



## **ACEP'S ANALYSES OF THE 2018 BUDGET STATEMENT AND ECONOMIC POLICY OF THE GOVERNMENT OF GHANA**

**23<sup>rd</sup> November, 2017**

The Africa Centre for Energy Policy (ACEP) has examined the 2018 Budget and Economic Policy of Government of Ghana and presents our analyses below. The analyses focus on interrogating government's programme and general governance policies for the oil and gas, and power sub-sectors of the energy sector.

### **1.0 OIL AND GAS SUB-SECTOR**

#### **1.1 OIL REVENUE ALLOCATION AND UTILIZATION**

##### **1.1.1 Overview of ABFA utilization as of September 2017**

The disbursements of the revenues for the three quarters are generally within the confines of the Petroleum Revenue Management Act, 2011 (Act 815) as amended. However, the utilisation of the Annual Budget funding Amount (ABFA) could improve. The Minister indicated in the budget that as of September 2017, GH¢ 546.31 million had been disbursed to the ABFA from total proceeds, but only GH¢ 264.9 million was utilized. This implies an outstanding balance of GH¢ 281.41 million in the ABFA. This balance was enough to fund the full allocations to the pro-poor sectors of Agriculture, Health, and Education (table 1). It is therefore curious why the amount is redundant in the ABFA account when there are programmes to spend on.

*Table 1: ABFA 2017 Priority Area Projection Vs Actual Utilization (January- September)*

	<b>Projected ABFA Spending (2017)</b>	<b>ABFA Actual Utilization (Jan- Sept 2017)</b>	<b>Difference Pending</b>	<b>Proportion Utilized</b>
<b>Agriculture</b>	156,077,117	21,156,840.43	134,920,276.57	14%
<b>Education</b>	211,717,458	202,379,893.20	9,337,564.80	96%
<b>Health</b>	50,000,000	6,044,229.09	43,955,770.91	12%
<b>Roads and Other Critical Infrastructure</b>	376,620,676	34,357,771.92	342,262,904.08	9%
<b>Totals</b>	794,415,251.00	263,938,734.64	530,476,516.36	33%

Source: ACEP (2017) based on 2017 & 2018 Budget Statement and Economic Policy.

The analysis of the ABFA disbursement shows that, throughout the three quarters, there was significant focus on goods and services by at least 77% of actual disbursement at the expense of capital investment. This points to the reality that the expenditure of significant proportion of the capital budget in the ABFA will be crowded in the last quarter, which defeats quarterly plans and exposes the capital budget to inefficiency. This has been the trend of ABFA utilization which leads to ‘ghost projects’ and inefficient delivery of ABFA-funded projects.

Similarly, the expenditure of 14% of allocation to the agriculture sector as of September 2017 is a repetition of the 2014 ABFA expenditure pattern. The last quarter of 2014 was crowded with so much budgetary expenditure which eventually led to disbursement of funds to questionable expenditure items in the agriculture sector such as sea defence projects.

### **Recommendation**

a. Spreading expenditure across the year is a more prudent fiscal measure to prevent ticking the boxes and entrenching inefficiency. It is important that the Ministry of Finance follows its quarterly disbursement plans to ensure that Ministries, Departments, and Agencies receive funds in time to execute planned programmes for the year.

#### **1.1.2 Annual Petroleum Report**

Section 48 of the PRMA requires the publication of the annual report on the Petroleum Funds as part of the annual presentation of the budget statement and economic policies to Parliament by the Minister of Finance. Although the full budget for 2018 is published on the Ministry’s website, the public has no access to the Annual report on the Petroleum Funds. This limits any critical analysis of ABFA spending over the period at this point.

In the past years, the reports - when published - lacked critical ingredients such as audited financial statement of the preceding year (except for 2015 in the 2016 Annual report) and a “report from the Minister describing the stage of implementation of the programmed activities funded by and the expenditures incurred on the activities covered by the Annual Budget Funding Amount in the financial year of the report” (section 48 (2) a and b). But at least some relevant information are provided in the report to allow analysis and tracking of projects receiving petroleum funds.

### **Recommendation**

The Ministry of Finance should quickly publish the annual report on the petroleum fund for 2017 in compliance with the PRMA’s requirements.

## **1.2 THE 2018 BUDGET FOR THE OIL AND GAS SUB-SECTOR**

### **1.2.1 Priority areas and conformity with the PRMA provisions**

The ABFA allocations to goods and services in the various priority areas are consistent with the PRMA requirements of at most 30% to goods and services and at least 70% to capital projects.

The roads, rail and other critical infrastructure development priority area will receive the most funds to the tune of 50% of the ABFA in 2018 while the health and agriculture sectors will receive 3.23% and 16.26% of total ABFA respectively (table 2).

Table 2: ABFA allocation to priority areas

Priority Area	Goods & Services (GH¢)	CAPEX (GH¢)	Subtotal (GH¢)	Proportions (%)
<b>ROAD, RAIL, &amp; OTHER CRITICAL INFRASTRUCTURE DEVELOPMENT</b>	-	773,997,875.00	773,997,875.00	50.05%
<b>AGRICULTURE</b>	3,000,000.00	248,465,991.00	251,465,991.00	16.26%
<b>PHYSICAL INFRASTRUCTURE &amp; SERVICE DELIVERY IN EDUCATION</b>	455,913,085.00	10,000,000.00	465,913,085.00	30.13%
<b>PHYSICAL INFRASTRUCTURE &amp; SERVICE DELIVERY IN HEALTH</b>	-	50,000,000.00	50,000,000.00	3.23%
<b>PUBLIC INTEREST &amp; ACCOUNTABILITY COMMITTEE (PIAC)</b>	5,000,000.00	-	5,000,000.00	0.32%
<b>Totals</b>	463,913,085.00	1,082,463,866.00	1,546,376,951.00	
<b>Proportions</b>	30%	70%		100.00%

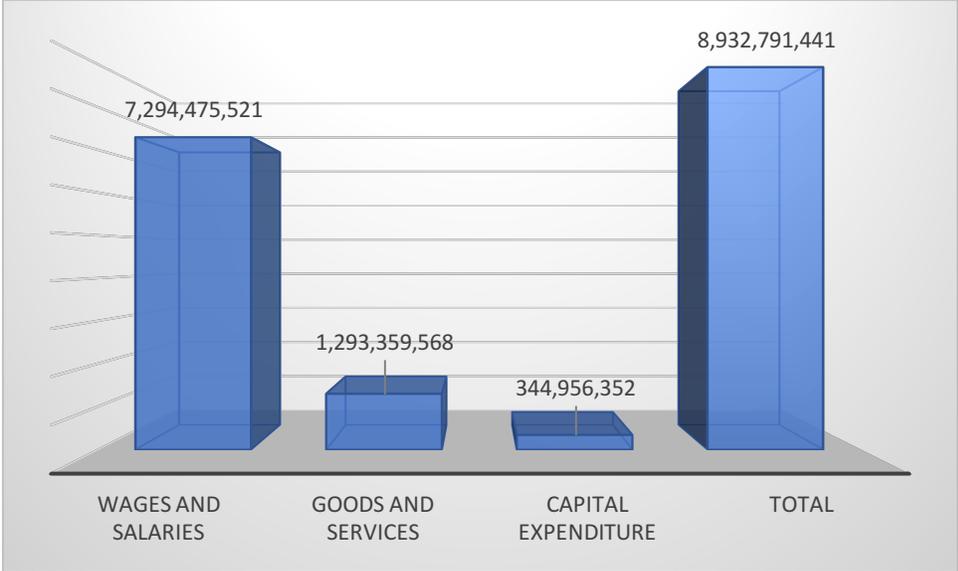
Source: 2018 Budget Statement and Economic Policy.

The ABFA will again contribute about 40% of the total of GH¢ 1,137,861,816 to the Free SHS policy in 2018. This amount, which is a little over twice the budgeted ABFA support to Free SHS policy in 2017, also constitutes 98.28% of total ABFA to goods and services. The increment could be explained by the expected increase in the number of beneficiaries of the programme.

It has been observed that as of September, 2017 actual ABFA disbursement to support the free SHS Policy constituted 84.3% of the total funds of GH¢ 240 million<sup>1</sup> released by the government. While it is important to recognize ABFA support to the free SHS policy for 2018 and beyond, it is equally important to stress on the need to clearly identify reliable sources of funding to complement the ABFA.

There is also the need to expand infrastructure to accommodate the increasing number of students in Senior High Schools, which is the direct result of the Free SHS policy. We observe, however, that without donor funds, the Government of Ghana’s investment plans in education sector infrastructure for the 2018 financial year is negligible compared to other spending areas of the sector (figure 1).

Figure 1: Ghana’s Budget without Aid to the Ministry of Education in the 2018 Financial Year (in GH¢)<sup>2</sup>



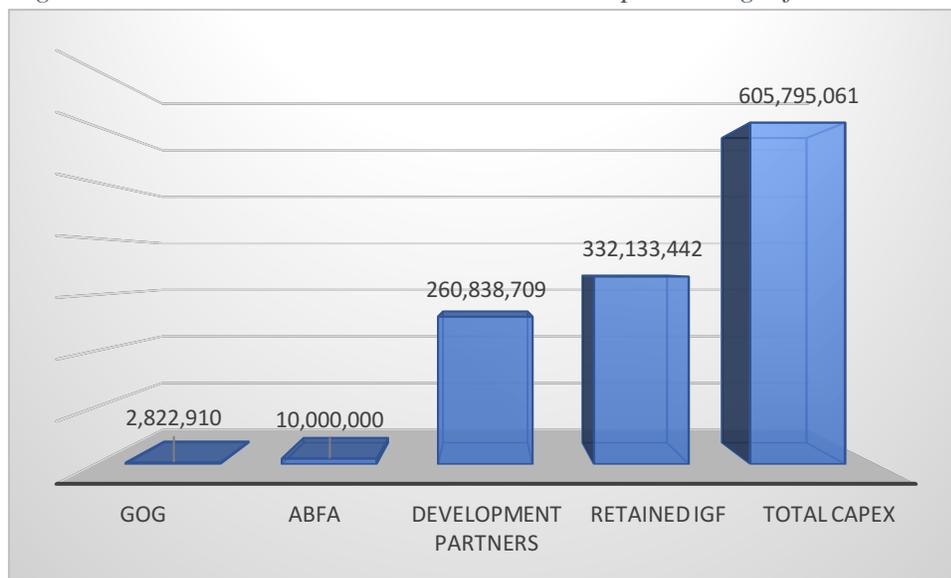
Source: ACEP (2017) based on data in 2018 Budget Statement and Economic Policy of the Government of Ghana

Of the GH¢ 8.9 billion allocated to the Ministry of Education from the GoG, ABFA and IGF, wages and salaries constitute a whopping 82% while the rest goes to goods and services (14%) and infrastructure (4%). In 2018, much of the capital budget for the education sector will be financed by IGF and Donors (figure 2). Particularly for the secondary school level where everything is now free, there will be greater dependence on Development Partners for infrastructure financing.

<sup>1</sup> Agyemang, K. (2017). Government releases GH¢240m for free SHS. Published on September 8, 2017. Available at <http://citifmonline.com/2017/09/08/govt-releases-ghc240m-for-free-shs/#sthash.bbdxtulj.dpbs>

<sup>2</sup> Composite analysis of expenditure allocation from GoG, ABFA, and IGF

Figure 2: Ghana with Aid: Education Sector Capital Budget for the 2018 Fiscal Year



Source: ACEP (2017), based on 2018 Budget Statement and Economic Policy of the Government of Ghana

It is however observed that donor funding for the Ministry of Education will decline for the medium-term expenditure framework. Before the free SHS policy, ABFA allocation to the education sector was largely focused on capital expenditure. There is now the need to replace capital expenditure allocation by identifying new sources of funds for that purpose.

### Recommendations

- a. ACEP recommends that the government should pass the promised Mineral Revenue Management Act to create additional sources of funds from solid minerals to finance the free SHS policy.
- b. In light of the risk of petroleum price volatility and its effects on the ABFA, the government should pay attention to investment attraction in the upstream sector to spread revenue generation risks from the three oil fields currently operational. ACEP insists that existing non-performing petroleum agreements should immediately be reviewed and, where necessary, be re-awarded to companies that possess the requisite capacities to meet contractual obligations. These will ensure speedy off-shore activities to increase the likelihood of revenue generation from upstream oil and gas sector, and thus increase ABFA allocations to the free SHS policy.
- c. The Government of Ghana should also consider amending the GETFund Act to re-focus investments, both infrastructure and recurrent, on both basic and secondary levels of education. The National Education Fund-Raising Committee of the GETFund Board should be constituted, if not existent, and strengthened to generate funds through grants, donations, gifts and other voluntary contributions in accordance with section 3(d) of Act 581 to support the free SHS policy. Also, the government should sensitise the public about

the existence of opportunity to voluntarily contribute to the GETFund to finance the free SHS policy.

### 1.2.2 ABFA allocation to PIAC

ACEP is pleased with the government’s consistency in providing financial support to PIAC in compliance with the PRMA as amended. The public now demands of PIAC to respond to its core mandate of independently monitoring government’s compliance with the PRMA on the use of the ABFA, and of engaging citizens on the priority areas for expenditure of oil revenues.

### Recommendation

With increased allocation, ACEP entreats the Committee to be adequately accountable to the people of Ghana on its use and management of the funds allocated for its programmes to deepen public confidence in its oversight role.

### 1.2.3 Worrying control of the ABFA at the Presidency

The Presidency will control about 57% of total oil money for the budget in 2018 (table 3).

From Appendices 4B and 5 of the 2018 budget, ACEP observes that ABFA of GH¢ 423,997,875 has been allocated to the Ministry of Special Development Initiatives for the purposes of oversight and strategic direction for the implementation of the Infrastructure for Poverty Eradication Programme (IPEP). This was captured under the Road, Railway, and other Critical Infrastructure Development priority area.

Table 3: ABFA to the Presidency for 2018 fiscal year

<b>ABFA TO THE PRESIDENCY</b>	
<b>Office of Government Machinery</b>	455,913,085
<b>Ministry of Special Development Initiatives</b>	423,997,875
<b>Total</b>	879,910,960

Source: 2018 Budget Statement and Economic Policy

It is rather disturbing that the “other critical infrastructure development” component of the aforementioned priority area is very broad to allow ABFA utilization on any infrastructure project outside road, highway, and rail which the government deems critical. The IPEP for instance covers the “One Village One Dam; Small Business Development; Agricultural Inputs, including equipment; and Sanitation Projects” (see paragraph 777 of the 2018 budget). ACEP has observed that the agriculture component of the IPEP can clearly be funded by the ABFA under the agriculture priority area. The other components of IPEP would ordinarily fall outside the priority

areas but for the couching of the roads, rail and other critical infrastructure development. As it stands now, the budget has failed to define the exact component of the IPEP that the ABFA will fund.

The Office of Government Machinery will control the entire ABFA allocation to the free SHS programme. It is quite confusing that the Ministry of Education which oversees education programmes and implementing agencies in the sector is not directly in control of the Policy and its budget. As a Ministry that understands the challenges and opportunities of the education sector, the control of the free SHS policy should be a learning curve for Ministry of Education for sustainability purposes. It is ACEP's view that the presidency should have a role in coordinating all government programmes, including those relating to the Ministry of Education, and should not be in direct control of the budget of any particular Ministry - and for that matter the budget for the free SHS policy.

Historically, the Ministry of Finance has failed to fully account for specific expenditure items that ABFA allocations to the Presidency have been used for. For instance, in 2012 and 2013 oil revenues to the tune of GH¢ 65 million and GH¢ 20 million respectively were actually disbursed to the Office of Government Machinery. However, till date, there has not been any detailed publication about what specifically those amounts were used for. Accountability of oil revenues allocated to both the Office of Government Machinery and the Ministry of Special Development Initiatives in 2018 is very crucial in ensuring that the ABFA objectives in section 21(2) of the PRMA are achieved.

### **Recommendations**

- a. It is important that the government informs Ghanaians about where exactly the ABFA for IPEP will be invested so that such expenditure can be monitored. It has always been the case that the list of ABFA-funded projects are made available to the public only after spending has been made. This has only enabled post-mortem value for money analysis of oil funded projects. During each budget year, the government should publicly list specific projects under each priority area that will receive funding from petroleum revenue. This will ensure public participation in the formation, award, execution, and monitoring of projects to solve problems in a timely manner and secure efficient project delivery.
- b. It is also important for the government to clearly define what the "other critical infrastructure" component of roads and rail priority area is, so as to ensure efficiency, transparency and proper accountability in the use of the ABFA.

#### **1.2.4 Capping of the Ghana stabilization fund (GSF) at US\$300 million**

The Budget indicates that the GSF will be capped at US\$300 million and the excess amount used for debt financing. The opening book balance for the GSF was \$207,748,663 in 2017. This together with actual disbursement of \$95,068,626.57 from the 2017 petroleum receipts brought the GSF balance to \$ 302,817,289.57 as at the end of September 2017. The implication of capping the GSF

at \$300,000,000 is that, in 2018, there will be no transfers from petroleum receipts to the GSF. The choice to cap the GSF at \$300 million is a bold one in the face of fiscal challenges. ACEP in the past proposed a minimum of 40% of the projected revenue to be the outstanding balance of the GSF at all times. The cap of \$300 million is 45% of the projected revenues for 2018. This is highly commendable.

### **Recommendation**

- a. There is the need to prescribe a fiscal rule that entrenches such fiscal buffers capable of stabilizing the ABFA against price volatilities in the sector. This is relevant especially when the Free SHS relies on the ABFA. Smoothing the budget therefore becomes imperative.

#### **1.2.5 Data errors**

ACEP has observed too many errors and inconsistencies in the data presented in the Budget Statement and Appendices relating to the oil and gas sector. For example, in tables 11 and 12, Government reports petroleum receipts of \$362,580,316.01 between January and September 2017. However, in Table 13, the Ministry reports distribution of petroleum receipts to the tune of \$389,579,619.97 in that same period.

Though the \$389,579,619.97 is consistent with other government data, it takes time and effort to establish which of the figures is accurate for rigorous analysis. The computation errors in Appendix 5 are even worse.

### **Recommendation**

We caution that government should be more diligent in data reporting to ensure accuracy and data credibility.

## **1.3 UPSTREAM OIL AND GAS SUB-SECTOR**

It is commendable that the government intends to continue the development of regulations to govern the upstream oil and gas sector. These commitments however appear often in government's statements without passing them. For example, some of these regulations such as the Data Management Regulation and the Health, Safety, Security and Environment Regulation were developed in 2016 but are yet to be passed. There is the urgent need to have these regulations passed, particularly the contracting regulations, to allow for the full implementation of the Petroleum (Exploration and Production) Act, 2016 (Act 919).

## **1.4 NATIONAL LPG PROMOTION POLICY**

Government is committed to implementing a policy that was developed without deeper public consultation. Till date, the policy document is not available in public domain for proper public scrutiny. This does not support the democratic ideals the country upholds. While ACEP is not averse to any business approach for LPG distribution, context analysis and deeper engagement on far-reaching policy prescriptions such as the recirculation model is paramount to ensure that we do not end up solving one problem by creating another. ACEP is analysing the implementation of the model in other countries to ascertain the drivers for successes and challenges, if any. This will enable us produce evidence-based conclusion on how the model fits in the Ghanaian context.

## **2.0 THE POWER SUB-SECTOR**

The stability in power supply resulting from plant and fuel supply availability is commendable. This has allowed for the efficient management of the hydroelectric dams to prevent overdraft and smoothen the contribution of generation availability from the least cost generation systems. If this is sustained, investor confidence in the power sector will improve with attendant increase in economic activities. There is also the need to stay the course of restructuring the sector debt and ensuring that tariffs are competitive.

### **2.1 Energy Sector Debt.**

The radical approach of reshaping the balance sheet of the energy sector utilities is welcome. Stronger utilities are important for the consistent supply of electricity and petroleum products at competitive rates. The debt overhang of the sector affects the entire economy; either through unavailable power or petroleum products. The business community and general public are also affected by the distressed banking sector which cannot finance other businesses, having lost depositors' money to the non-performing energy sector.

### **Recommendation**

There is the need to have systems to monitor political interference in the sector which leads to debt accumulation and non-performance of the utilities. Without the politics, we can have a market-driven sector that runs on its balance sheet and erases the need for Power Purchase Agreements (PPAs) that further require government guarantees.

### **2.2 Tariff Reduction**

Electricity tariff in Ghana is too high for businesses and domestic consumers. This is recognized by industry watchers as impeding growth and investment in the real sector of the economy. It is refreshing to see government taking steps to reduce tariffs to bring relief to consumers. This effort is timely given the following realities;

- a. **There is more generation than needed** - Ghana has moved from generation inadequacy to oversupply of electricity. The excess supply of more than 500 MW, which is set to increase in 2018 by the addition of CENPOWER (350 MW) and Early Power (142 MW (initial)) plants, will have to be paid invariably by the consumer because of the nature of agreements that have been signed with IPPs with repulsive capacity charges. Therefore, the need to grow consumption to absorb excess electricity supply is non-negotiable to lessen the economic burden on consumers and ultimately on government.
- b. **The sustainability of the sector** - the entire sustainability of the sector will be impacted negatively if the demand is not balanced adequately with supply. The debt will continue to pile because the higher the tariff, the lower the consumption and the more the debt accumulated through capacity charges.
- c. **Self-generation** - owing to the high tariffs, many businesses are opting to generate their own electricity during their peak consumption. The purpose of the grid is defeated if electricity on the grid becomes more expensive than self-generation. Urgent realignment is therefore required to reverse the situation.

There is therefore the need to reduce the tariffs. The 13% proposed reduction will be about 25% on the dollar rate at the time the tariff was last reviewed in 2015. It is however challenging to see the budget prompting the level of reduction before PURC does its job of reviewing the tariff. This puts PURC at war with public expectation of what government thinks is the reductions that should happen. It further weakens the independence of the institution whose Acting Executive Secretary is waiting on government for confirmation.

### **Recommendation**

- a. Government should focus on shaping the fundamental variables that contribute to cost. These include fuel cost, competitive tendering of plant procurement to reduce the cost, bureaucracies in the sector, etc. Consideration of these variables will go a long way to reduce inefficiencies in the sector and allow the regulator to do independent adjustments and announcement of the tariff.