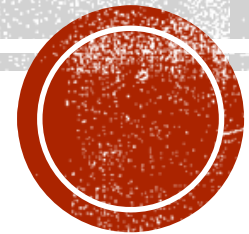


ADDING FLESH TO THE LETTER OF ACT 815: HOW HAS OIL GOVERNANCE IN GHANA BEEN IN THE PAST 5 YEARS



Ishmael Ackah, PhD
Head of Policy Unit,
Africa Centre for Energy Policy (ACEP)



Its official now!
Oil will make
us all rich

Twakoowa!

HOW
Exactly?

SO WHAT?

OUTLINE OF PRESENTATION

- ✓ **Introduction**
- ✓ **Methodology**
- ✓ **Budgetary Allocation to the 3 Pro-Poor Sectors**
- ✓ **Financial Gap Analysis**
- ✓ **Key Findings**
- ✓ **Policy Recommendations**



The Shared Growth and Development Agenda (GSDA) seeks to lay the foundation for the structural transformation of the economy within the decade ending 2020:

Through industrialisation especially manufacturing, based on modernised agriculture and sustainable exploitation of Ghana's natural resources,

According to Section 21(2) of PRMA, the objectives of the ABFA is *to maximize the rate of economic development; equality of economic opportunity and to undertake even and balanced development of the regions*

However, the contribution of Agriculture to Ghana's economic output decreased from 41% in 2005 to 22% in 2013.



Section 18 (3): Where no long-term national development plan approved , we select no more than 4 priority areas

1.Agriculture modernization

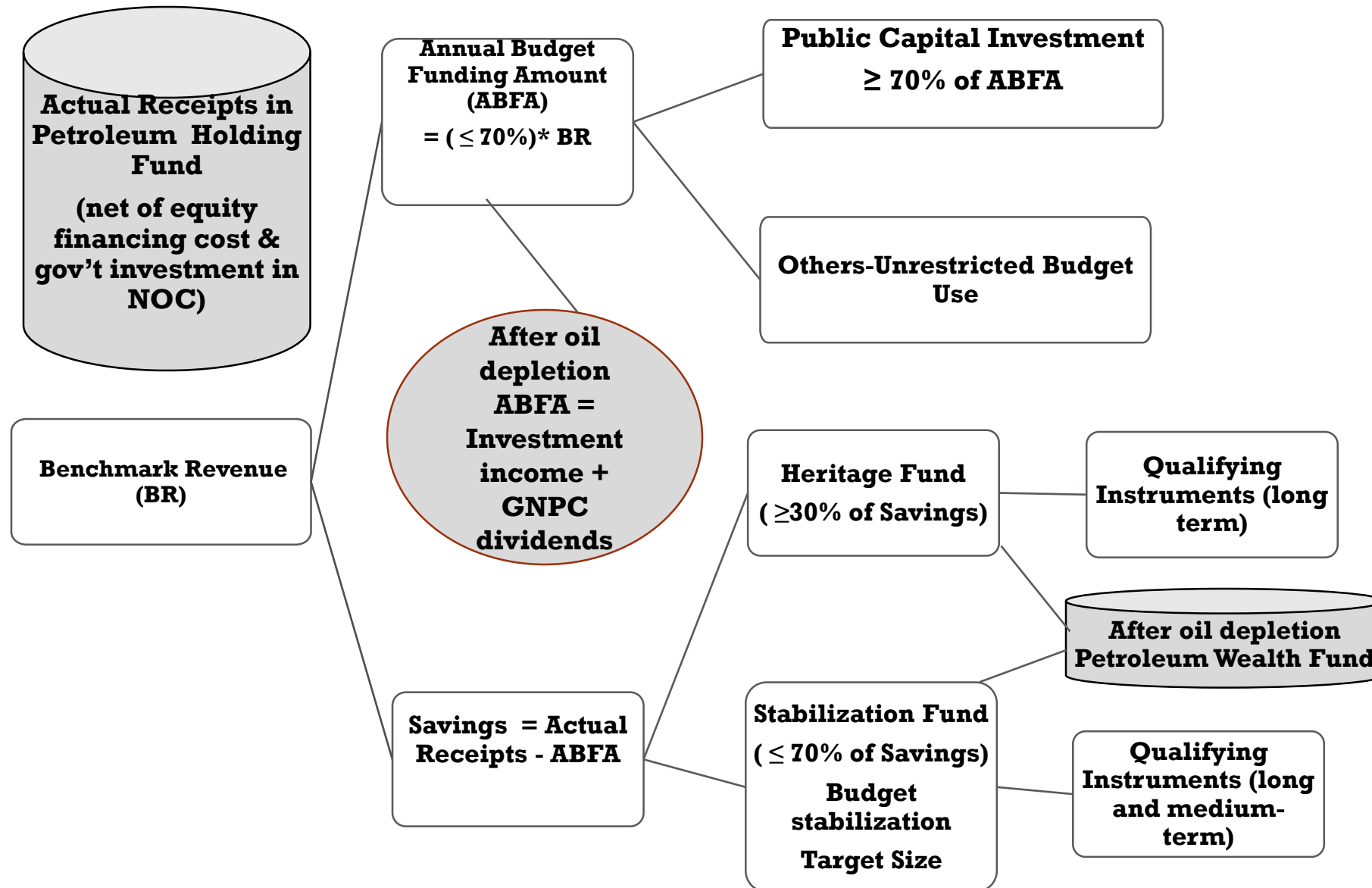
2.Amortization and expenditure of loans

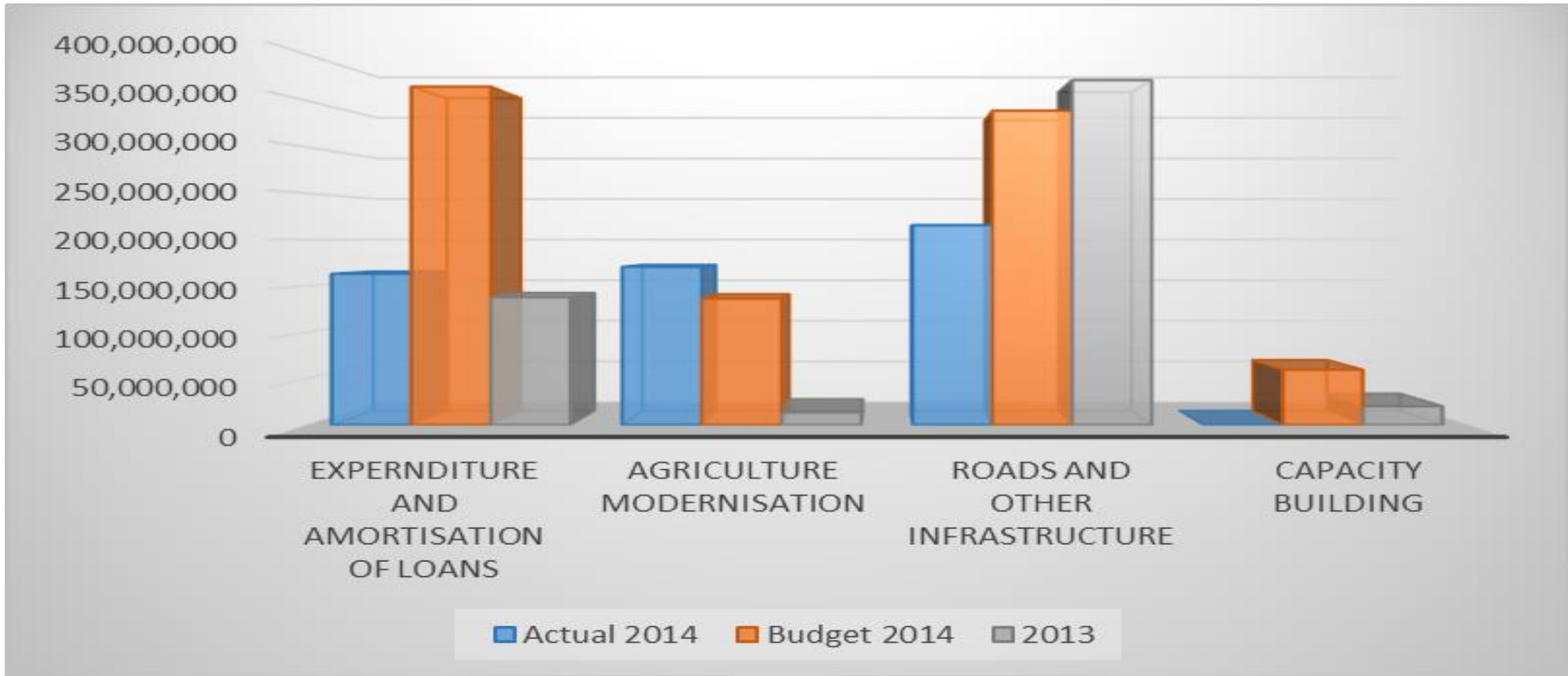
3.Capacity Building

4.Roads and other infrastructure



HOW DO WE DISTRIBUTE OIL REVENUES





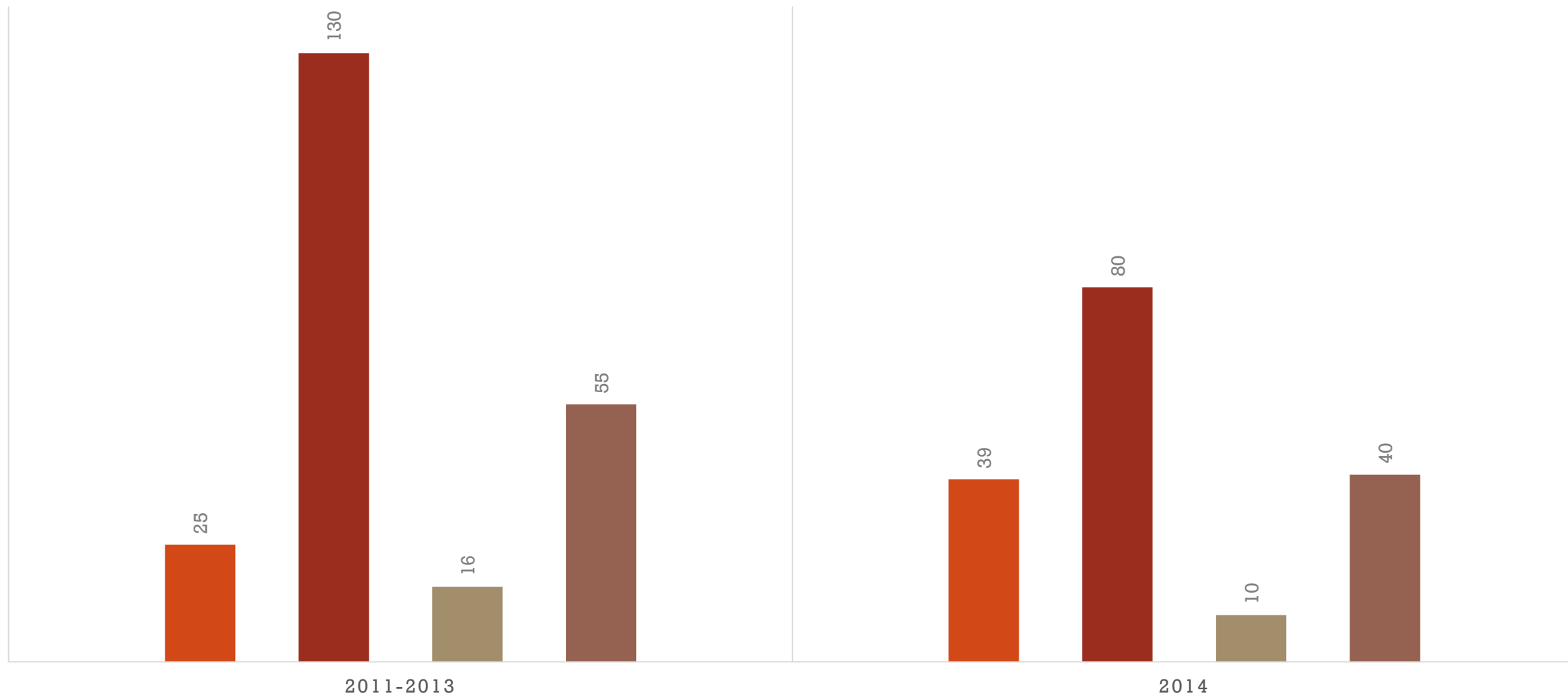
Apart from the agriculture modernisation, the budgeted allocation to the other sectors exceeded their actual disbursement. In the case of capacity building, GH ¢ 59, 574, 431 was allocated in 2014, but there was no disbursement



SECTORS	ABFA 2012 (16)	ABFA 2013 (15)	ABFA 2014 (6)
Office of the President	65,000,000	20,000,000	
Parliament of Ghana	5,000,000		
Finance and Economic Planning	9,000,000	28,850,000	
local government	15,000,000	5,000,000	
Food & Agriculture	53,000,000	20,000,000	136,420,759
Lands & Natural Resources	33,840,000		
Trade & Industry	13,040,610	5,000,000	59,574,431
Envir, Science & Technology	25,000,000	300,000	
Tourism and Culture		5,000,000	
Energy	130,000,000	130,000,000	430,951,887
Water Resources, Wrks & Housing	21,000,000	59517043	
Roads and Highways	40,000,000	100,000,000	139,413,241
Transport	70,000,000	4 0,000,000	30,089,468
Education	20,000,000	1 0,000,000	103,510,325
Health		2 9,900,000	
Employment & Social Welfare	10,000,000	300,000	
Youth & Sports	22,000,000		
Interior	25,000,000	2 3,000,000	
MDAs Total	576,008,674	476867043	899,960,111

NUMBER OF PROJECTS FUNDED WITH OIL REVENUES

■ Agriculture Sector ■ Road & Transport ■ Energy ■ Education



2. METHODOLOGY

- ❖ The methodology employed in this study involves three stages.**
- ❖ A review financing trends and policy performance in the education, health and agriculture sectors**
- ❖ Measurement of the financing gap in the education, health and agriculture sectors.**
- ❖ The financing gap for each sector was determined by comparing the percentage gap between Ghana's public expenditure in the sector; and the international financing benchmark for the sector.**



- ❖ **The percentage gap was converted into financial terms for the base year subject to data availability; and then adjusted for inflation for subsequent years.**
- ❖ **The third part of the study contains analyses of the extent to which extractive resource revenues could provide the financing bridge for the education, health and agriculture sectors.**



3. BUDGETARY ALLOCATIONS

3i. Agriculture



- ❖ **Donors remain the major financier of the sector.**
- ❖ **For instance, in 2011, 53.6% of the total budget allocation to food and agriculture came from donors.**
- ❖ **This reduced to 46.7% in 2013, which can be attributed to increased ABFA allocations.**
- ❖ **There is also a reduction of IGF from 2011 to 2013.**



4. FINANCIAL GAP ANALYSIS

4i. Agriculture

- ❖ The Comprehensive Africa Agriculture Development Programme (CAAPD) sets a target of 6% annual growth of the agriculture sector.**
- ❖ In order to make this achievable, the Maputo Declaration (2003), which Ghana is a signatory to, sets a target of 10% of the national budget to agriculture annually.**
- ❖ However, according to RESAKSS (2011), if Ghana will achieve the targeted 6% annual growth in agriculture, it has to commit 14% of the national budget to the sector.**
- ❖ Technically, whilst Ghana is performing better than the Maputo target, there is a funding gap of about 2.7% of total government budget in 2011 if Ghana is evaluated against the target of 14% of public expenditure.**



❖ **For the agriculture sector, a financing gap of 2.7% of total public expenditure in 2011 amount to GHS281 million. The average annual financing gap however is GH¢355 million.**



**Table 3. Average Funding Gap for Agriculture and Health
(2011 to 2015)**

Year	Inflation	Financing Gap for Health	Financing Gap for Agriculture	Total 2011-2015
2011*			281,132,100	281,132,100
2012	8.80%		305,871,725	305,871,725
2013**	12%	932,923,200	342,576,332	1,275,499,532
2014	16.90%	1,090,587,221	400,471,732	1,491,058,953
2015 Proj	11.50%	1,216,004,751	446,525,981	1,662,530,732
Total		3,239,515,172	1,776,577,869	5,016,093,041
Average		1,079,838,390.66	355,315,573.89	

4ii. Financing the Gap in the Health Sector

- ❖ According to the World Health Organization, countries should dedicate a minimum of 5% of their GDP to the Health Sector to encourage growth and wellbeing.**
- ❖ Between 2010 and 2014, Ghana spent an average of 5.4% of its GDP annually on Health.**
- ❖ However, South Africa spent 8.9% of its GDP on health whereas Nigeria spent 3.9%. In 2011 and 2013, Ghana could not meet the WHO target.**
- ❖ The average annual financing gap for the health sector is GH¢1,079.8 million**

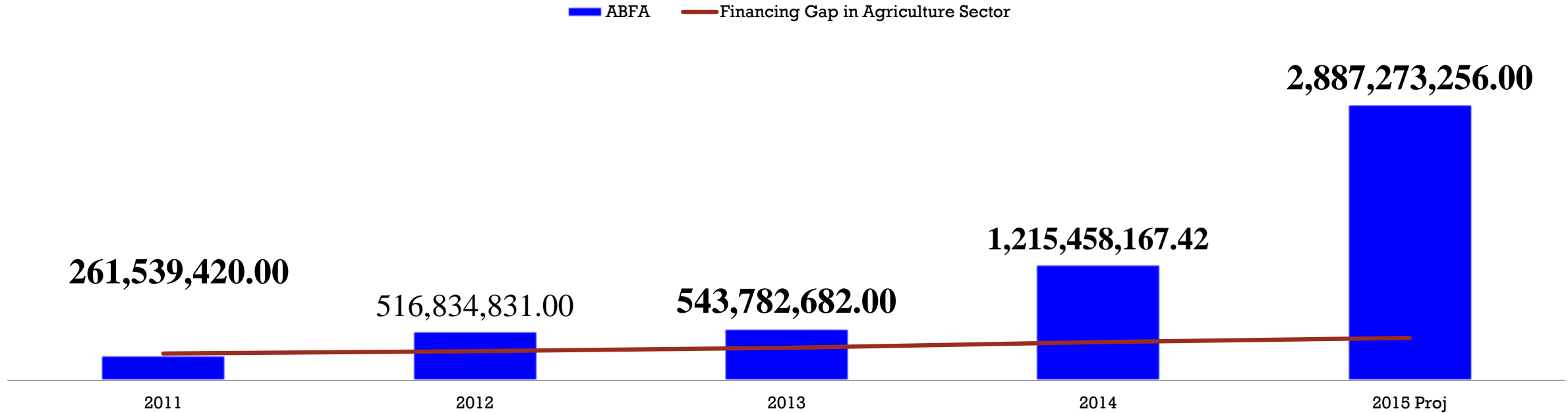


iii. Financing Gap in Education

- ❖ The United Nations Education, Social and Cultural Organization (UNESCO) advocates for countries to spend at least, 6% of their GDP on education. Several countries have used this as their benchmark.**
- ❖ For instance, South Africa, Africa's second largest economy spent 6% of its GDP on education in 2010, 6.1% in 2011, 6.6% in 2012 and 6.2% in 2013 according to the World Bank.**

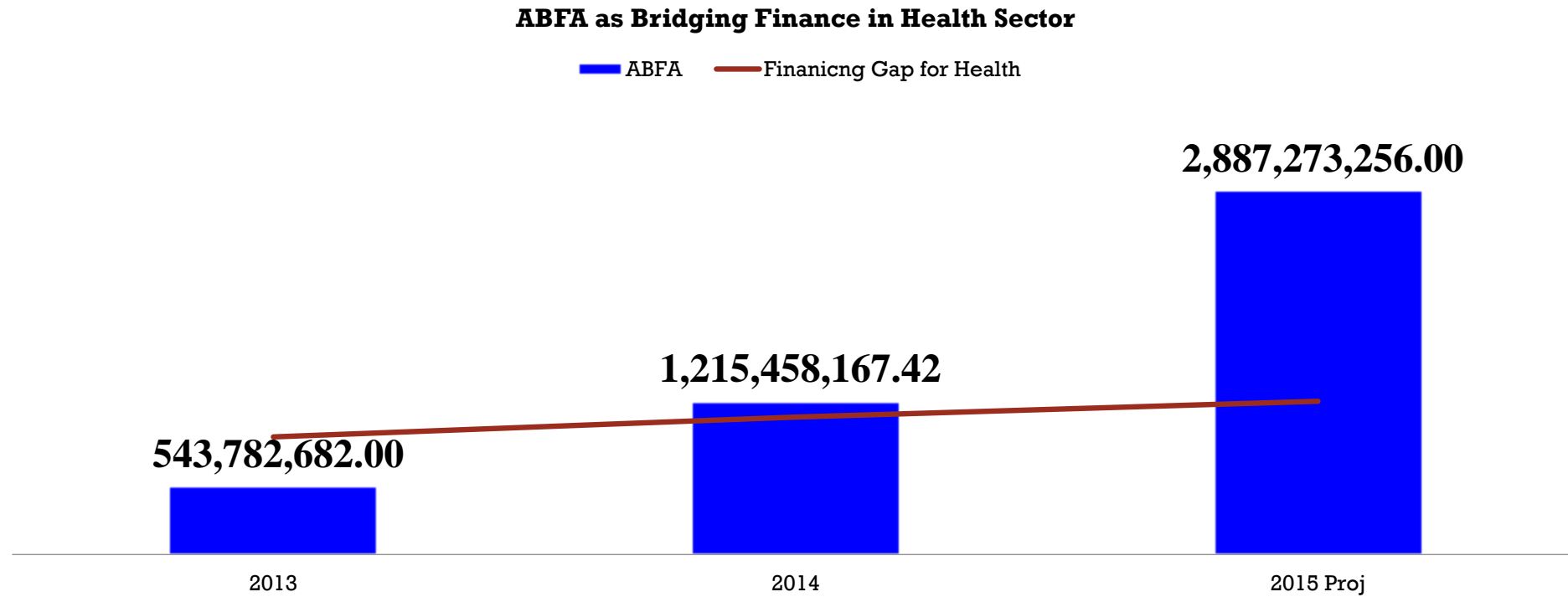


ABFA as Bridging Finance in Agriculture Sector



- ❖ For the agriculture sector, although the annual financing gap has been increasing over the years, the ABFA could offset the gap in 2012 if 59% of ABFA was spent on agriculture.
- ❖ Similarly, the financing gaps in 2013 and 2014 could be bridged if Government spent 63% and 33% of ABFA on agriculture respectively.





❖ In spite of the huge financing gap in the health sector relative to agriculture, about 90% of ABFA was enough to bridge the total financing gap in 2014.



KEY FINDINGS

- ❖ **The significance of petroleum revenues in the education sector is derived from the fact that it represents a greater proportion of the capital budget particularly in 2014, about 37%.**
- ❖ **The health sector over the period did not receive much attention in the allocation of ABFA. The ABFA was allocated to the sector in 2013, about GH¢29,900,000.00, constituting 7% of the capital budget for the year.**



- ❖ **However, the Government's Reconciliation Report for the 2014 fiscal year shows that there was no expenditure made in the health sector from ABFA in 2013. This undermines budget credibility**
- ❖ **The food and agriculture subsector budget received the greatest attention in pro-poor distribution of petroleum revenues. The sub-sector was allocated revenues from ABFA in each of the last three years; GH¢42,500,000.00 in 2012, GH¢20,000,000.00 in 2013 and GH¢52,180,591.00 in 2014.**
- ❖ **The study found that technically there is no financing gap for the education sector in Ghana since Ghana is performing better than targets set by international benchmarks for optimal public financing of education.**



- ❖ **However, the bulk of government budget in the education sector is committed to salaries and wages, and goods and services.**
- ❖ **The capital budget does not receive much attention resulting in infrastructure deficit, and its attendant challenges of low enrolment in schools.**
- ❖ **The average annual financing gap for the health sector is GH¢1,079.8 million and GH¢355 million for the agriculture sector. These add up to GH¢1,435,153,964.55.**
- ❖ **With average annual ABFA of GH¢1,548,8 million over the period 2013 to 2015 (projected), petroleum revenues are more than adequate to bridge the financing gap if these revenues were allocated to the two pro-poor sectors of health and agriculture.**



- ❖ **In spite of the huge financing gap in the health sector relative to agriculture, about 90% of ABFA was enough to bridge the total financing gap in 2014.**
- ❖ **With oil production expected to increase as more oil and gas producing wells are brought on stream in 2016 and 2018, Government has sufficient financing relief to offset the financing needs of the agriculture and education sectors by committing a considerable proportion of ABFA.**
- ❖ **There is a ‘monitoring and information gap’ between policy makers in Accra and communities where oil funded projects are situated.**
- ❖ **Transparency in the use of petroleum revenues has improved in 2014 as a result of government publishing more disaggregated data on projects funded with petroleum revenues.**









Project	Time Over-run	Cost Over-run	Comments
GBEDEM KUNKUA PRIMARY SCHOOL	Yes	Yes	Time over-run of about 23 months. Cost overrun ₺37,187.48.
GBAMBAYA ZAHIRIYA PRIMARY SCHOOL	Yes	Yes	Time over-run of 2 years. Cost overrun of ₺ 5,336.0415
KPARE PRIMARY SCHOOL, LAMBUSSIE	Yes	Yes	Time overrun of about 18 months. Cost overrun ₺15,211.3015



6. POLICY RECOMMENDATIONS FOR 2016

- ❖ The use of petroleum revenues for capital investment must be encouraged as it does not only fulfil the requirement of Section 21(4) of the Petroleum Revenue Management Act (Act 815) but also builds the capital base of the economy to accelerate medium to long-term economic growth.
- ❖ Spending of oil revenues should be based on an investment plan guided by a long-term national development or medium term development framework. This will provide consistency in the use of petroleum revenues for projects that add value to the economy on a sustainable basis.
- ❖ Section 21(5) of the Petroleum Revenue Management Act 2011 (ACT 815) requires the Government to prioritize not more than four (4) areas for the use of ABFA. This implies that government could limit its priorities to one or two areas.



- ❖ Spending of resource revenues therefore should be based on a comprehensive public investment plan, which must make a cost-benefit analysis a mandatory requirement for selecting projects funded with resource revenues. To this effect, Government must pass a **Public Investment Management Law** as a matter of urgency.
- ❖ The budget of PIAC should be a percentage to the total oil receipt to allow them to go beyond writing reports but to monitor oil funded projects.
- ❖ The Public Accounts Committee should invite the Ministry of Finance to answer relevant questions and recommendations that are made by PIAC
- ❖ ABFA should be well targeted. Financing projects from start to finish. For instance, We can have ‘oil funded schools, oil funded hospitals’.
- ❖ Annual Petroleum Reports or the Reconciliation Report should highlight the status of all projects funded with the ABFA.



THANK YOU

