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ASSESSING MANAGEMENT OF THE GHANA PETROLEUM FUNDS AND GHANA NATIONAL PETROLEUM CORPORATION (GNPC) REVENUE

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Abbreviations

ABFA	Annual Budget Funding Amount
BoG	Bank of Ghana
BOST	Bulk Oil Storage and Transportation Company
CSR	Corporate Social Responsibility
DFID	Department for International Development
ECG	Electricity Company of Ghana
EI	Executive Instrument
EITI	Extractive Industries Transparency Initiative
GDP	Gross Domestic Product
GHF	Ghana Heritage Fund
GNPC	Ghana National Petroleum Corporation
GOGIG	Ghana Oil and Gas for Inclusive Growth
GPFs	Ghana Petroleum Funds
GPFG	Government Pension Fund Global
GPWF	Ghana Petroleum Wealth Fund
GRA	Ghana Revenue Authority
GSF	Ghana Stabilization Fund
IAC	Investment Advisory Committee
IFS	Institute for Fiscal Studies
IOC	International Oil Company
MoE	Ministry of Energy
MoF	Ministry of Finance
PC	Petroleum Commission
PHF	Petroleum Holding Fund
PIAC	Public Interest and Accountability Committee
PNDC	Provisional National Defence Council
PRMA	Petroleum Revenue Management Act
QI	Qualifying Instrument
SEC	State Enterprises Commission
SWF	Sovereign Wealth Fund
TOR	Tema Oil Refinery
UK	United Kingdom
US	United States
VRA	Volta River Authority

Executive Summary

Ghana became a producer and exporter of oil in late 2010. Since that time, there has been strong public interest in the management of petroleum revenues accruing to the government, as it is believed, rightly, that to make the revenues transformative demands their transparent and effective management. Between 2011 and 2017, about 60% of the revenues were allocated to the Ghana Petroleum Funds (GPFs) and Ghana National Petroleum Corporation (GNPC), with the rest channelled into programs in the public budget. While there have been many inquiries into the utilization of oil revenues allocated to budget programs, allocations to the GPFs and GNPC have received less scrutiny. This report assesses transparency and efficiency in the management of these revenues and offers recommendations to address observed shortcomings.

Key Findings

Ghana Petroleum Funds

- The Petroleum Revenue Management Act (PRMA) has laid down a transparent system for managing the GPFs which is broadly in accord with international best practice. The key features of the system which ensure transparency include the vesting of authority in Parliament to determine allocations to the GPFs, subject to rules established in the Act; the assignment of reporting responsibilities to the Minister of Finance and Bank of Ghana (BoG); the mandating of internal and external auditing of the GPFs by BoG and the Auditor-General respectively; and the ultimate oversight of the entire process by Parliament. Importantly, deadlines for carrying out the duties and public disclosure of information or reports have been stipulated, with stated penalties for non-compliance. We found that the mandated institutions have broadly complied with their respective obligations, viz. allocation of revenue, auditing, and reporting on the GPFs have largely conformed to the legal requirements. This has made information on the GPFs publicly available with adequate frequency, coverage and quality, and ensured transparency and accountability in the management of the funds.

- Despite the above, there is lack of clarity in the PRMA regarding the Minister of Finance's authority to set a ceiling on the GSF. The question is whether the ceiling can be set below an existing balance to allow the Minister to cream off the excess into the Contingency Fund (for contingency public spending) or Sinking Fund (for public debt repayment), or whether the ceiling can only be set at or above an existing balance. A more significant omission from the law is a guideline or regulations on what should form the basis of the amount set as the ceiling.

- A crucial element of the management structure set out in the PRMA to oversee the investment of the GPFs is not functional. This is the Investment Advisory Committee (IAC), which the law mandates to formulate the investment policy, determine the benchmark portfolio, risk and returns, and to offer broad investment advice on the GPFs to the Minister of Finance. The IAC has not existed since October 2016, thereby denying investment decisions the necessary technical input of this critical body. The GPFs' investment policy has also not been developed. Moreover, even though the PRMA seems to empower the IAC as an independent expert body to advise on the investment of the GPFs, the law at the same time undercuts the IAC's role—and its room for maneuver—by specifying a narrow range of "qualifying instruments" which the GPFs can be invested in. These omissions have serious implications for efficient management of the GPFs.

- Returns on the GPFs have been low based on rule-of-thumb and international benchmark comparisons. First, in nominal terms, average annual net interest returns of barely 1% were realized on the GPFs in 2011-17, and in real terms, the net interest returns were negative. Second, the annual total returns on the GPFs—which consider both interest income and capital gains (albeit unrealized) on the investments—were low in comparison with the returns on key benchmark indices for financial investments in the US and European markets. These comparatively low returns are largely due to the PRMA's narrow range of permitted investments. The prevalence of the low returns in the face of more lucrative alternative investments on the international markets raises efficiency concerns. Permitting diversification of the funds' investments across different asset classes and markets is likely to attract higher yields.

Ghana National Petroleum Corporation

- There is a widespread perception that GNPC, like many other national oil companies, is opaque with limited public information on its operations and finances. The GNPC Law and other statutes, however, oblige the Corporation to provide wide-ranging information on its activities and finances to various authorities (MoE, MoF, SEC, Parliament, etc.). In general, GNPC provides the requisite information to the relevant authorities, although it routinely fails to comply with statutory deadlines for submitting its audited accounts. The main problem with the Corporation's transparency, however, is that the extent of its own public disclosure of information does not match the extent of its reporting to various authorities. This is largely because the Corporation, in the main, is not legally mandated to publish or publicly disclose information. The consequence is that except in those cases where the authorities to whom GNPC reports are legally obliged to publish the information, public disclosure of information by GNPC itself is, in theory, discretionary and, in practice, inconsistent. For example, whereas information on petroleum production, sales and revenue, and on petroleum projects, is reported publicly by the Ministry of Finance in accordance with law, information such as the Corporation's annual work program and budget, which is submitted to Parliament, and its performance management reports, which are submitted to SEC, is not published, since there is no legal requirement to do so. Furthermore, a key source of data on the Corporation's operations—its annual audited financial reports—is not published in a consistent and timely fashion. These gaps have fueled the public's perception of the Corporation as opaque.

- Much of GNPC's revenue is spent on direct petroleum activities, comprising exploration, development and production activities. Such direct petroleum expenditures constituted an average of 64% of total costs in 2011-2016. The remaining costs include personnel emoluments (8.8%), general operating expenses (8.7%), and other operating expenses (11%). The last-mentioned category includes losses, amounting to 9.3% of total costs in 2011-2016, incurred annually by the Corporation from trading in refined petroleum products. This means a not insignificant portion of GNPC's revenue is used to cover downstream trading losses, which have persisted over a long period. This situation detracts from efficiency in the Corporation's management of its revenues.

- GNPC engages in activities outside its core mandate, which either do not produce commercial value for the organization or compromise efficient utilization of revenue. These noncore activities may be divided into three: non-petroleum-related investments; quasi-fiscal transactions; and corporate social responsibility expenditures.

Of particular concern among the non-petroleum-related investments is the stake in the Prestea mine, which has become a financial albatross for the Corporation. The quasi-fiscal transactions have spawned huge and growing debts owed to GNPC by government and government-related entities. The Corporation's corporate social responsibility programs have also expanded in scale and cost in recent years to an immoderate level, with the CSR budget accounting for 8.5% of petroleum revenue in 2018—greater than the personnel emoluments and general expenses budgets. This implies that huge resources are being diverted from the Corporation's primary commercial mandate to non-commercial activities, compromising financial performance and efficiency.

Recommendations

Ghana Petroleum Funds

- The PRMA should be amended to establish, clearly, how and what should form the basis for setting the ceiling on the GSF. One option would be for the Act to fix a floor for the balance that sits in the GSF at any point in time. Since the GSF is intended to alleviate shortfalls in oil revenues allocated to the budget, the floor could be set as a percentage of the Annual Budget Funding Amount (ABFA).

- The IAC has an important role to play in the governance structure of the GPFs and should be reconstituted. In addition, the IAC should be given room for maneuver in discharging its mandate by amending the PRMA to eliminate or relax its rigid investment rules (such as the narrow range of qualifying instruments) for the GPFs. This way, the IAC, as well as the Minister and BoG, will gain flexibility in decision-making on investing the GPFs. The three mandated bodies should consequently pursue diversification of the GPFs' investments to increase returns.

- To maximize returns on the GPFs, two alternative scenarios could be considered:

  Scenario 1: The GSF and GHF should be kept separate (as at now). The GSF should be invested in short-term, liquid instruments so that it can provide ready funds, if needed, to support the budget in case of shocks to petroleum revenues. The GHF, as a permanent fund, should be invested in longer-dated instruments and durable assets to help increase yields.

  Scenario 2: The GSF and GHF should be merged (this will be roughly 30% of total revenues net of GNPC allocation). The entire fund should be invested in more lucrative assets, including liquid and illiquid instruments. Also, about 10-20% of the annual balance on the fund, comprising the principal and returns, should be lodged in a separate fund to support the budget, if needed. This second fund can serve an additional purpose of a Sinking Fund for the repayment of maturing debt. The rest of the main fund should be left intact and invested.

Ghana National Petroleum Corporation

- The institutions GNPC reports to should enforce strict compliance with statutory reporting deadlines and apply sanctions, where necessary. Further, it is important that GNPC is proactive in reporting information broadly about its operations to the public, except possibly for commercially sensitive information. Such key information as the annual work program and budget, annual financial report, performance management report, and procurement information, among others, should be published by the Corporation in a timely and consistent fashion. Making information available to the public to the broadest possible extent will enhance transparency, accountability and public confidence in GNPC.

- GNPC should reassess its downstream business and take steps to make it profitable.
- The Ministry of Energy, together with GNPC, should take a policy decision to divest the Corporation of what is remaining of its non-petroleum-related investments.
- Parliament should exercise its oversight effectively by reining in the quasi-fiscal activities of the Corporation. It should mandate GNPC to report to it specially, and in comprehensive detail, on quasi-fiscal undertakings and should demand urgent recovery of the current associated claims.
- Parliament, through its powers of appropriation, should impose a limit—possibly tied to GNPC's revenue, cost or other financial metric—on the Corporation's CSR budget to restrain the scale and cost of the activities and protect revenues needed to expand investments in the oil sector.
- Parliament should enact a new statute for GNPC since the current founding law of the Corporation, PNDC Law 64 of 1983, has become redundant in many parts and also falls short of satisfying the strong and fervent public demand for transparency and accountability from a national oil company in contemporary times. A new law would offer the opportunity to revisit or incorporate the following issues, among others:

(i) The considerable latitude given the Corporation to engage in diverse kinds of activities may need to be curbed. Legislators should consider specifying in the new law the things the Corporation cannot do.

(ii) Expansive public information disclosure requirements should be mandated to strengthen transparency and accountability.

(iii) The corporate governance of the Corporation should be given a second look, in particular the powers to appoint the board and the board's composition. Thought may be given to granting Parliament a role in appointing the board and providing for some institutional representation on it.

Contents

1.0 Introduction

Since commercial hydrocarbons production began in late 2010, Ghana has passed several legislations to guide the management of its petroleum revenues. Nonetheless, problems with transparency and efficiency have surfaced from time to time. Studies into these problems have largely focused on revenue allocated to the budget—Annual Budget Funding Amount (ABFA)—while revenues allocated to the Ghana Petroleum Funds (GPFs) and Ghana National Petroleum Corporation (GNPC) have received less attention or scrutiny. This project seeks to fill the empirical gap by assessing transparency and efficiency in the management of the GPFs and GNPC revenue and offering recommendations to address any observed lapses.

The project contributes to the Ghana Oil and Gas for Inclusive Growth's (GOGIG) portfolio issues on strengthening accountability, preventing corruption, and improving investment of petroleum revenues to promote inclusive growth and national development. The specific objectives of the project are:

- To assess transparency and efficiency in the management of the GPFs and GNPC revenues;
- To develop policy recommendations based on the current context in Ghana as well as the global dynamics in the industry to improve the management of the GPFs and GNPC's revenue; and
- To undertake advocacy to disseminate the recommendations to key stakeholders and the general public through engagements and policy briefs.

The following approach was adopted in carrying out the project:

- Engagements with key stakeholders in the petroleum sector at the outset to discuss their roles, challenges, and views on needed reforms to improve the performance of the sector;
- Reviewing existing legislative and institutional framework and mechanisms governing the management of the GPFs and GNPC's revenue in terms of transparency and efficiency;
- Assessing the practice in managing the revenues;
- Proposing recommendations to address identified lapses in transparency and efficiency; and
- Engagements with key stakeholders and the public on the findings and proposed reforms.

This report presents the results of the project and is structured as follows: Following this introductory section, Section 2 assesses transparency and efficiency in the management of the GPFs and GNPC revenue, and Section 3 presents the key findings and recommendations of the study.

2.0 Assessment of Transparency and Efficiency in the Management of the GPFs and GNPC Revenue

2.1 Ghana Petroleum Funds (GPFs)

2.1.1 Transparency in the Management of the GPFs

Transparency in the management of the GPFs is assessed in terms of allocation, utilization, reporting and auditing.

Allocation of Revenue to the GPFs: Transparency in the management of the GPFs starts with the allocation of revenue to the funds. The PRMA entitles the GSF and the GHF to receive from the Petroleum Holding Fund (PHF) revenue determined by Parliament. The Act allocates not less than 30% of revenue (net of GNPC allocation) to the GPFs. *Of this, not less than 30% is allocated to the GHF and the balance to the GSF. The system for allocating revenue to the GPFs is largely transparent. Making Parliament the body to determine the allocations to the GPFs is also in line with international best practice, including the Norwegian model, and appropriately removes any political influence from the decisions. It was found that allocation of revenue to the GPFs in practice has been largely in line with the PRMA requirements.*

Use of GPF Revenues: The GSF is intended for alleviating shortfalls in actual petroleum revenue. This is to be done through quarterly withdrawals subject to a ceiling of 75% of the balance standing to the credit of the GSF at the beginning of the financial year. This provision prudently maintains a minimum cushion of reserves in the GSF. The Act provides that the accumulated resources of the GSF shall not exceed an amount recommended by the Minister of Finance and approved by Parliament, and the amount shall be reviewed from time to time. Further, it provides that once the amount is attained, subsequent transfers into the GSF shall be allocated as transfers into the Contingency Fund (CF) or for debt repayment approved by Parliament.

However, there appears to be lack of clarity in this provision as to whether the ceiling for the GSF can be set below an existing balance and the excess above the ceiling allocated to the stated purposes, or whether the ceiling can be set only at or above an existing balance. It is recalled that in 2014, the then Minister of Finance resorted to the first scenario and capped the GSF below the existing balance. This action attracted the censure of the Public Interest and Accountability Committee (PIAC), which argued that it was contrary to the law and that the second scenario is the applicable interpretation of the law. *To avoid this confusion, and in the interest of transparency and efficiency in the management of the GSF, the PRMA needs to be amended accordingly to remove any ambiguity. In particular, there is the need for a guideline or regulations on what should form the basis of the GSF ceiling.*

For the GHF, its object is to build an endowment for future generations. The Fund receives not less than 9% of total annual petroleum revenue (net of GNPC allocation). The PRMA bars the use of the fund during the entire duration of petroleum production—except that Parliament is permitted to authorize utilization of a portion of the accrued interest at fifteen-year intervals beginning from 2026.[1]

[1] *There is a school of thought that setting aside the GHF for future generations at a time of enormous needs of current generations is misplaced, and that spending the funds today on productive ventures would also benefit future generations. However, the framers of the PRMA chose to rule out utilization of the GHF, ostensibly leaving it to future generations to decide how to use it for their benefit.*

The Act provides that within a year after petroleum reserves are depleted, the moneys held in the GHF and GSF shall be consolidated into the Ghana Petroleum Wealth Fund (GPWF), after which both funds will cease to exist.

Apart from the still-contentious issue of how the Minister is to set the GSF ceiling, the provisions regarding the use of the GPFs have been transparently complied with.[2]

Reporting on the GPFs: The PRMA assigns reporting responsibilities to the Minister of Finance and BoG. The Minister is required to submit an annual report on the GPFs as part of the annual budget presented to Parliament. Further, the annual report, which includes considerable detail, is supposed to be easy to disseminate to the public. *We found that this provision has been complied with, and information covering all the items listed in the PRMA are presented in the report as well as on the Ministry's website.* BoG is enjoined to present to the Minister and IAC quarterly reports on performance and activities of the GPFs. The Bank is also required to publish semi-annual reports on the GPFs not later than the 15th of February and 15th of August each year, present same to Parliament, and publish the reports in two state-owned dailies and on the Bank's website. *The Bank has largely complied with these reporting requirements. On the whole, the reporting requirements, including the frequency, coverage and quality of information to be provided, are appropriately directed to promoting transparency and accountability in the management of the GPFs and are in accord with international best practice.*

Audit of the GPFs Transparency and accountability in the management of the GPFs requires an effective auditing system. Here, the PRMA enjoins BoG to keep proper accounts and records on the GPFs. The books of accounts, records, other documents, systems and procedures relating to the GPFs are to be audited by the Internal Audit Department of BoG, and the Governor is to submit quarterly reports to the Minister. Further, the Auditor-General (AG) is mandated to audit the GPFs annually. To enable the AG to do his work, BoG is to submit to him, not later than three months after the end of each financial year, financial statements and relevant documents on the GPFs. Further, the AG is to submit the audited report to Parliament not later than three months after receipt of the relevant documents.

The AG is required to determine if: i) the accounts have been properly kept; ii) payments due to and disbursements from the GPFs have been made; and iii) the GPFs have been managed according to provisions of the PRMA. Further, the AG is to publish reports on the GPFs within thirty days after submission to Parliament. He is required to draw attention to any irregularities that ought to be brought to the notice of Parliament. *Instituting both internal and external audit of the GPFs, subjecting the process to ultimate Parliamentary oversight, and requiring timely publication of the audit reports are all in accord with high levels of transparency and accountability and with international best practice. Our study found that these provisions have been mostly complied with by the mandated entities. Like other oil producing countries, Ghana has adopted the standards of the Extractive Industries Transparency Initiative (EITI), which enjoins proactive transparency. The EITI has become the global standard for promoting transparency in the management of extractives. Therefore, its adoption by Ghana is a step in the right direction.*

[2] *Despite this finding, we heard concerns from stakeholders during a workshop on a draft of this report that utilization of monies withdrawn from the GSF and placed in the Sinking Fund for debt repayment has not always followed applicable public finance rules. We have not examined this issue and our findings do not apply to the Sinking Fund, which is not part of the GPFs.*

2.1.2 Efficiency in the Investment of the GPFs

This section assesses efficiency in the investment of the GPFs in terms of the management structure and investment instruments and returns, drawing on international best practices.

Management Structure: The PRMA assigns mandates to Parliament, the Minister of Finance, BoG and the IAC in the management of the GPFs. Parliament is enjoined to approve the investment policy of the GPFs, which is formulated and proposed by the IAC and submitted by the Minister—who has overall responsibility for the management of the GPFs. *However, seven years after the passage of the PRMA,* no investment policy has been developed. In the absence of the policy, it is unclear as to how the GPF investment decisions are made. It is also not possible to determine whether investment decisions conform to the "Generally Accepted Principles and Practices (GAPP)" of managing sovereign wealth funds (SWFs), also known as the "Santiago Principles". GAPP 18 Sub-principle 3 states that, "A description of the investment policy of the SWF should be publicly disclosed." *The delay in developing the IP could undermine investment decisions and efficiency in the investment of the GPFs.*

BoG is charged with responsibility for the day-to-day operational management of the GPFs. The Bank has to do this under the terms of an Operations Management Agreement (OMA) to be entered into with the Minister. The OMA, presumably, is to set out modalities for operationalizing the IP. BoG has set up an in-house Secretariat to manage the GPFs. As it does with the management of its reserves, the Bank is expected to use 'External Fund Managers (EFMs)' to assist it in managing the GPFs. BoG is enjoined to manage the GPFs prudently within the framework of the operational and management strategy provided by the Minister.

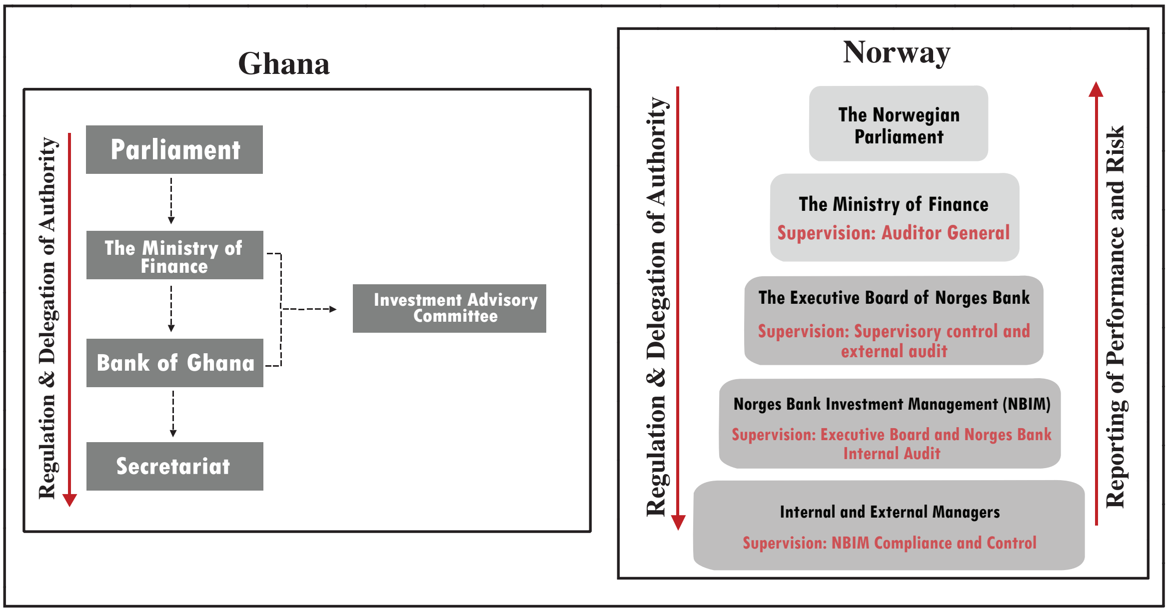
Based on the PRMA, the functions of the IAC include the following:

a) To formulate and propose to the Minister the investment policy of the GPFs.
b) To advise the Minister and for performance monitoring of the management of the GPFs.
c) To develop for the Minister the benchmark portfolio, the desired returns from and the associated risks of the GPFs, taking into consideration investment guidelines used by BoG for investments of a similar nature.
d) To advise the Minister on broad investment guidelines and overall management strategies relating to the GPFs, to be provided subsequently to the Governor, taking cognizance of international best practice in investments of a similar nature.

The IAC was established in 2012 and operated till October 2016, when it was dissolved. It has not been reconstituted to date. However, the PRMA makes it obligatory for the Minister to make decisions in relation to investment strategy or management of the GPFs after the advice of the IAC and the Governor. The conditions under which the Minister takes investment decisions in the "absence of the advice of the IAC" are related to the cases where the IAC cannot give advice to the Minister with the urgency needed—and not when the IAC is non-existent. The PRMA gives the Minister of Finance the power to take decisions in consultation with the Governor in the absence of the IAC. Whatever decision that is arrived at should be communicated in writing to the IAC within 48 hours. *However, because there is no IAC in place currently, the relevant sections of the PRMA cannot be performed, and this has serious implications for efficiency in investment of the GPFs.*

The management structure for the GPFs itself is similar in many, but not all, respects to the management structure of the Government Pension Fund Global (GPFG), Norway's Sovereign Wealth Fund (SWF).[3] Like Ghana's, Norway's structure assigns responsibilities to Parliament, the Ministry of Finance, and Norges Bank (the central bank of Norway, equivalent to BoG). The Norwegian Parliament, through legislation, has laid down the formal framework for managing the fund. This framework gives the Ministry of Finance overall responsibility for the fund's management and for determining the investment strategy, following advice from Norges Bank and inputs from Parliament. Norges Bank is tasked with the operational management of the fund, and its Executive Board has delegated this role by establishing the Norges Bank Investment Management (NBIM) (equivalent to BoG's Secretariat) (See Box 1). NBIM is staffed with investment management experts who follow an investment mandate issued by the Executive Board of the Norges Bank to NBIM. Further (and similar to the BoG's modus operandi), NBIM uses External Fund Managers to assist in managing the fund. The only body in Ghana's structure that does not seem to exist explicitly in the Norwegian structure is the IAC. However, Norway's Ministry of Finance, from time to time, consults external advisors in formulating the investment strategy. A number of Advisory Boards comprising external specialists and market practitioners have also been set up to offer advice to the NBIM on various aspects of its work. There exists, in addition, a Council on Ethics which monitors the fund's compliance with ethical guidelines.

Box 1: Management Framework for Sovereign Wealth Fund: Ghana vs. Norway



A key problem with Ghana's model is that even though the PRMA seems to empower the IAC as an independent expert body to advise on the investment of the GPFs, the law at the same time undercuts the IAC's role—and its room for maneuver—by specifying a narrow range of "qualifying instruments" which the GPFs can be invested in. This deficiency needs to be corrected by amending the Act to establish only broad principles to guide investment of the GPFs without specifying strict investment instrument requirements. This way, the IAC, as well as the Minister and BoG, will gain flexibility in decision-making on investing the GPFs.

[3] *Norway's Sovereign Wealth Fund is arguably the world's most successful and a good exemplar to compare with.*

We also believe that the IAC's role is so important that it needs to be reconstituted to produce the investment policy that clearly defines the objectives, risk tolerance, investment strategy, and the qualifying instruments based on sound portfolio management principles.

Investment Instruments and Returns: The PRMA provides that the GPFs should be invested in "qualifying instruments (QIs) prescribed by Executive Instrument (EI)". The QIs are defined under the Interpretation Section of the PRMA. We were not able to sight the EI that is supposed to prescribe the QIs for investment of the GPFs. This represents yet another lapse in the management of the GPFs. In any case, it is unclear as to what exactly the EI should prescribe, since the QIs are already defined in the PRMA, except, probably, to specify the actual securities to be invested in.

A careful look at the PRMA list of QIs suggests that the choice was guided by the broad principles of high liquidity, high investment grade, convertibility, sovereign guarantee and low risk. Ghana Government instruments are excluded. Many of the principles are generally desirable and represent important safeguards for the investments, but they also constrict the options available to invest the funds. Meanwhile, liquid instruments would appear to be more relevant for the GSF, which is supposed to be available for Government to fall on in case of shortfalls in estimated revenue. For the GHF, however, which is a more permanent fund, this principle would not seem to apply. Indeed, Norway includes "unlisted real estate" among the investment of its SWF, although this is a small percentage (2.7%) of the total investment. Additionally, as much as 31.2% of the SWF is in "fixed income" instruments, which are not so liquid.[4]

In practice, the investment instruments chosen for the GPFs over the years, as indicated in the Minister's annual reports, include: overnight and call deposits, discount notes, treasury bills, short-term deposits, investment grade bonds, certificates of deposit, commercial papers, and medium-term notes. Investments are made largely in the US and European financial markets, and the returns are influenced by developments in these economies. The instruments generally satisfy the principles underlying the choice of QIs for the GPFs. In terms of amounts, the annual reports show that a total of US$323,720,407 of GHF receipts was invested from 2011 to 2017, while the cumulative net interest earned for the period was US$21,072,255. On the other hand, the total investment funds transferred to the GSF for the same period was US$776,552,965. However, net of withdrawals, it was US$345,917,478 and yielded net cumulative interest of US$7,134,559 for the period.

Regarding returns, the net interest realized on the GSF ranged between 0.01% and 0.75% during 2011-17, with an average of 0.39%, whereas that on the GHF ranged between 0.01% and 1.98%, with an average of 1.18%. In real terms (that is, adjusting for annual average United States inflation rates), the net interest returns were negative for both the GSF and GHF, with real interest returns of -1.27% and -0.49% respectively (see Table 1). Meanwhile, while interest rates of barely 1% in nominal terms were being realized on the GPFs, Ghana was paying an average interest rate of 9% on dollar borrowings from the Eurobond market. *The implication is that there is a high opportunity cost of the level of returns being realized on the GPFs, since they are low in comparison with the country's cost of borrowing in the same markets in which the GPFs are invested.*

[4] *This is based on the fund's portfolio as at March 2018.*

Table 1: Net Interest Returns on the GPFs

	2011	2012	2013	2014	2015	2016	2017	**Mean**
GSF	0.01	0.29	0.44	0.54	0.30	0.41	0.75	**0.39**
GHF	0.01	0.26	0.88	1.77	1.55	1.81	1.98	**1.18**
Annual Average US Inflation	3.16	2.07	1.46	1.62	0.12	1.26	2.13	**1.69**
Real GSF Return	-3.05	-1.75	-1.00	-1.07	0.18	-0.84	-1.35	**-1.27**
Real GHF Return	-3.06	-1.77	-0.57	0.14	1.43	0.55	-0.15	**-0.49**
Ghana Eurobond Coupon Rate	-	-	7.88	8.13	10.75	9.25	-	**9.00**

Source: Calculated from Ministry of Finance and United States Bureau of Labor Statistics data

We may also assess the performance of the two funds using their annual total returns, which measure both the interest income and the capital gains or losses (both realized and unrealized) onthe market value of the funds. The picture that emerges is one of higher average returns than when the interest return alone is considered. This is shown in Table 2, where the annual total return on the GSF ranged between 0.02% and 1.61%, with an average of 0.64%, while the annual total return on the GHF ranged between 0.02% and 7.73%, with an average of 2.07%. *However, when compared with key benchmark indices for fixed income assets in the US and European markets, the average total returns on the GPFs can be said to be low.* This is illustrated in Table 2, which shows that the Bloomberg Barclays US Aggregate Bond Index and the Bloomberg Barclays Euro Aggregate Bond Index—which are common benchmark indices for evaluating the performance of fixed income portfolios in the US and European financial markets respectively— recorded average total returns of 3.25% and 4.67% in 2011-17, against the average total returns of 0.64% and 2.07% on the GSF and GHF respectively.

Table 2: Total Returns on the GPFs versus Returns on Key Benchmark Indices

	2011	2012	2013	2014	2015	2016	2017	**Mean**
GSF	0.02	0.29	0.72	1.61	0.33	0.58	0.96	**0.64**
GHF	0.02	0.26	1.50	7.73	0.25	1.79	2.96	**2.07**
Bloomberg Barclays US Aggregate Bond Index	7.84	4.21	-2.02	5.97	0.55	2.65	3.54	**3.25**
Bloomberg Barclays Euro Aggregate Bond Index	3.24	11.19	2.17	11.1	1	3.32	0.68	**4.67**
S&P 500 Index	2.11	16.00	32.39	13.69	1.38	11.96	21.83	**14.19**
S&P Europe 350 Index	-7.25	18.02	20.97	7.89	8.61	3.44	10.75	**8.92**

Source: Ministry of Finance; Bloomberg Professional Services; S&P Dow Jones Indices

An important guiding principle for the Norwegian SWF is to spread the investments "across most markets, countries and currencies to achieve broad exposure and value creation."

Norway tries to maximize the return on the SWF through instrument diversification to include blue-chip equities,[5] fixed income (of which 70% is allocated to government bonds and 30% to corporate securities), and real estate investments (which can rise to a maximum of 7% of the fund). An With this portfolio, in 2011-17, the SWF recorded an average total return of 8.25% on the Fund, with equity holdings returning 10.77% as against 4.09% for bonds and 5.99% for real estate. Comparatively, the GPFs are not allowed to be used for illiquid investments.[6]

The Norwegian principles of diversification across instruments and markets are worth emulating in Ghana to improve the performance of the GPFs. For example, the potential to improve returns through diversification into equities is supported by the evidence that benchmark equity indices in the US and Europe like the S&P 500 and S&P Europe 350 returned 14.19% and 8.92% over the same period that the GPFs were invested with much lower returns (Table 2). The insistence on high-liquidity, fixed income investments for the GPFs has contributed to the relatively low returns. The inference is that relaxing this rigid rule to allow inclusion of, say, carefully-selected blue-chip equities could bring higher returns, although they may also carry higher risks. The prevalence of low returns on the GPFs, generally, in the face of more lucrative alternative investments, raises questions about efficiency and optimality in their management. Our call for some of the GPFs' resources to be invested in illiquid investments also emanates from the fact that Ghana has now built some solid base for the GHF—and arguably the GSF— and hence can take on riskier investments compared to the early days of petroleum income.

2.2 Ghana National Petroleum Corporation Revenue

This section looks at transparency and efficiency in the management of GNPC's revenue.

2.2.1 Transparency in the Management of GNPC Revenue

Allocation of Revenue to GNPC: The PRMA specifies a transparent mechanism for revenue allocation to GNPC along with allocations to the budget and GPFs. To enhance budgeting and long-term planning and to avoid politicization of the process, the funding for GNPC from the oil revenue has been set up on earmarking basis and is taken from the carried and participating interest revenue earned by the state from petroleum operations. The earmarked transfers to the Corporation are of two types: (i) an amount meant for equity financing costs, which represent the country's share of development and production costs as dictated by the petroleum agreements with the international oil companies (IOCs); and (ii) an additional allocation, the level of which is determined by the Minister of Finance and approved by Parliament, from the carried and participating interest after deducting the equity financing costs. This supplementary allocation was set at 40% of the net carried and participating interest[7] revenue from 2011-2013 and there after was reduced to 30%.

[5] *A blue-chip equity is a stock of a highly valuable company that produces reliably high and safe returns.*

[6] *The large size of Norway's fund obviously facilitates diversification to obtain higher returns. However, the principle being established here is that diversification opens the door to increase returns—which Ghana can learn from.*

[7] *The net carried and participating interest revenue is the residual carried and participating interest revenue after deducting the equity financing costs.*

Table 3: GNPC's Allocations of Petroleum Revenue Relative to Total and Other Allocations (in millions of US$ unless otherwise stated)

Year	GNPC	ABFA*	GSF*	GHF*	Total
2011	207.96	166.96	54.81	14.40	444.13
2012	230.95	286.55	16.88	7.24	541.62
2013	222.32	273.20	245.73	105.31	846.56
2014	180.71	409.07	271.76	116.47	978.01
2015	126.86	239.30	15.17	6.50	387.83
2016	88.50	98.38	29.51	12.65	229.04
2017	182.04	169.46	142.68	61.15	555.33
2011-2017	**1,239.34**	**1,642.92**	**776.54**	**323.72**	**3,982.52**
% of Total	31.1	41.3	19.5	8.1	100

*ABFA, GSF and GHF represent Annual Budget Funding Amount, Ghana Stabilization Fund, and Ghana Heritage Fund, respectively. Source: Ministry of Finance

As Table 1 shows, from 2011 to 2017, GNPC was earmarked (allocated) US$1,239.34 million, representing 31.1% of total allocations during the period. The size of GNPC's allocation from 2011 to 2017 is next only to the allocations to the ABFA, which stood at US$1,642.92 million during the period, representing 41.3% of total allocations.

Transparency of GNPC: There is a widespread perception that GNPC, like many other national oil companies, is a "secretive" organization with limited public information on its operations and finances. The GNPC Law and other statutes,[8] however, require the Corporation to provide quite an extensive list of information to various authorities. Among the reporting requirements are: a) Submission of annual report and financial statements to the Minister of Energy (MoE) not later than three months following the end of the financial year; b) Submission of budget and work program to Parliament for each financial year; c) Submission of audited financial statements to the Minister of Finance (MoF) not later than four months after the end of the financial year; and d) Disclosure of information that may be required for the purpose of auditing the Corporation by the Auditor-General. Furthermore, GNPC reports information on petroleum production, sales and revenue to BoG; on performance indicators to the State Enterprises Commission (SEC); on regulatory compliance to the Petroleum Commission; on procurement activities to the Public Procurement Authority (PPA); on projects, transactions and long-term plans to the Ministry of Energy; and on its broad operations to the Public Interest and Accountability Committee (PIAC).

[8] *The other statutes include petroleum laws, such as the Petroleum Revenue Management Act, and financial management laws, such as the Public Financial Management Act.*

Indeed, GNPC indicated to us that they compile in all about 18 reports annually for various authorities. *We found that although GNPC has generally provided the requisite information in one form or the other to the relevant authorities, it is guilty of routine non-compliance with statutory deadlines for submitting its audited accounts.*

The main problem with GNPC's transparency is that the extent of its own public disclosure of information does not match the extent of its reporting to various authorities. This is largely because the Corporation, in the main, is not legally mandated to publish or publicly disclose information. The consequence is that except in those cases where the authorities to whom GNPC reports are legally obliged to publish the information, public disclosure of information by GNPC itself is, in theory, discretionary and, in practice, inconsistent. For example, whereas information on petroleum production, sales and revenue, and on petroleum projects, is reported publicly by the Ministry of Finance in accordance with law, information such as the Corporation's annual work program and budget, which is submitted to Parliament, and its performance management reports, which are submitted to SEC, is not published, since there is no legal requirement to do so. Furthermore, a key source of data on the Corporation's operations—its annual audited financial reports—is not published in a consistent and timely fashion: as at end-2018, GNPC's website contained financial reports for only 2014 and 2015. *It is important that GNPC is proactive in reporting information broadly to the public, except possibly for commercially sensitive information. This is especially so since, as a national oil company, GNPC controls a huge amount of the nation's resources. Such key information as the annual work program and budget, annual financial report, performance management report, and procurement information, among others, should be published by the Corporation in a timely and consistent fashion. Making information available to the public to the broadest extent possible will contribute to improving the Corporation's image.*

2.2.2 Efficiency in the Management of GNPC Revenue

We assess efficiency in the management of GNPC revenue in terms of how the Corporation applies the revenue and the opportunity costs of the spending choices it makes.

Utilization of GNPC Revenue: The petroleum revenues received from Government provide about 80% of GNPC's total revenues. The other roughly one-fifth of its revenues comes from sources which include interest on short-term investments, income from services rendered to oil exploration companies, and training and technology grants. Much of the revenue is spent on direct petroleum activities. For instance, production costs, project expenditures, and exploration promotion expenses together accounted for an average of 64% of total costs in 2011-2016 (See Table 2). The remaining costs include personnel emoluments (8.8%), general operating expenses (8.7%), and other operating expenses (11%). The last-mentioned category includes losses, amounting to 9.3% of costs in 2011-2016, incurred by the Corporation from trading in refined petroleum products. It also includes regular support transfers to the Ministry of Energy and payments for Maritime Boundary Special Project activities. The downstream trading losses, which have persisted over a long period, detract from efficiency in the management of GNPC's revenues. Consequently, that business line ought to be reassessed by the Corporation and steps taken to make it profitable.

The information in Table 2 indicates that the Corporation has regularly posted profits from its operations. However, given that GNPC normally budgets to spend all its revenues,[9] these "profits" are largely surplus or unutilized funds that arise from timing differences between when revenue is received and when expenditures have to be made—although where cost savings are made or actual revenues (oil prices) are higher than expected, this would also result in surplus funds. The practice by the Corporation is to carry forward these unspent balances into the next financial year to be used to fund the activities for which they have been earmarked. While the suggestion has been made by some stakeholders that these unused balances should be returned to the government treasury at the close of the financial year, this could stymie GNPC's operations, especially since the government may fail or delay in repatriating the funds to the Corporation when needed. What is required, however, is strict monitoring by Parliament of how these funds are kept and utilized by GNPC to avoid possible misapplication.

Table 4: GNPC Revenues, Costs, and Net Profits, 2011-2016

	2011	2012	2013	2014	2015	2016
	GH₵m	GH₵m	GH₵m	GH₵m	GH₵m	GH₵m
Revenues	**345.2**	**485.5**	**593.8**	**626.1**	**608.1**	**619.2**
Equity Financing	204.7	230.7	157.3	159.8	215.7	273.3
Net CAPI Allocation*	117.1	198.1	349.4	415.1	267.9	234.6
Other Income	23.4	56.7	87.1	51.2	124.4	111.3
Costs	**133.4**	**191.6**	**246.9**	**337.2**	**542.8**	**664.5**
Cost of Production	54.3	123.1	159.8	146.9	253.1	301.2
General and Admin Expenses	39.7	57.1	74.0	147.6	233.3	339.0
o/w Petroleum Project Expenditure	0.0	20.2	27.0	48.8	92.5	176.1
Exploration Promotion Expenses	0.2	0.1	0.0	1.1	1.1	4.0
Loss from Refined Products Trading	39.4	11.4	9.1	34.3	34.6	0.0
Other Expenses	0.0	0.0	0.0	8.4	21.8	24.3
Finance Cost	0.0	0.0	4.0	0.0	0.0	0.0
Net Profit	**211.8**	**293.9**	**346.9**	**288.9**	**65.3**	**-45.4**

Source: GNPC Financial Reports, Various Issues *CAPI means Carried and Participating Interest

Noncore Activities: The GNPC Law mandates the Corporation to "undertake the exploration, development, production and disposal of petroleum." This could be said to be the "core" mandate of the Corporation as a national oil company. The law further empowers GNPC "to do any other things and perform any other functions necessary or expedient for the purpose of attaining its objects and carrying out its activities." This power given to GNPC has led it to indulge in extra, noncore activities that not only overstretch its mandate but also compromise efficient utilization of its revenue. GNPC's noncore activities can be grouped into three: (i) non- petroleum-related investments; (ii) quasi-fiscal transactions; and (iii) corporate social responsibility expenditures.

(i) Non-Petroleum-Related Investments

GNPC holds equity stakes in Mole Motel Company Ltd. (60%), Airtel (25% as at 2016), and Prestea Sankofa Gold Ltd. (90%). According to the Corporation, these investments, and others that have been already liquidated, were made before commercial oil discovery in 2007 in order to generate income to support its upstream activities then. Carrying these investments into the post- discovery era has, however, not served the Corporation's interest commercially.

[9] *In actual fact, the budgets frequently envisage spending above revenues, with the resulting financing gaps made up by borrowing.*

This is because Airtel and Prestea are loss-making investments, and Mole Motel, though profitable, contributes nothing to GNPC's cash flows as it pays no dividends (See Table 3).[10] Prestea and Mole also receive loans from GNPC. Of particular concern is Prestea, which ceased operations in the last quarter of 2016 after years of financial losses and decline. GNPC has indicated its plans to sell the mine but has not found a buyer yet for it. Meanwhile, the venture continues to weigh on its finances. In 2018, for example, GNPC set aside US$24.78 million in its budget to pay off the mine's accumulated liabilities. These investments outside the Corporation's core mandate have serious implications for efficiency in the application of its resources.[11]

Table 5: GNPC's Net Profits and Value of Equity Stakes in Non-Petroleum Investments

	Net Profit (Loss) Attributable to GNPC			Accumulated Value of GNPC Equity		
	2014	2015	2016	2014	2015	2016
Company	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Mole Motel	67	8	49	283	275	324
Prestea Sankofa Gold	-11,017	-21,124	-36,629	-6,302	-29,183	-65,812
Airtel	-166	-55	-3,966	4,021	3,966	0
Total	-11,116	-21,171	-40,546	-1,998	-24,942	-65,488

Source: GNPC 2014-16 Financial Reports

(ii) Quasi-Fiscal Transactions

A number of transactions by GNPC border on quasi-fiscal operations and do not represent the best use of the Corporation's funds. Among these are loans and guarantees issued for the benefit of the government or other state-owned companies, and expenditure on road construction. In 2014, GNPC advanced a loan of US$50 million to the Ministry of Finance, an amount equal to 28% of the Corporation's petroleum receipts for that year. The loan was not backed by a formal agreement and had not been paid as at mid-2018. Given its relatively strong balance sheet and cash flows, and the government's disinclination to issue sovereign guarantees in support of state-owned enterprises, GNPC has become a de facto "guarantor of last resort" in the energy sector, providing guarantees on behalf of Electricity Company of Ghana (ECG), Volta River Authority (VRA), Tema Oil Refinery (TOR), and Bulk Oil Storage and Transportation Company (BOST). The loans and guarantees have resulted in huge and mounting claims on the beneficiaries (See Table 4). In addition, since 2015, GNPC has spent funds on road development in the Western Corridor gas enclave to facilitate gas evacuation. Between 2015 and 2017, the Corporation spent US$39.7 million on this project, with further expenditure of US$27.6 million included in its 2018 budget.

[10] *In written comments submitted to us by GNPC in January 2018, it said its Airtel stake is now insignificant (<1%) after it decided to exit the investment. It also described Mole as its "flagship green investment" aimed at promoting environmental sustainability, an assertion which appears to downplay any commercial motive for the investment.*

[11] *It is recalled that, many years back, GNPC got involved in derivatives trading with foreign entities that resulted in a huge financial loss to the Corporation and eventually led to the seizure of its drilling ship. This is clear evidence that allowing the Corporation such latitude in its activities is ill-placed and could be costly and counterproductive.*

These transactions are quasi-fiscal for a number of reasons. First, as GNPC itself has admitted, the transactions were occasioned by requests or directions from the government. In other words, they were not independent decisions of its board, nor would those decisions probably have been made by the board were it acting independently. Second, activities like road development are unquestionably within the remit of the government and not GNPC, however much the infrastructure is needed to facilitate the Corporation's activities. Third, the transactions have not always been treated as would be expected in a normal market exchange (such as the MoF loan without an agreement), and the commercial imperative for engaging in such transactions is consequently hard to pinpoint. Fourth, while GNPC has justified some of the activities as deriving from its role as "an enabler of the petroleum industry" and "the national gas aggregator", the nature and outcomes of the transactions do not indicate, for the most part, that the Corporation's ultimate commercial interests have been prioritized ahead of other possible, including fiscal, objects.

Table 6: Amounts Owed by Government and its Agencies to GNPC

	2014	2015	2016
Debtor	GH¢'000	GH¢'000	GH¢'000
Government of Ghana	102,537	102,537	102,537
Ministry of Finance	160,065	189,845	210,115
Tema Oil Refinery	186,972	221,757	245,435
Ghana National Gas Company	112,173	216,215	261,996
Ghana Broadcasting Corporation	-	3,599	3,984
Total	561,747	733,954	824,067
Doubtful Debt Provision (TOR & GBC)	-19,389	-22,996	-29,435
Net Total	542,358	710,958	794,632

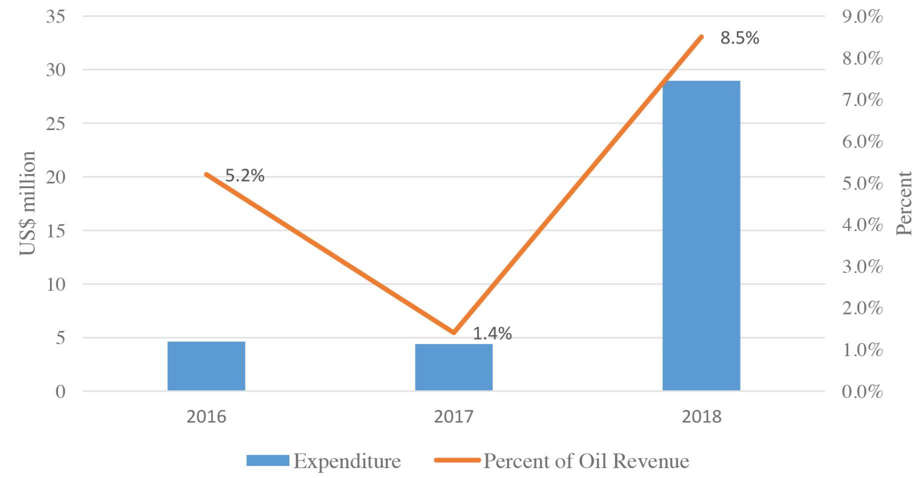
Source: GNPC 2014-16 Financial Reports

(iii) Corporate Social Responsibility Expenditures

GNPC engages in wide-ranging CSR activities. Under its CSR, GNPC sponsored the Ghana Black Stars (this program has now been scrapped) and has established an annual GNPC Ghana's Fastest Human Competition (still in place). The Corporation has undertaken other CSR activities in the areas of education, health, sports development, etc. (See Box 2). In 2018, the CSR activities were reorganized under three main focal areas, namely: Education and Training; Economic Empowerment; and Environment & Social Amenities. GNPC, while acknowledging the financial burden that CSR places on its business, argued that its CSR programs help to redistribute the benefits of oil exploitation beyond the oil-producing regions to other parts of the country. It further explained that CSR is always subjected to efficiency tests in terms of Key Performance Indicator (KPI) standards, whose results are submitted to the State Enterprises Commission (SEC).

It is common practice for companies, both private and government-owned, to engage in CSR as a means to benefit society while also boosting their own brand. In and of itself, therefore, CSR is not to be discountenanced. That said, CSR expenditures should be controlled to avoid diverting too much resources from a company's primary commercial mandate, which can hinder its performance and efficiency. Thus the growing scale and cost of GNPC's CSR activities, especially since the reorganization in 2018, raises questions about the opportunity cost of such expenditure against the background of the Corporation's gaping financing needs and substantial investment requirements. As Figure 1 reveals, GNPC's CSR budget spiked from US$4.4 million in 2017 or 1.4% of petroleum revenue to US$28.95 million in 2018 or 8.5% of petroleum revenue. It is worth noting that the 2018 CSR budget exceeded the personnel emoluments budget (US$25.03 million) and the general expenses budget (US$17.10 million) of the Corporation. The CSR activities need to be reined in to secure more judicious application of funds and prevent the activities becoming another conduit for engaging in quasi-fiscal activities.[12]

Figure 1: CSR Budget of GNPC, 2016-2018



Source: GNPC Financial Reports and Work Programs

Box 2: CSR Activities of GNPC in 2015

The Corporation provided support in the areas of education, health and sports development.

Oil and Gas Learning Foundation

The Corporation set up an Oil and Gas Learning Foundation to help develop the country's human resource capacity to support the oil and gas industry. An amount of US$3.0 million is provided annually to support a scholarship scheme. The Foundation commenced work in 2012.

Sports Development

A Headline Sponsorship Agreement (HSA) was signed between Ghana National Petroleum Corporation (GNPC) and Ghana Football Association (GFA) in January 2013 to provide a US$3.0 million yearly sponsorship to the Senior Male National Team for a period of not more than five (5) years (January 2013-December 2017). The agreement is renewable yearly subject to the satisfaction of conditions of renewal stipulated.

Health

Renovations and medical equipment were supplied to the following facilities at the stated cost:

National HIV Response Unit (Ghana AIDS Commission) - GHS 7,229,400
ICU at Burns Centre (Korle-Bu) - GHS 1,898,450
New Born Sickle Cell Screening Unit (Komfo Anokye) - GHS 500,000

Disaster Relief

The Corporation also supported NADMO with GHS 400,000 after the June 3, 2015 flood disaster.

Source: GNPC 2015 Financial Report

[12] *The risk that CSR could become a channel for funding quasi-fiscal projects is lent credence by the government's indication recently that it will lean on GNPC, through the Corporation's CSR budget, to finance its upcoming drone medical delivery service.*

3.0 Findings and Recommendations

The key findings and recommendations of the study are as follows:

3.1 Ghana Petroleum Funds

Transparency Principles and Practice: The PRMA has laid down a transparent system for managing the GPFs relating to revenue allocation, reporting, auditing and oversight that are broadly in accord with international best practice. We found that the mandated institutions have broadly complied with their respective obligations, viz. allocation of revenue, auditing, and reporting on the GPFs have largely conformed to the legal requirements. This has made information on the GPFs publicly available with adequate frequency, coverage and quality, and ensured transparency and accountability in the management of the funds.

Despite the above, there is lack of clarity in the PRMA regarding the Minster's authority to set a ceiling on the GSF, with Parliamentary approval, and to allocate subsequent transfers into the GSF to the Contingency Fund or for debt repayment. The question is whether the ceiling can be set below an existing balance to allow the Minister to cream off the excess into the Consolidated or Sinking Fund, or whether the ceiling can only be set at or above an existing balance. In 2014, the then Minister adopted the first scenario and attracted the censure of the Public Interest and Accountability Committee (PIAC), which argued that his action was contrary to the law and that the second scenario is the applicable interpretation of the law. To avoid this confusion, the PRMA should be amended to establish, clearly, how and what should form the basis for setting the ceiling on the GSF. One option would be for the Act to fix a floor for the balance that sits in the GSF at any point in time. Since the GSF is intended to alleviate shortfalls in oil revenues allocated to the budget, the floor could be set as a percentage of the Annual Budget Funding Amount (ABFA).

Efficiency Principles and Practice: Regarding efficiency in the management of the GPFs, the study found some lapses in the PRMA and in its practice. These lapses relate to the managementstructure of the GPFs not being fully functional, and the investment of and returns on the funds, as elaborated below.

Management Structure: A crucial element of the management structure set out in the PRMA to oversee the investment of the GPFs is not functional. This is the Investment Advisory Committee (IAC), which the law mandates to formulate the investment policy, determine the benchmark portfolio, risk and returns, and to offer broad investment advice on the GPFs to the Minister of Finance. The IAC has not existed since October 2016, thereby denying investment decisions the necessary technical input of this critical body. The GPFs investment policy has also not been developed. Moreover, in the current context, whereby the PRMA stipulates rigid investment guidelines, the role of the IAC would seem redundant. These omissions have serious implications for efficient management of the GPFs.

The IAC has an important role to play in the governance structure of the GPFs and should be reconstituted. In addition, the IAC should be given room for maneuver in discharging its mandate by amending the PRMA to eliminate or relax its rigid investment rules (such as the narrow range of qualifying instruments) for the GPFs. The IAC, working with the Minister of Finance and BoG, should consequently pursue diversification of the GPFs' investments to increase returns.

Returns on GPFs: Returns on the GPFs have been low based on rule-of-thumb and international benchmark comparisons. First, in nominal terms, average annual net interest returns of barely 1% were realized on the GPFs in 2011-17, and in real terms, the net interest returns were negative. Second, the annual total returns on the GPFs—which consider both interest income and capital gains (both realized and unrealized) on the investments—were low in comparison with the returns on key benchmark indices for financial investments in the US and European markets. These comparatively low returns are largely due to the PRMA's narrow range of permitted investments. The prevalence of the low returns in the face of more lucrative alternative investments on the international markets raises efficiency concerns. Permitting diversification of the funds' investments across different asset classes and markets is likely to attract higher yields. To help address the deficiency, we recommend two alternative models:

Alternative I: The GSF and GHF should be kept separate (as at now) and the two should continue to function as before, i.e. as stabilization and heritage funds respectively. However, the GHF, as a permanent fund, should be invested in longer-dated instruments and durable assets. The GSF, on the other hand, should be invested in short-term, liquid instruments in order for it to be able to provide ready funds, if needed, to support the budget in case of shocks to estimated petroleum revenues.

Alternative II:[13] The GSF and GHF should be merged into one fund. This will be roughly 30% of total petroleum revenue (net of GNPC allocation). The entire fund should, however, be invested in more lucrative assets, including liquid and illiquid instruments, as prescribed by the IAC.Also, about 10-20% of the balance on the fund, comprising the principal and returns in any year, should be placed in a separate fund—call it the Budget Support Fund (BSF)—to be used to support the budget, if needed. The rest of the main fund will remain intact and be reinvested. It has to be noted that, in the case of Ghana, already 70% of the petroleum revenue (net of GNPC allocation) is earmarked for the budget in the form of the Annual Budget Funding Amount (ABFA). Therefore, the funds from the BSF will be additional to the ABFA. The BSF can also serve an additional useful purpose of a Sinking Fund for the repayment of maturing debt.

Under either alternative, the relevant sections of the PRMA will have to be amended accordingly.

3.2 Ghana National Petroleum Corporation Revenue

Transparency of GNPC: The GNPC Law and other statutes mandate the Corporation to provide wide-ranging information on its activities and finances to various authorities. To this end, the Corporation produces about 18 reports annually. However, the extent of GNPC's public disclosure of information does not match the extent of its reporting to various authorities. The consequence is that except in those cases where the authorities to whom GNPC reports are legally obliged to publish the information, public disclosure of information by GNPC itself is, in theory, discretionary and, in practice, inconsistent. As such, the general public continues to perceive GNPC as an opaque organization. It is important that GNPC is proactive in reporting information broadly to the public, except possibly for commercially sensitive information. Such key information as the

[13] *This scenario is the closest that the GPFs will come to the Norwegian SWF. In the latter, all the petroleum receipts are invested and 4% of the return used to support the budget. Of course, the SWF is a huge fund and, therefore, 4% of the return on it is still huge.*

annual work program and budget, annual financial report, performance management report, and procurement information, among others, should be published by the Corporation in a timely and consistent fashion. Making information available to the public to the broadest extent possible will contribute to improving the Corporation's image.

Utilization of Revenue: The Corporation's revenues comprise 80% fiscal receipts and 20% from other sources. The main elements of its cost structure include direct petroleum activities (64% of total costs in 2011-2016), personnel emoluments (8.8%), general operating expenses (8.7%), and other operating expenses (11%). The last-mentioned category includes losses from downstream trading activities, accounting for 9.3% of total costs. GNPC needs to eliminate these losses from the cost structure by taking steps to ensure profitability of its downstream activities.

The Corporation has regularly reported profits from its operations. However, since GNPC typically budgets to spend all its revenues, most of the profits represent unspent revenue allocations that result from timing differences between when revenue is received and when expenditures should occur. In order not to hamstring its operations, GNPC should be allowed to retain these surpluses, as it currently does, but Parliament should monitor their utilization strictly to prevent possible misapplication.

Noncore Activities: In addition to its "core" mandate of petroleum exploration, development, production and disposal, GNPC engages in noncore activities that compromise transparency and efficiency in the utilization of its revenue. These noncore activities are made up of non-petroleum-related investments, quasi-fiscal transactions, and corporate social responsibility engagements. Steps need to be taken to rein in these activities in the interest of a more efficient and mandate-focused organization. We therefore recommend the following:

(i) The non-petroleum-related investments, which are a legacy from the pre-commercial-oil-discovery years, no longer serve GNPC's commercial interests, and the Prestea venture has become a huge financial albatross for the Corporation. We therefore call for a policy decision by the Ministry of Energy to divest the Corporation of what is remaining of these investments.

(ii) GNPC's quasi-fiscal activities have led to it being owed large and increasing amounts by government and government-related entities. As the body that appropriates public funds to GNPC, Parliament should exercise its oversight effectively by reining in these activities of the Corporation. It should mandate GNPC to report to it specially, and in comprehensive detail, on quasi-fiscal undertakings and should demand urgent recovery of the current associated claims.

(iii) The Corporation's CSR programs have become overextended, diverting an immoderate amount of resources away from core operations. We recommend that Parliament, through its powers of appropriation, should impose a limit—possibly tied to GNPC's revenue, cost or other financial metric—on the CSR budget to restrain the scale and cost of the activities and protect revenues needed to expand the Corporation's investments in the oil sector.

GNPC's Law: GNPC's founding statute, PNDC Law 64, which was enacted in 1983, has become redundant in many parts, since many of its provisions have been supplanted by various petroleum laws and regulations that govern the sector today. The country's governance climate at the time the law was passed was also very different from the present time. As such, the legislation falls short of satisfying the strong and fervent public demand for transparency and accountability from a national oil company in contemporary times. For this reason, GNPC requires a new statute that reflects current realities and addresses certain gaps in the old legislation.

A new law would offer the opportunity to revisit or incorporate the following issues, among others:

(i) The considerable latitude given the Corporation to engage in diverse kinds of activities may need to be curbed. Legislators should consider specifying in the new law the things the Corporation cannot do.
(ii) Expansive public information disclosure requirements should be mandated to strengthen transparency and accountability.
(iii) The corporate governance of the Corporation should be given a second look, in particular the powers to appoint the board and the board's composition. Thought may be given to granting Parliament a role in appointing the board and providing for some institutional representation on it.

Appendix

Table 1. Ghana: Petroleum Revenues

Year	Petroleum Lifting (barrels)	Petroleum Receipts (US$ million)	Petroleum Receipts (GH¢ million)	Receipts as % of Domestic Revenue	Receipts as % of GDP
2011	3,930,189	444	690	5.74	1.1
2012	4,931,034	542	979	6.31	1.3
2013	4,977,922	846	1,644	8.78	1.7
2014	6,690,798	978	2,774	11.59	2.4
2015	6,689,483	388	1,450	4.81	1.1
2016	4,824,417	229	972	2.99	0.6
2017	9,762,032	555	2,334	5.84	1.1

Source: Government of Ghana

Table 2. Ghana: Sources and Basis of Petroleum Revenues

Revenue Generating Source	Revenue Basis	Percentage of Revenue
Royalty	Royalties are paid by oil companies to the State as the owner of the mineral rights. The State, which is the owner of the resource, is entitled to part of the total production before any deductions whatsoever are made. The State may opt to take the royalty in cash or in kind (oil) and the practice has been for the State to take it in kind. Where the State elects for payment in kind, the value of the oil in US dollars on the day the petroleum is received is reported and recorded by the Ghana Revenue Authority as payment to the State.	In the Ghanaian context (and depending on the specific petroleum agreement) royalties have ranged from 4-13% of total gross production.
Carried Interest	The State holds a minimum initial participating carried interest in each petroleum agreement. The State is "carried" by the IOC in the sense that GNPC/the State does not pay anything when it comes to costs incurred during exploration and development. The State, however, pays for its share of the costs when oil production starts.	Petroleum agreements that existed prior to the enactment of the Petroleum (Exploration and Production) Act 2016 had a minimum of 10% carried interest for the State. This has been increased to a minimum of 15% carried interest under the Petroleum Act 2016.
Additional Interest	In the event of a commercial discovery, Ghana has the option of increasing its stake in the field within a specified period of time following the declaration of the discovery. The maximum percentage if it decides to exercise the option is contractually agreed to in the petroleum agreement entered into by the parties. Here, the State/GNPC pays for all costs from that stage onwards, including development and production costs if it decides to increase its interest.	Based on current petroleum agreements, additional interest has ranged from 3-15%.
Corporate Income Tax	This is a tax on the profits of oil and gas companies. The tax rate is applied to the tax base after all the prescribed costs pertaining to the contract are deducted.	The Income Tax Act 2015 specifies a tax rate of 35%. Prior to this, the Petroleum Income Tax Law of 1987 stipulated a tax rate of 50%, but also provided that a petroleum agreement could provide for some other tax rate. Because of this provision, all petroleum agreements that were signed had an effective corporate income tax rate of 35%.

Additional Oil Entitlement	Here, the State becomes entitled to an additional percentage of the international oil companies' share of crude oil on each separate field once profitability passes certain agreed rate of return thresholds.	In the agreements entered into so far, the Additional Oil Entitlement has been in the range of 5-30%.
Surface Rentals	Surface rentals are annual rents paid by the international oil companies to the State for leasing the surface of the sea or land to explore for oil and gas resources. Surface rentals are paid for in dollars per square kilometer of acreage operated by the licensees of the area.	The amount depends on the phase of the petroleum operation, and ranges from US$30-100 per square kilometer.
Bonus Payments	The Petroleum Act 2016 introduces bonus payments, which are lump sums that should be paid to the State at certain trigger points (e.g. discovery bonus, signature bonus, production bonus) in accordance with a petroleum agreement.	The Petroleum (Exploration and Production) (General) Regulations 2018 require IOCs to pay a signature bonus upon ratification of a petroleum agreement. The Minister may specify the amount of the bonus to be paid or allow for competitive bidding for the amount of bonus payable.
Technology and Training Fee	The government receives a one-time technology support payment and annual training allowance fees from the IOCs, as stated in the petroleum agreements.	
Other Receipts	1 Capital Gains Tax: This is applied when an international oil company sells its petroleum assets and realizes a profit. Tax is charged on that profit. 2 Dividends: Refers to monies which GNPC may pay to the State out of its profits.	

Source: PIAC (June 2017), Petroleum Commission (December 2018)

INSTITUTE FOR FISCAL STUDIES

Residential Address
No. 13, 2nd Close, Airport Residential Area, Accra, Ghana

Postal Address
P.O. Box CT 11260, Cantonments, Accra, Ghana

+233 302 786 991
info@ifsghana.org
www.ifsghana.org

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