revenue (annual budget funding amount- ABFA).
- ✓ The ABFA is shared between the priority areas, the Ghana Infrastructure Investment Fund (GIIF) and the Public Interest and Accountability Committee (PIAC).
- ✓ The remaining 30% of the benchmark revenue goes to the Ghana Petroleum Fund. The Ghana Petroleum Fund is shared between the Ghana Stabilisation Fund (GSF) (21%) and the Ghana Heritage Fund (GHF) (9%).
- ✓ The GSF is used to cushion government expenditure when there is a petroleum revenue shortfall, an excess of the cap is sent to the sinking (debt repayment) and contingency funds. The GHF is an endowment for future generations

# Petroleum Revenues Framework

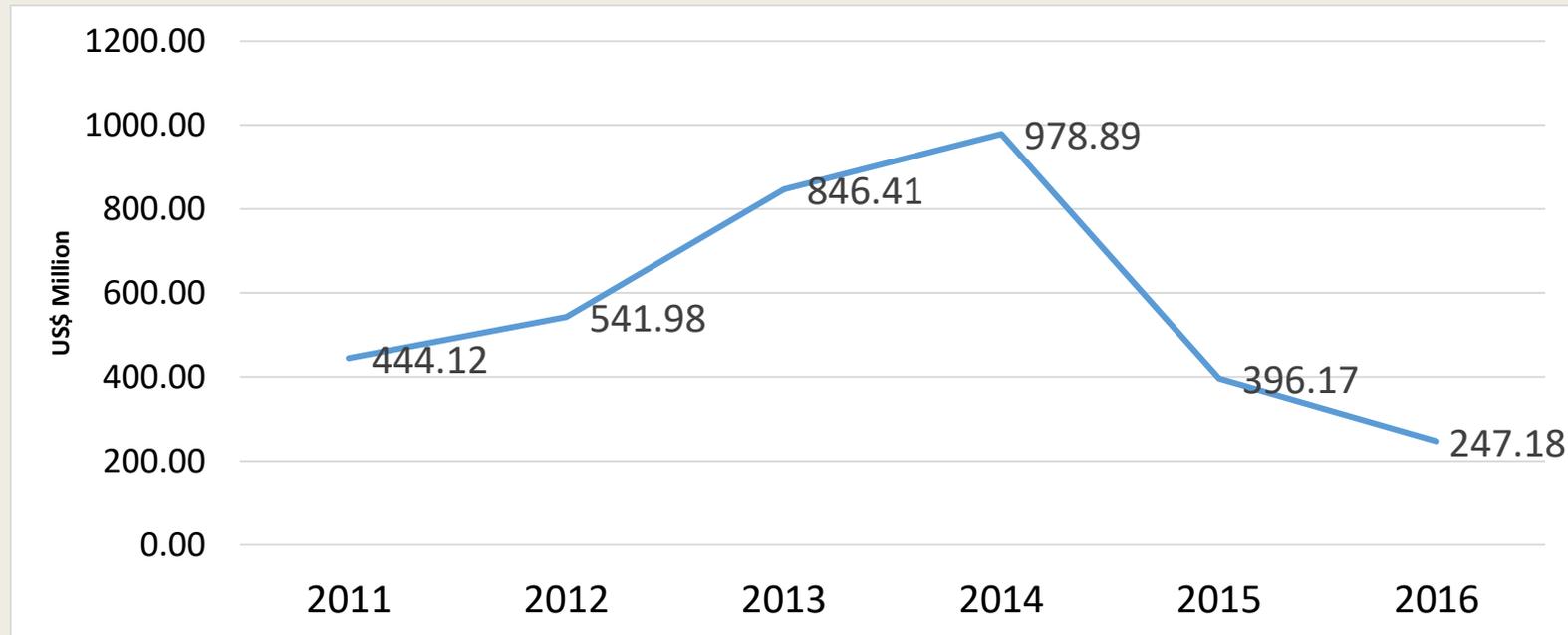
## PETROLEUM DISTRIBUTION CHART



## Oil and Macroeconomic Performance

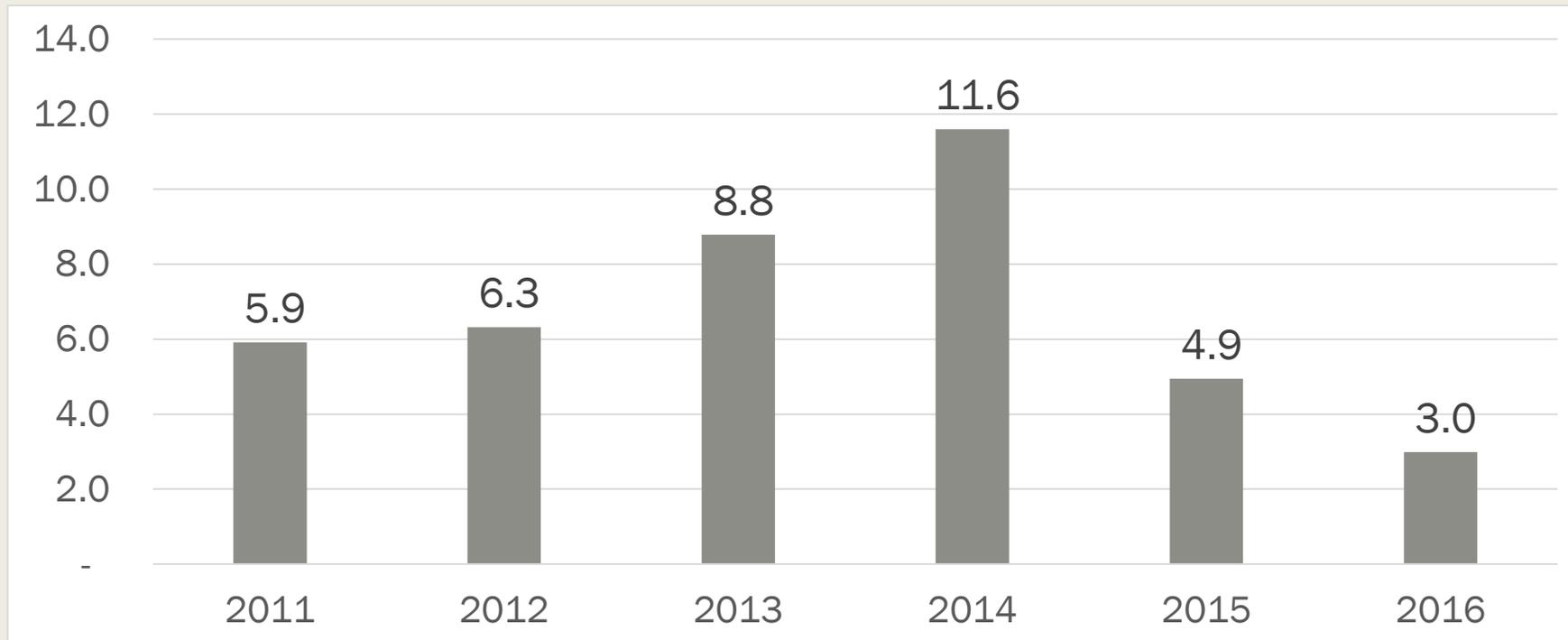
- ✓ Petroleum production has affected Ghana's macroeconomic performance in different ways.
- ✓ On the positive side, oil contributed about \$3.2 billion to the economy in the first five years of production, an average of 7.5% of government revenue and about 4% to GDP.
- ✓ On the other hand, though the fiscal deficit fell from 6.2% in 2010 to 4% in 2011, it deteriorated again to 9.3% in 2014.
- ✓ The IMF (2014) estimates that though government taxes averaged 18.9% of GDP from 2010 to 2014, government expenditure increased from 20.1% in 2010 to 28.2% in 2014.

## Petroleum Revenues 2011-2016



\*The volatility can be explained by the decline in oil prices from 2015

## Petroleum revenue as a percentage of government revenue



- ✓ The essential problem has been the recurring rapid rise in public consumption expenditures and hence the growing deficit.
- ✓ Ghana approached the IMF for a \$900 million facility in 2014/2015 and experienced a higher-than budgeted for cash fiscal deficit of 9.5% of GDP and faced other fiscal challenges (IMF 2015).
- ✓ In the face of weak fiscal management, unstable petroleum revenues have not been of much use, and the elaborate rules have not been followed.

## **Dealing with the macroeconomic challenges**

- ✓ The Ghana Petroleum Funds were established as a Sovereign Wealth Fund charged with the responsibility of investing and saving petroleum revenues (Oshionebo 2018).
- ✓ The Ghana Petroleum Funds consist of the Ghana Stabilisation Fund and the Ghana Heritage Fund. The purpose of the Stabilisation Fund is to cushion government expenditure during periods of un-anticipated petroleum revenue shortfall.
- ✓ Furthermore, in establishing the Public Interest and Accountability Committee, the aim of monitoring and evaluating compliance with the Act by government and other relevant institutions in the discharge of their duties, in relation to the use and management of petroleum revenues and resources, as required by law was paramount.
- ✓ Ghana passed the local content regulations in 2013, ostensibly to ensure that the local oil industry generates benefits to the broader economy through its forward and backward linkages

## Dealing with the macroeconomic challenges

- ✓ Another strategy Ghana employed to deal with the effect of oil price shocks on the economy was diversification.
- ✓ Section 21 of the PRMA lists a number of areas that government can invest its oil revenues in.
- ✓ According to section 21(4 and 5), for any financial year, a minimum of 70% of the Annual Budget Funding Amount (ABFA) shall be used for public investment expenditures consistent with the long-term national development plan.
- ✓ In order to maximise the impact of the use of the petroleum revenue, the Minister is expected to prioritise not more than four areas for the medium term (over a 3-year period) in the absence of a long-term development plan.

## **Challenges Persist**

- ✓ Despite these provisions, it is reported that the petroleum revenues are spread over too many projects. Apart from defeating the purpose of diversification, spreading thinly also leads to cost and time overruns.
- ✓ In addition, the law gives authority to the Finance Minister to cap the Stabilisation Fund. This has led to the depletion of the Stabilisation Fund to less than 20% of its estimated value and renders it incapable of cushioning government in case of oil revenue shortfalls.
- ✓ Further, even though the priority areas have been reduced to four in 2018, the challenge has been the ‘thinly spread within priorities’. That is, when a priority area like agriculture is selected, the funds may be spent on many expenditure lines

## **Brighter Side**

- ✓ On a positive note, the Ministry of Finance, PIAC and the Bank of Ghana have been complying with most of the transparency requirements
- ✓ In the 2017 edition of the Natural Resource Governance Index, published by the Natural Resource Governance Institute, Ghana scored high in terms of petroleum sovereign wealth management, transparency,
- ✓ Further, PIAC which was facing financial challenges prior to 2016, now receives its budget from the ABFA.
- ✓ Finally, though thinly spread, oil revenues have been used to construct and maintain some roads, irrigation dams, schools, and other critical infrastructure.

## Recommendations

- ✓ It is important that petroleum revenue expenditure is focused on a medium to long term inclusive development strategy that is based on proper needs assessment, global trends and possible growth dynamics of the country.
- ✓ It should be possible to rationalise ABFA expenditure and develop investment and reporting guidelines to reduce within priority expenditure to not more than three project/expenditure lines.
- ✓ There is a need for value addition through refining and active local participation to link the petroleum sector to other sectors.
- ✓ There should be fiscal adjustment by building the Stabilisation Fund to cushion government in times of petroleum shortfalls, and policy makers should strive to effectively manage the non-oil economy and through proper diversification.