

## **ACEP'S REVIEW OF THE 2017 RECONCILIATION REPORT ON THE PETROLEUM FUNDS**

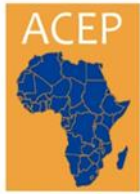
31<sup>st</sup> May, 2018

The 2017 budget was one of the most promising budgets which reflected years of advocacy by ACEP and other Civil Society Organisations for focused investment in the pro-poor sectors of education, agriculture, and health. ACEP took particular notice of the allocation of 53% of the oil revenues to the pro-poor sectors of the economy.

The budget also allocated almost the entire component of the Annual Budget Funding Amount (ABFA) allowed for recurrent expenditure to the government's flagship free SHS policy. The PRMA stimulates that up to 30% of the ABFA can be used for recurrent expenditure with the remaining 70% or more for capital expenditure. To the extent that the allocation to the free SHS constituted 26.5% of ABFA, there was - for the first time - greater clarity on what exactly the recurrent expenditures of the ABFA were. This, ACEP believed, would help to track the impact of not just the portion of ABFA that goes into physical infrastructure, but also recurrent expenditure; a positive deviation from what we are used to. Investing in education in particular fits into the key objective of the PRMA in Article 21(2) (b) to promote equality of economic opportunity with a view to ensuring the wellbeing of citizens.

However, the outturn of the receipts and expenditure of oil revenue in 2017 raises concerns about compliance with the Appropriation Act and the PRMA, in spite of commendable adherence to aspects of the laws. This has necessitated this media engagement.

Ladies and gentlemen, in 2017, the total estimated receipt from oil was about \$515 million. This amount was exceeded by almost 5% to about \$540.4 million; the first time we attained and exceeded petroleum revenue projection since 2014. This is as result of higher than expected production volumes and most importantly, the setting of realistic benchmark price for Ghana's oil.



## **Disbursement and utilization of petroleum revenues**

### **1. GNPC**

Actual disbursement of petroleum revenues to GNPC was less than projected. GNPC projected to spend \$273.6 million on both equity financing and net CAPI in 2017, but received \$182 million. The reasoning for the shortfall in disbursement to GNPC was the lower than expected equity financing expenditure of the Corporation.

There is however an issue of disregard for parliamentary oversight on GNPC's share of petroleum revenues. The Ministry of Finance received parliamentary approval to disburse \$45.3 million to GNPC as its share of the net Carried and Participating Interest (CAPI). However, without recourse to parliament, the Ministry of Finance disbursed \$78.6 million to the GNPC. This was GHC33.3 million in excess of approved budget.

### **2. ABFA and Ghana Petroleum Fund (GPF)**

The Ministry was compliant with the Act in disbursing petroleum revenues to the ABFA and the Ghana Petroleum Funds. The full amount of \$169 million allocated for the ABFA was disbursed. Similarly, the Ghana Petroleum Fund, comprising the Ghana Stabilisation Fund (GSF) and the Ghana Heritage Fund (GHF), received \$203.8 million.

## **Utilization of the ABFA**

Data from the reconciliation report on the Petroleum Funds show that the Ministry has been anything short of transparent, efficient, and detailed in ABFA utilization and reporting. The total disbursement of \$169 million to the ABFA in 2017 translates to GHC733.2 million. This is GHC41.7 million short of the cedi equivalent of the projected disbursement to the ABFA in the reconciliation report, and GHC63.1 million in the 2017 national budget. The Ministry of Finance conveniently revised the budgeted ABFA figures in the reconciliation report without corresponding explanations to adjustments made to budgeted expenditure on the priority areas.

Despite that government had GHC733.2 million of ABFA to spend on the priority areas in 2017, government spent only GHC 332.29 million but the Ministry of Finance failed to account for the unspent difference of GHC 400.9 million, representing 54.6% of total ABFA disbursed. The graph below presents details of the variance between ABFA allocation to priority areas (based on 2017 budget estimates) and ABFA actual utilization in those areas (based on the 2017 reconciliation report on petroleum funds).

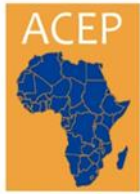
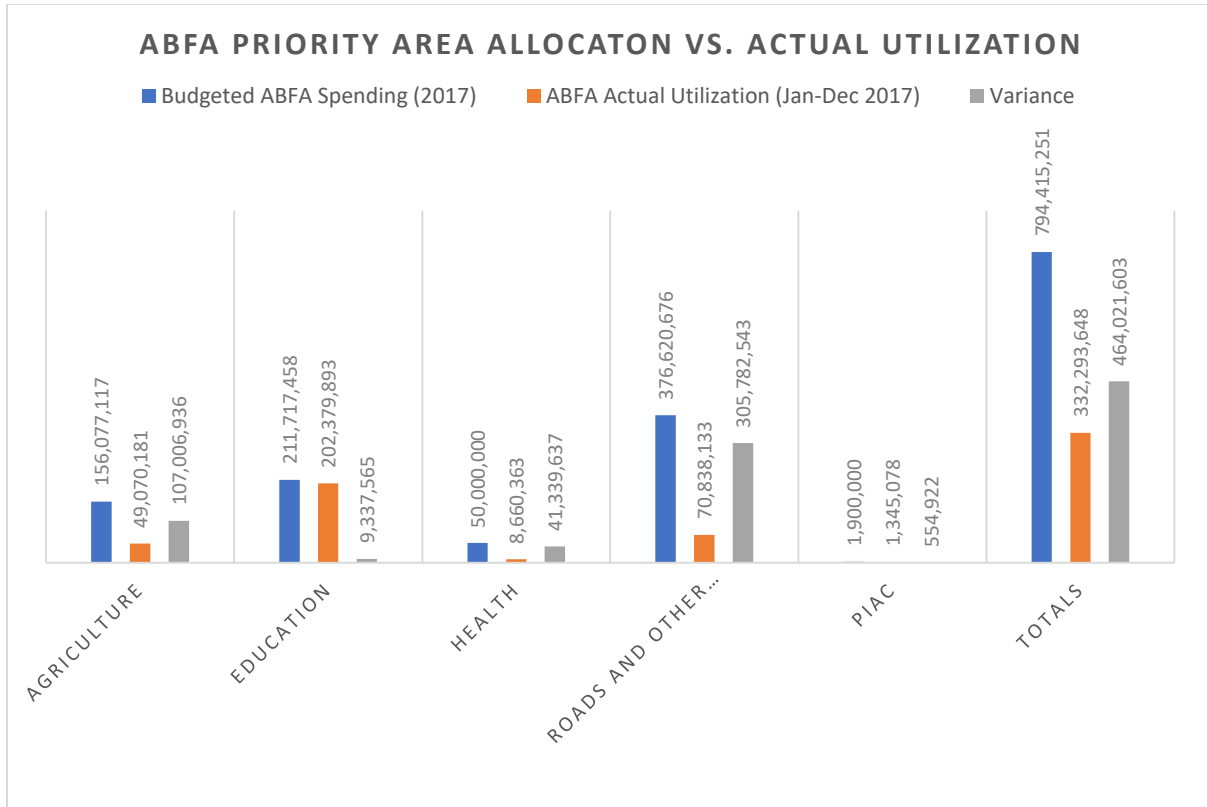


Table 1: ABFA 2017 Priority Area Projection Vs Actual Utilization



Source: ACEP (2017) based on 2017 Reconciliation Report on Petroleum Funds and Budget Statement and Economic Policy for the 2017 fiscal year.

The unspent ABFA difference of GHC 400.9 million is more than enough to have funded the total budget variance of PIAC, education, health, and roads and other critical infrastructure. Where is the money, and why did that money not go to the priority areas when it was available? We are reminded of a similar event that happened in 2014 when an outstanding GHC600 million of ABFA was swept out of the accountability framework of the PRMA by the Bank of Ghana.

The reconciliation report, which was published at the end of the first quarter of 2018, is supposed to give a full account of petroleum revenues in the preceding year (2017). However, in the 2017 reconciliation report, the Ministry provides in paragraph 74 that the GH332.9 million ABFA expenditure on priority areas is a provisional indication of ABFA utilization for that year. This is very unacceptable, as it defeats the essence of a reconciliation report which is supposed to be a follow up to the 2017 annual report on petroleum funds, and present a true and complete picture of petroleum revenue receipts, disbursement, and utilization for the full year.

## **The Ghana Infrastructure Investment Fund (GIIF)**

The PRMA provides in section 21(4) that for any financial year, a maximum of 25% of ABFA allocated to public investment expenditure shall be allocated to the Ghana Infrastructure Investment Fund (GIIF). In 2017, the Ministry of Finance presented, and Parliament approved, a zero budgetary allocation to the GIIF. However, the 2017 reconciliation report on the petroleum funds shows that an amount of \$6.92 million was disbursed to the GIIF from the first TEN liftings in the first quarter of 2017. There are two main issues arising:

1. The 2017 national budget was read on 2<sup>nd</sup> March, 2017. This was 28 days' shy of end of the first quarter. Parliament also approved the budget on 15<sup>th</sup> March, 2017. The question therefore is, did the Ministry of Finance quickly turn around within 15 days after parliamentary approval to disburse unapproved funds to the GIIF? The Ministry of Finance's action constitutes blatant disregard for Parliament's authority in approving national expenditures.
2. By disbursing funds directly from TEN liftings to the GIIF, the Ministry of Finance clearly contravened the PRMA provisions on the source of funds to the GIIF, being the ABFA.

## **Recommendations**

1. The Ministry of Finance must immediately account for the whereabouts of the GHC 400.9 million of the ABFA that was unutilized in 2017, and provide detailed reconciliation of the petroleum funds with accurate data and explanations to all the discrepancies.
2. The Ministry of Finance must seek the approval of parliament for expenditures outside the approved budget such as happened with disbursement to the GIIF in 2017, and the \$33.3 million oil revenue disbursement towards GNPC's share of the net CAPI in that same year.
3. The Ministry of Finance must at all times comply with the disbursement architecture of petroleum revenues as provided for by the PRMA.
4. PIAC should follow up on the issues raised in their review of the 2017 reconciliation report on petroleum holding funds, and demand responses from the Ministry of Finance on behalf of citizens of Ghana in compliance with its role under section 52 of the PRMA.