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Policy Brief

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THE UPSTREAM PETROLEUM SECTOR: THE CHALLENGES AND PROSPECTS FOR THE GHANAIAN ECONOMY

Introduction

Ghana's exploration of petroleum dates back over a century ago in 1896 and this was pioneered by the West Africa Oil and Fuel Company (WAOFCO) in onshore Tano basin (Western Region of Ghana). Subsequent discoveries and explorations have been made over the years. In June 2007, the GNPC, together with its partners Tullow, Anadarko, Kosmos, and E.O. Group in a press release, announced the discovery and exploration of high grade oil accumulation in the rich West Cape Three Points Block. There were a number of questions regarding this discovery. Typically centering on whether this was going to be more of a resource curse or whether it will offer an opportunity for the development of the nation. How formidable was the legislation backing the efficient mobilization and management of oil revenue?

This Policy Brief is geared towards highlighting Ghana's upstream petroleum sector, its evolution, revenue management, institutional roles and responsibilities, the implementation of the Petroleum Revenue Management Act (PRMA) and the challenges facing the industry.

Discussion Highlights

- Several regulations that have been put in place to ensure the efficient use of oil resources. These regulations are clearly defined in the constitution of the country and several acts of parliament.
- Currently, the Petroleum Revenue Management Act (PRMA), 2011 (Act 815) provides the framework for the collection, allocation and management of

petroleum revenue in a responsible, transparent, accountable and sustainable manner for the benefit of Ghanaians.

Why the need for a Petroleum Revenue Management Act (PRMA)

1. Establish special petroleum revenue accounts with its own management and guidelines (section 2 of the PRMA)
2. Ensure high level of transparency in the revenue management (sections 8, 15, 48 of the PRMA)
3. Establish a spending-saving rule (section 18 of the PRMA – that, current expenditure does not exceed 70% of the net revenues)
4. Establish a special fund for unforeseen circumstances ('backup funds'). This led to the establishment of the stabilization fund (section 9 of the PRMA) and the heritage fund (section 10 of the PRMA)

Institutional Roles and Responsibilities

The PRMA provides a framework to ensure efficient revenue mobilization. Parliament takes charge of budget approvals with the Ministry of Finance and has a general oversight responsibility of the oil revenues generated. The Ghana Revenue Authority captures the revenue details and the Bank of Ghana manages the Ghana Petroleum Funds (GPFs) and the Petroleum Holding Funds (PHFs). GNPC acts as a state representative in the petroleum fields and the Ghana Auditing Service (GAS) audits the GPFs. In addition to these institutional roles, the Petroleum Commission has been established to regulate the upstream petroleum sector and advise government on the award of contracts and licenses.

Petroleum revenue modalities

Total petroleum receipts are centrally pulled to the Petroleum Holding Fund which is managed by the Central Bank of Ghana. These receipts includes the royalties (5% of gross oil output), corporate income tax, dividends, gas receipts, Saltpond royalties, AOEs, Carried and Participating Interest (CAPI) (13.64% of gross oil output net of royalties). Out of the total petroleum receipts, payments are transferred to GNPC which consists of Equity Financing Cost (EFC) and 30% of CAPI net of EFC in line with section 7 of Act 815.

The other part of the PHFs is the Benchmark Revenue which represents the petroleum receipts distributed to the Annual Budget Funding Amount (ABFA) which is then transferred to the consolidated fund and the Ghana Petroleum Funds (GPFs) in the proportion of 70 percent and 30 percent respectively. The benchmark revenue estimation is undertaken by a group made up of the Ministry of Finance, Ministry of Energy and Petroleum, Bank of Ghana, Petroleum Commission, Ghana National Petroleum

Corporation, Ghana National Gas Company and the Investment Advisory Committee of the PRMA.

Impact of the oil discovery

Share of petroleum revenue in domestic revenue increased from 5.9 to 11.6 percent in 2011 and 2014 respectively. Also, share of petroleum output in GDP also saw an increase from 5.0 to 6.1 percent within the same period. In addition, share of petroleum output in industry increased sharply from 2.1 percent in 2010 to 29.6 percent in 2013 but declined marginally to 25.5 percent in 2014. Priority areas allocated for the use of petroleum revenues includes roads and infrastructure, agriculture modernization, capacity building (including oil and gas) and expenditure and amortization of loans for oil and gas infrastructure.

Challenges

Key challenges includes the high proportion of funds (70%) to the consolidated fund given that the benchmark revenue is not a point estimate. This means spreading ourselves thin with the Annual Budget Funding Amount (ABFA) application. In addition to this, there have been low returns on the Ghana Petroleum Funds (GPFs) which have been adversely affected by the bear steepening of the US Treasury yield curve. Also of great concern is the delay of the new Petroleum E&P bill before put forward to replace the existing Petroleum E&P law of 1984 (PNDCL 84). The new bill is expected to chart a clear direction in the operation of a national oil company, Ghana National Petroleum Corporation (GNPC) and to strengthen its role in national development

Conclusion and Policy Recommendations

Expectations about the potential impact of the oil and gas find in Ghana have been very high. Consequently, there is the need to ensure that the appropriate legislative instruments are in place to mobilize and manage the oil revenues accruing to the nation.

Some measures recommended include the following:

- A continuous nation-wide review through consultations and surveys on petroleum revenue management and the development of a framework
- Fast tracking the passing of the new Exploration & Production (E&P) bill to reflect current industry practices
- Ensuring that a proportion of the Annual Budget Funding Amount (ABFA) is earmarked for capital expenditure
- The national economic agenda should continue to support the development of other viable sectors such as agriculture, the manufacturing industry, tourism and mining.

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