



**MAPPING GHANA'S OIL AND GAS REVENUE TO EXPENDITURE: THE  
CASE OF THE HERITAGE FUND**

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## **Abstract**

This paper examines the allocation of Ghana's oil and gas revenue as per the provisions of the Petroleum Revenue Management Act (PRMA) 2011 by paying particular attention to the performance of the Ghana Heritage Fund (GHF). Using descriptive analyses, the author reveals a non-compliance with provisions made in the PRMA on revenue allocations into the Ghana Petroleum Fund and that the interest yield on the investment of the GHF is highly insignificant.

Among the recommendations include investing the GHF with institutions that would guarantee high investment incomes or by re-negotiating the terms of investment.

**Keywords: Investment Income, Petroleum Holding Fund, Ghana Stabilization Fund, Ghana Heritage Fund, Annual Budgetary Funding Amount**

## Introduction

Oil and Gas, generally termed as petroleum is an exhaustible natural resource which has a positive marginal scarcity rent. Hence, petroleum revenues should be expended to achieve optimal outcomes today and also by ensuring there is inter-generational equity. Based on the above principle governments decide on the quantum of revenues to invest for future generations and the quantum to be spent on its present citizens (NRGI, 2014).

Learning from best practices, an approbation of the Petroleum Revenue Management Act was given on April,11,2011 to provide a structure for the collection, disbursement and management of Ghana's oil and gas revenues for the benefit of its current citizens and that of future generations. Currently, Ghana's oil and gas revenues sits in the Petroleum Holding Fund(PHF) with allocations made into the Ghana Stabilization Fund(GSF), Ghana Heritage Fund(GHF) and the Annual Budgetary Fund also known as the ABFA which feeds into the national budget. An accumulation of the GSF and GHF make up the Ghana Petroleum Fund (GPF). (PRMA, 2011) (Refer figure 1 below).

**Figure 1: Allocation of Ghana's Oil and Gas Revenue**



Source: PRMA 2011

In the year 2016, revenues from Ghana's Oil and Gas contributed approximately 2 % to Ghana's nominal GDP. (MOF, 2016). This sector has the potential of contributing more to GDP "all things being equal" if petroleum revenues are linked to tangible expenditures which enhances inclusive growth not forgetting the nations huge petroleum reserve potential.

This article therefore seeks to:

1. Examine the total petroleum revenues accrued to Ghana since 2011

2. Examine the allocations made with petroleum revenues.
3. Reconcile provisions on revenue allocations as stipulated in the PRMA to actual allocations.
4. Evaluate the performance of the Ghana Heritage Fund (GHF).

The results of this article will therefore inform readers on the state of Ghana's petroleum revenues and inform policy makers to improve the investment of petroleum revenues.

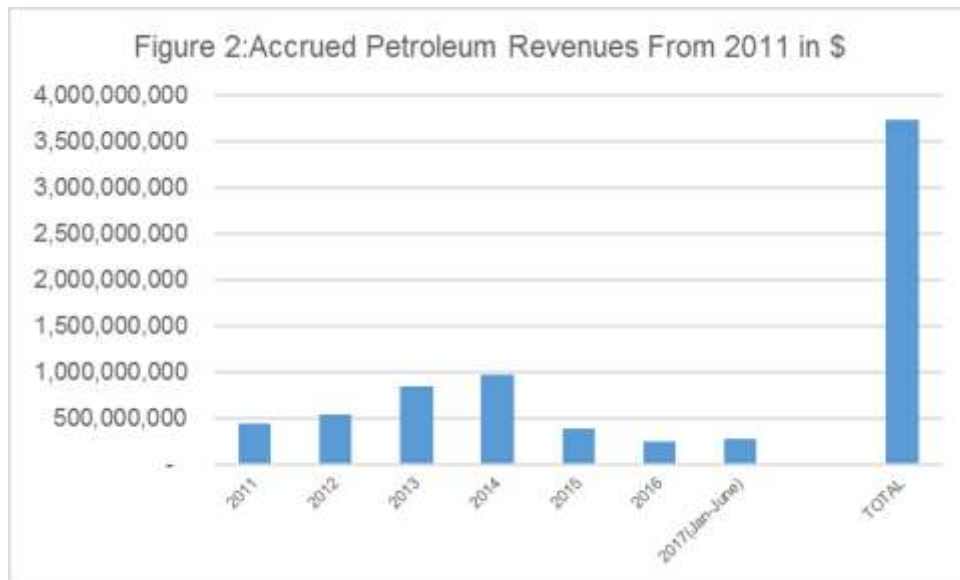
## **1. Methodology and Data Collection Method**

The author performs descriptive analyses using secondary data from the Ministry of Finance(MOF) and the Bank of Ghana(BOG) using figures from 2011-June 2017.

## **2. Inflows of Petroleum Revenues**

As at June 2017, an amount of \$3,732,548,844 (USD 3.7 billion) which translates into about GHC 8,490,656,943 (GHC 8.5 billion) has been accrued yet. The highest inflow of petroleum revenues in Ghana was in 2014 with Ghana grabbing \$979 million while 2016 recorded the lowest inflow with about \$247 million. 2014's high revenue figures were due to the high extraction rate of petroleum and high average Jubilee lifting price of \$91.18/bbl. 2015 and 2016 saw bearish annual average Jubilee lifting price of \$52.36 and \$46.99 respectively with the rate of extraction declining over the period. (BOG/MOF,2014,2015,2016).

Mid-year revenues figures for 2017 predicts a bullish revenue inflow over 2015 and 2016 figures barring unfavourable market prices, low extraction rate and random shocks (Refer to figure 2 below).



Data Source: MOF(ARPF),BOG Reports

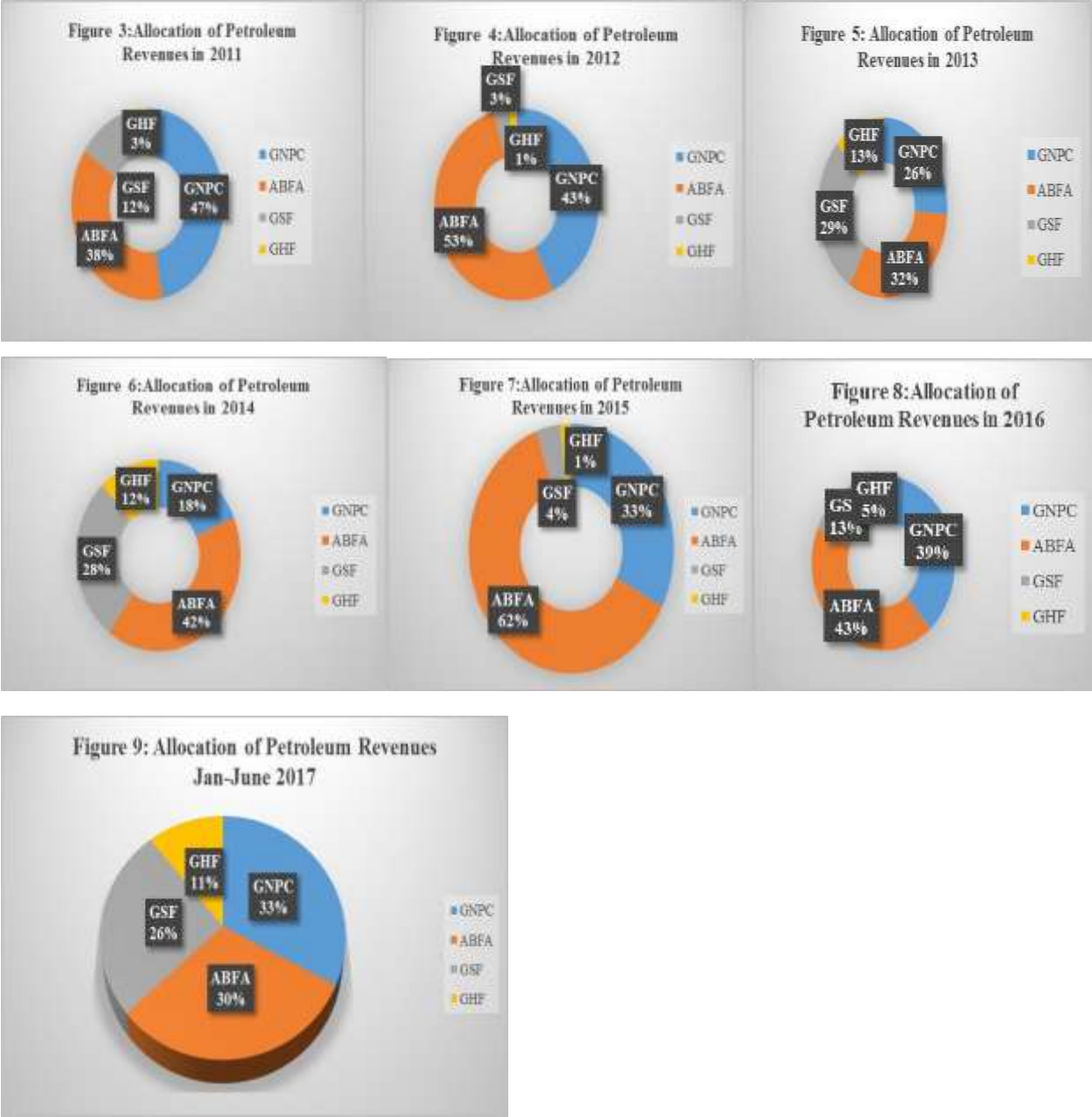
### 3. Outflows of Petroleum Revenues

Section 18 (1) of the PRMA prescribes for not more than 70% of petroleum revenues be allocated into the ABFA while section 23(b) also directs a minimum of 30% be allocated into the GPF. Quoted below;

*18. (1) The Annual Budget Funding Amount from petroleum revenue shall not be more than seventy percent of the Benchmark Revenue*

*23. (1) Commencing in the year 2011 until the year when petroleum production ceases, the following rules shall apply..... (b) a minimum of thirty percent of the excess revenue determined in subsection (1) (a) shall be transferred into the Ghana Heritage Fund and the balance shall be transferred into the Ghana Stabilization Fund each quarter. (PRMA 2011)*

Reconciling the above provisions to the allocation made since 2011, there is evidence that, the minimum 30% prescription was not met in 2011,2012,2015 and 2016. (Refer to figures 3-9 and table 1)



Data Source: MOF(ARPF)/ BOG,2017

**Table 1: Level of Compliance to PRMA allocations into GHF**

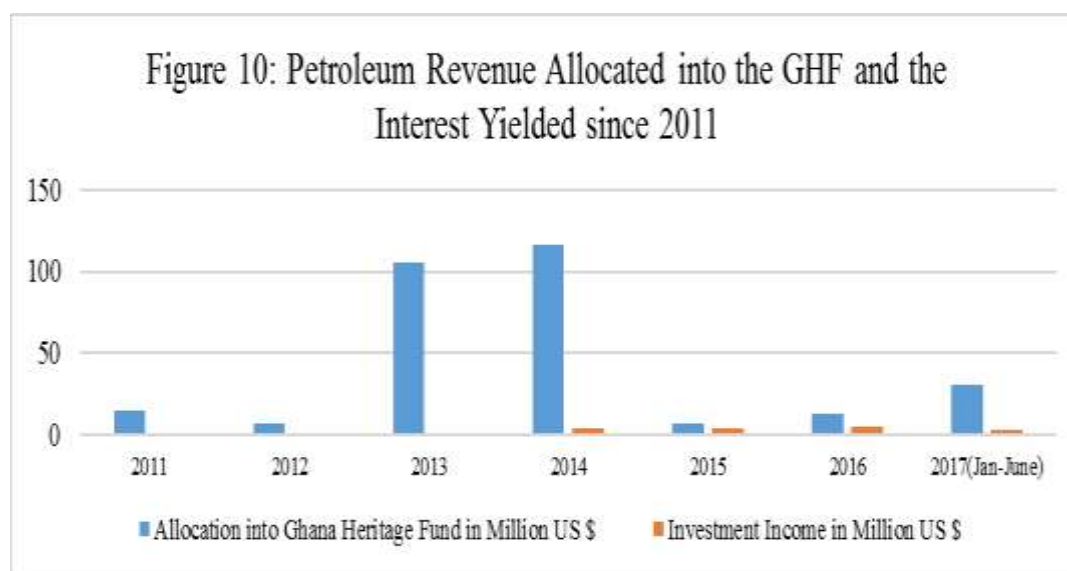
Year	Compliant	Non-Compliant
2011		√
2012		√

<b>2013</b>	√	
<b>2014</b>	√	
<b>2015</b>		√
<b>2016</b>		√
<b>Total Level of compliance (excl. 2017)</b>	$\frac{2}{6} = 33\%$	$\frac{4}{6} = 67\%$
<b>2017(Jan-June)</b>	√	

Source: Authors Calculation

#### 4. Performance of The Ghana Heritage Fund (GHF).

The Federal Reserve Bank of New York keeps the GHF. The year 2013 and 2014 had the largest allocation to the GHF due the level of compliance to the PRMA provisions. Figure 10 gives evidence of minimal interest yield on the GHF. As at June 2017, a total of \$311.048 million (including investment income) had accrued to the GHF. (See table 2 below). This represents 8% of total petroleum revenues (including investment income )from the year 2011-June 2017.



Data source:MOF(ARPF),2016

**Table 2: Total Amount Accrued to the Ghana Heritage Fund from 2012-June,2017**

<b>Year</b>	<b>Allocation into GHF in Million US \$</b>	<b>Investment Income in Million US \$</b>	<b>Closing Book Value OF GHF in Million US \$</b>
<b>2011</b>	14.401		
<b>2012</b>	7.235	0.062	21.694
<b>2013</b>	105.314	1.117	128.125
<b>2014</b>	116.469	4.331	248.915
<b>2015</b>	6.501	3.966	259.383
<b>2016</b>	12.648	4.948	276.962
<b>2017(Jan-June)</b>	30.647	3.449	311.048

Source:APR 2016/BOG,2017

$$r = -0.028, \quad r^2 = -7.84 \times 10^{-4}$$

Source: Authors own calculation

The Pearson product-moment correlation coefficient analysis performed on revenue allocations into GHF and investment income shows a weak negative relationship. This weak negative relationship translates into a coefficient of determination (COD) -0.07% which means the variation in the total funds accrued to the GHF is not explained by the investment income.

## **5. Findings**

Ghana was mostly non-compliant with provisions made in the PRMA on revenue allocations into the GPF.

The total amount accrued to the GHF is as the result of the high level of non-compliance.

The investment income has no impact on the total amount accrued to the GHF



## 6. Recommendations

The legislation of the fiscal responsibility law to ensure high compliance to the PRMAs 70% - 30 % allocations.

The Minister of Finance, the Investment Advisory Board and successive boards must ensure high compliance to the PRMA provisions on allocations to the GHF so as not to short-change future generations.

Also, the Minister of Finance, the Investment Advisory Board must invest the GHF with institutions that will guarantee high investment incomes or must re-negotiate the terms of investment.

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