

Budget Analysis on The Upstream Oil and Gas Sector: Gaps, Red Flags and Implications.

1.0 Introduction

The Minister of Finance, Hon. Ken Ofori-Atta on November 17, 2017 presented to Parliament, the Budget Statement and Economic Policy of Government for 2018. . The budget themed “From stabilization to growth: putting Ghana back to work again” with the encompassing agenda to create jobs leading to prosperity and equal opportunities for all Ghanaians. This agenda according to the Finance Minister will be hinged on investments in Agriculture and Agribusiness, Strategic Infrastructure, Human Capital and Entrepreneurship and Innovation Programmes.

Budgets in ordinary sense serve many purposes in an economy and could have medium to long term impacts for a country. It also states the intention of governments in an ensuing year, based on the above premise, Reporting Oil and Gas a project by Penplusbytes analyzes the 2018 Budget Statement and Economic Policy focusing on the upstream oil and gas sector to identify gaps, red flags, realization of budget promises and their short-term implications. The upstream oil and gas sector finds and produces crude oil and natural gas.

To aid in our analyses, insights are drawn from the 2016 and 2017 budget statements. The analyses in this paper is to contribute to discussions and provide policy insights around Ghana’s upstream oil and gas industry. This paper also intends to educate the media, general public and other interested stakeholders about government’s interventions through the budget to ensure good governance over the oil and gas sector.

2.0 Projected Benchmark Crude Oil Prices

Table 1: Projected and Actual Crude Oil Prices for 2016

IMF’s WEO projection for 2016	Annual Oil Benchmark Revenue projection in 2016 budget	Actual Average Crude Oil Price ¹ 2016	Variance
(A)	(B)	(C)	(C-B)
US\$ 53.05	US\$ 53.05	US\$ 43.55	US\$ (9.5)

Data Source: 2016 Budget Statement, EIA 2017, Author

Table 2: Projected and Actual Crude Oil Prices for 2017

IMF's WEO projection for 2017	Annual Oil Benchmark Revenue projection in 2017 budget	Actual Average Crude Oil Price¹ 2017 (Jan-Oct)	Variance
(D)	(E)	(F)	(F-E)
US\$50.28	US\$45.35	US \$52.39	US\$ 7.04

Data Source: 2017 Budget Statement, EIA 2017, Author

Table 3: Projected Crude Oil Prices For 2018

World Bank's CMO projection for 2018	Annual Oil Benchmark Revenue projection in 2018 budget	Actual Average Crude Oil Price for 2018
US\$56	US\$57.36	?

Data Source: 2018 Budget Statement

2.1 Findings

Table 1-3 above presents variations between annual projected benchmark revenue and the actual average crude oil prices, which implies a high degree of uncertainty with crude oil price projections irrespective of the forecast method used or forecasting institution. For instance in the year 2016, the projected annual oil benchmark revenue as per the 2016 budget was US\$ 53.05 /bbl ,but the actual market average crude oil price went for US \$43.55/bbl.

2.2 Recommendation

The Minister of Finance should review downwards the annual oil benchmark price projected for 2018 below the World Bank Commodity Market Outlook(CMO) projections and going forward, should be guided by a pessimistic outlook in crude oil price projections due to exogenous random shocks.

3.0 Projected Benchmark Crude Oil Output

Table 4: Projected and Actual Outputs for 2016 and 2017

Projected Benchmark Output 2016	Actual Output for 2016 as stated in 2017 budget	Actual Output for 2016 as per sum of PRDR reports	Variance	Variance
A	B	C	C-B	B-A
38.73 million barrels	32,209,060 barrels	28,947,968 barrels	(3,261,092 barrels)	(6.52 million barrels)

Source: PRDR reports and Budget Statements, 2016, 2017

Table 5: Projected and Actual outputs for 2017

Projected Benchmark Output 2017	Actual Output for 2017 as per sum of PRDR reports (Jan-Sept)	Variance
A	B	B-C
48,730,087 barrels	39,761,022 barrels	(8,969,065) barrels

Source: PRDR report and Budget Statements, 2017

Table 6: Projected Output for 2018

Projected Benchmark Output 2018	Actual Output for 2018
53.25 million barrels	?

Source: Budget Statements, 2018

3.1 Findings

- i. There is an inconsistency in the figure provided for actual crude oil output for 2016 as per the 2017 budget and actual output as per the Petroleum Revenue Distribution Report (PRDR), which is a sum of oil volume lifted by Ghana group and partners. (See table 4). This raises questions on sector transparency and accountability.
- ii. Projected crude oil output have failed in the last two (2) years which again, implies a high degree of uncertainty and may have been caused by unforeseen events, which plague indigenous crude oil productions.

3.2 Recommendation

- i. To avert figure inconsistencies, there should be regular and robust reconciliation processes for oil and gas outputs and liftings by accountability partners. In this regard, the Reporting Oil and Gas Project calls for published bi-weekly and monthly reconciliation reports of outputs and liftings by all accountability partners.
- ii. The Minister of Finance should review downwards the benchmark output projected for 2018 given that, repair works on FPSO Kwame Nkrumah may take longer than planned. (See reportingoilandgas.org/fpso-kwame-nkrumah-to-be-shut-down-for-repair-early-2018/ as cited in B&FT).

4.0 Priority Areas of Spending ABFA and Amount Allocated

Government, in the 2017 budget statement selected Agriculture, Physical Infrastructure and Service Delivery in Education, Physical Infrastructure and Service Delivery in Health, Road, Rail and Critical Development as its priority areas for the 2017-2019 financial year.

A critical look at allocations made in the 2018 budget reveals the following:

- i. The order list of priority arrears as per the 2017 and 2018 budget does not correspond to oil money allocations. Oil money allocation to priority area in 2018 are: Infrastructure (50%), Education(30%), Agriculture(17%) and Health(3%).This shows a different order of priority.(See figure 2 below)

This again points to a deliberate attempt in two successive years, not to diversify the economy bearing in mind post resource depletion consequence and to ensure proper structural transformation to deliver high output, employment and poverty reduction.(See figure 1 and 2 below). This allocation if not reviewed may have negative implications on the structure of the economy as it will stifle growth in the agriculture sector.

- ii. Little allocation is made to solve the educational infrastructure deficit as a result of implementing the Free SHS programme. (See table 7 below).
- iii. All projects in priority areas will be funded by 99% of oil money and 1% from the Government of Ghana. This implies that, should there be a shock in oil prices and oil production in 2018, projects will not be realized. (See table 7 below).
- iv. An increase in PIACs allocation by over a 100%.

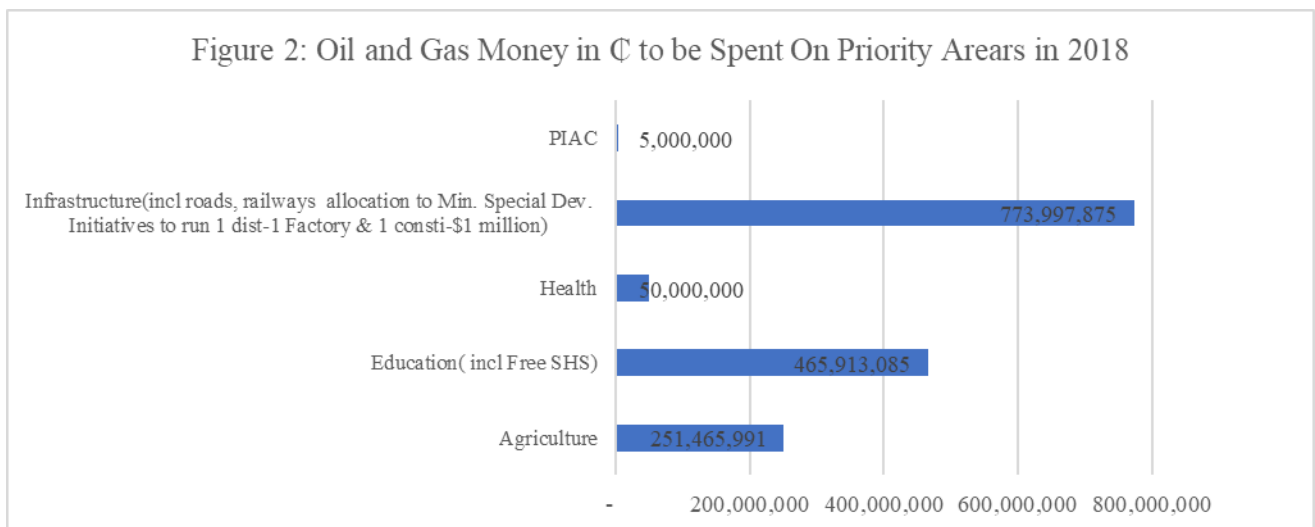
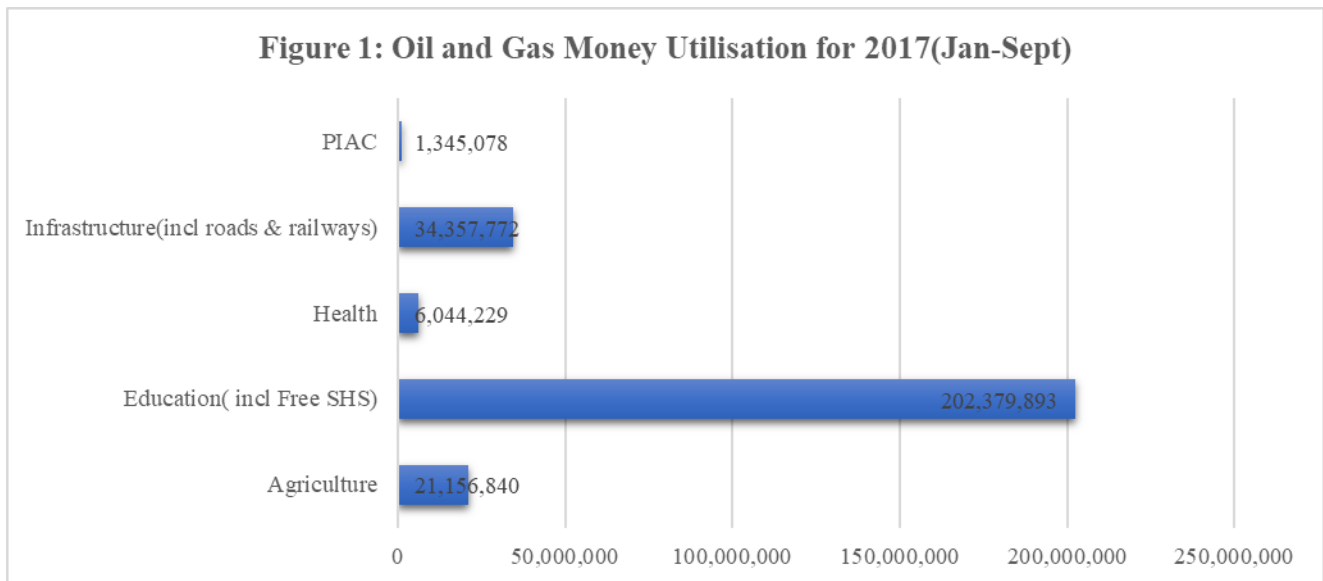


Table 7: Expenditure Allocation for 2018

	Priority Arrear as per 2018 Budget	GoG in C	Oil Money (Capex) in C	Oil Money (Goods & Services) in C	Total Inc. GoG in C	Total excl. GoG/Oil Money in C
1	Agriculture	4,306,500	248,465,991	3,000,000	255,772,491	251,465,991
2	Education	2,822,910	10,000,000		468,735,995	465,913,085
	o/w allocation to office of Gov't Machinery run Free SHS			455,913,085		
3	Health	13,000,000	50,000,000		63,000,000	50,000,000
4	Infrastructure				-	-
	o/w roads and railways	-	350,000,000		773,997,875	773,997,875
	o/w allocation to Min. Special Dev. Initiatives to run 1 dist,-1 Factory & 1 consti-\$1 million MOF(PIAC)		423,997,875			
				5,000,000		5,000,000

4.1 Recommendation

- i. The Reporting Oil and Gas Project calls for a quick review of allocations made in the 2018 budget to be in alignment with the priority areas selected in the 2017 budget statement for the 2017-2019 financial years.
- ii. Allocations to the Ministry of Special Development Initiatives to fund the “1 district-1 factory” project should be re-allocated to fund the infrastructure deficit caused by the implementation of the free SHS policy while Government should leverage on high investor confidence in Ghana’s economy to woo investors and private business to fund the “1 district-1 factory project”.
- iii. Due to crude oil price volatility and uncertainties in oil production, Government should exercise measured expectations from oil revenues to fund its projects.
- iv. The increase in PIACs allocation is commendable. This will go a long way to enhance PIACs accountability, transparency and oversight responsibility. But the increased resources to PIAC comes with the added responsibility and burden on PIAC to increase its accountability to Ghanaians in the use of its allocation and in the discharge of its functions of ensuring efficient, transparent and accountable management of petroleum revenues and investments to secure the greatest social and economic benefit for the people of Ghana through active engagement with government and citizens.

5.0 Evaluation of 2017 Budget Outlook for the Upstream Oil and Gas Sector

Table 8: Implementation Status of Outlook in the 2017 budget

Outlook in the 2017 Budget	Implementation Status as At November 30
1. The Energy Ministry will facilitate the establishment of the National Standards for Custody Transfer and Allocation Metering System to ensure accurate accounting of hydrocarbons and increase tax revenues from oil and gas resources.	Has not being implemented
2. The EPA will develop legal framework for environmental management for the offshore oil and gas exploration regulation. The Agency will also develop onshore oil and gas exploration guidelines.	Has not being implemented
3. A Gas Master Plan (GMP) that seeks to address infrastructure requirements, funding and institutional mandates for gas sector agencies and gas pricing policy was approved by Cabinet. A Gas Policy and a Gas Act to guide implementation of the GMP will be developed in 2017.	The gas policy not been outdoored yet. There is no gas act
4. In 2017, the Energy Ministry will work with the Jubilee Partners to address the shortfall in oil and gas production resulting from the 2016 damage on the turret bearing on FPSO Kwame Nkrumah and adopt a three phase approach to convert the FPSO Kwame Nkrumah to a permanently spread-moored. First gas from the TEN field to the Gas Processing Plant (GPP) is expected in the first half of 2017. GNPC is engaging with the partners to develop an integrated technical and commercial schedule that will target gas start-up in the 2nd quarter of 2018.	According to the Energy Minister repair works will commence in 2018. See http://www.reportingoilandgas.org/fps0-kwame-nkrumah-to-be-shut-down-for-repairsearly-2018/
5. The Energy Ministry will support institutions in the petroleum sector to build capacity under the Accelerated Oil Capacity Development Programme to aggressively invest in education and skills enhancement of Ghanaians in this sector.	This has been implemented. See http://www.reportingoilandgas.org/accelerated-oil-gas-capacity-programme-aogc-programme-launched/

From table 8 above, there was a total of 5 promises in the 2017 budget with regards to the upstream sector, only 1 has been implemented as at 30 November 2017. This translates into 80% of promises not implemented.

5.1 Recommendation

- i. The Reporting Oil and Gas Project recommends to the Ministry of Finance to publish an implementation, activity and a fund disbursement plan with timelines to guide the Minister for Energy so as to help achieve a high percentage of budget promises.
- ii. The media, general public and other stakeholders interested in government's interventions in the sector, should monitor and track the implementation of government budgets.

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