

IS GHANA'S PETROLEUM REVENUE MANAGEMENT LAW A GOOD PUBLIC FINANCIAL MANAGEMENT TOOL FOR PUBLIC INVESTMENT AND CONSUMPTION SMOOTHING?

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OUTLINE



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1. The Policy behind Ghana's PRMA
2. Public financial management features of the PRMA
3. Implementation realities of the PRMA
4. Key findings and recommendation



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1. THE POLICY BEHIND GHANA'S PRMA

LESSONS FROM THE CENTURY-OLD MINING SECTOR FOR THE YOUNG PETROLEUM SECTOR

- Mining sector contribution to revenues between 2011 and 2017 was GHC10 billion. Was more in the past.
- Not much transformative impacts have been realized due to weak public financial management practices
- Instead, the sector is dominated by negative narratives.

The objective of the PRMA is therefore to

“...provide the framework for collection, allocation, and management of petroleum revenue in a responsible, transparent, accountable and sustainable manner for the benefit of the citizens in accordance with article 36 of the constitution and for related matters”

OBJECTIVE AND RELEVANCE OF THE PAPER

Objective of the paper

To identify and address public financial management challenges of the PRMA by analysing the legal and implementation loopholes.

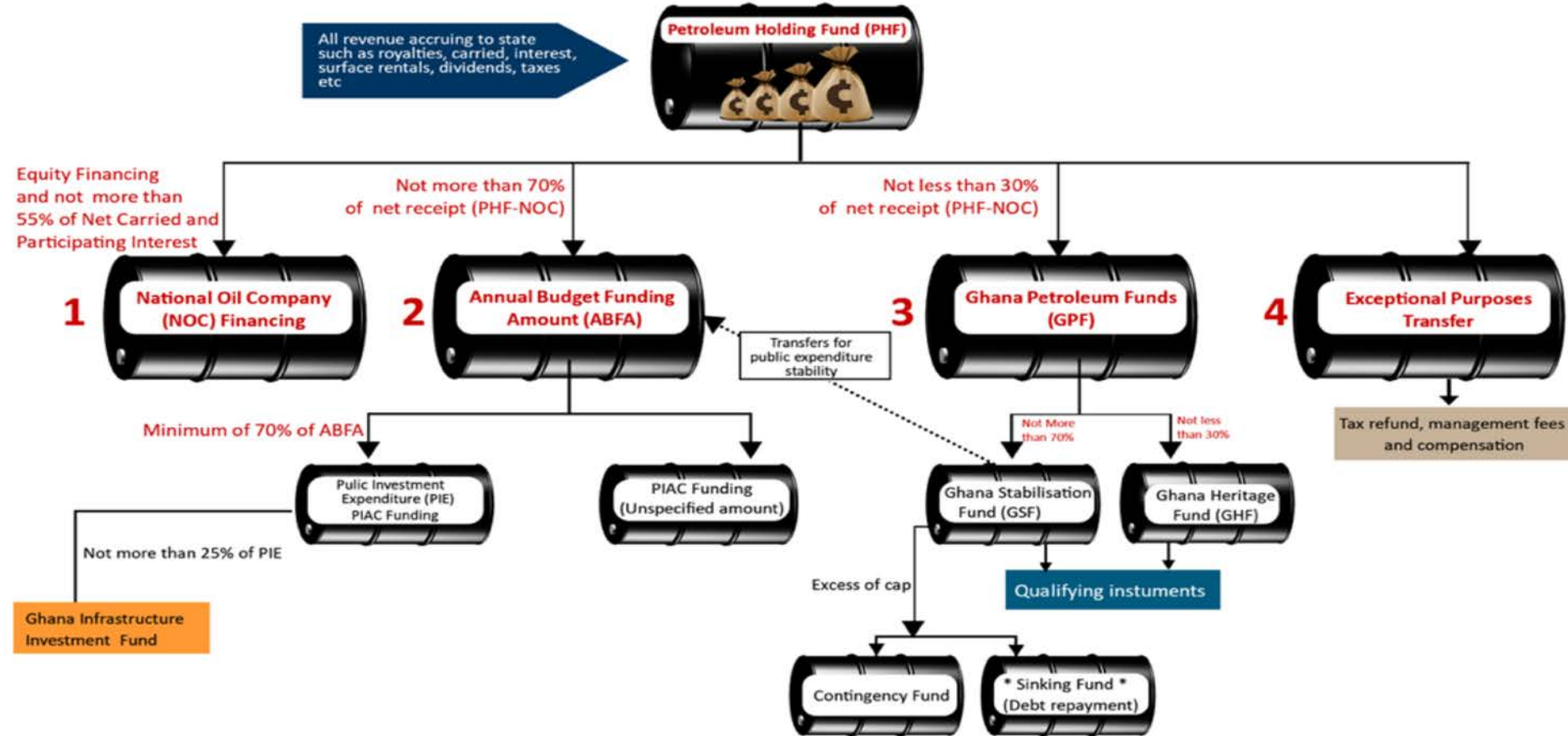
Relevance of the paper

With the knowledge that the PRMA regulations are still in the pipeline, this paper will reinforce in the minds of policy makers the contentious aspects of the PRMA that need proper regulation.



2. PUBLIC FINANCIAL MANAGEMENT FEATURES OF THE PRMA

REVENUE DISTRIBUTION ARCHITECTURE



Source: ACEP, 2018

INSTITUTIONAL ARRANGEMENT

Revenue mobilization/operational management institutions

- Revenue paying entities
- Ghana Revenue Authority (GRA)
- Bank of Ghana
- Parliament of Ghana

Investment and Accountability institutions

- The National Development Planning Commission (NDPC)
- Ministry of Finance
- Investment Advisory Committee
- Public Interest and Accountability Committee (PIAC)
- Audit Service
- Civil Society Organizations
- Citizenry

3. IMPLEMENTATION REALITIES OF THE PRMA

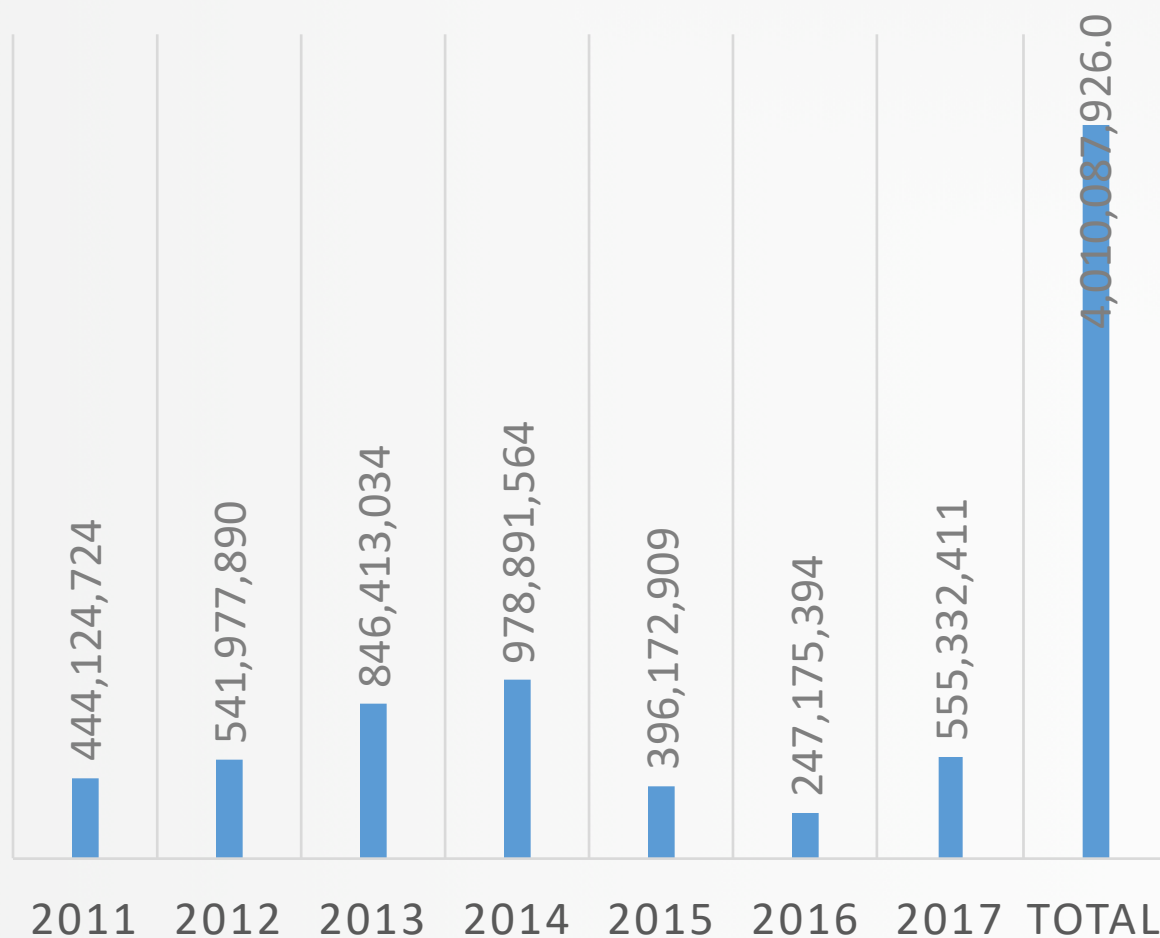
Petroleum revenue receipts and distribution (2011-2017)

ABFA investment for sustainable development

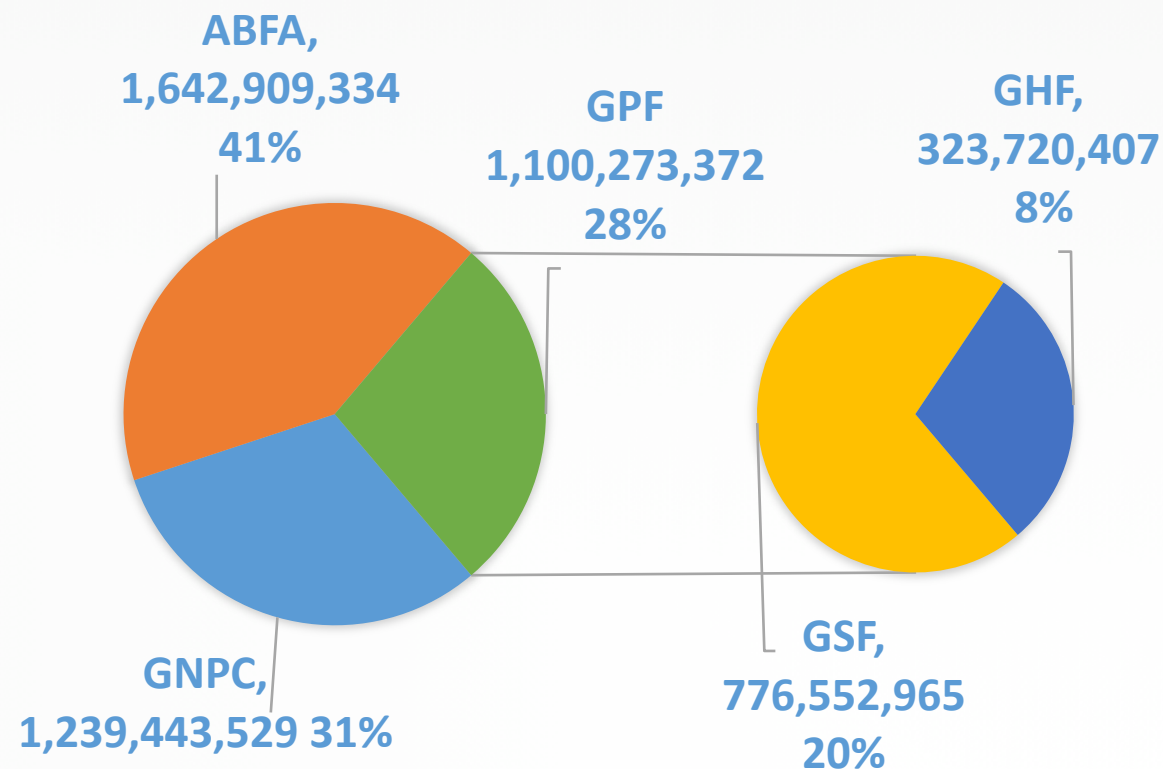
- Discretionary powers and effects
- Accountability loopholes in public investment expenditure

The Ghana Stabilization Fund

PETROLEUM REVENUE RECEIPTS (2011-2017) IN USD



PETROLEUM REVENUE DISTRIBUTION (2011-2017) IN USD



Source: Ghana Ministry of Finance

ABFA FOR SUSTAINABLE DEVELOPMENT

Objectives of the ABFA (section 21(2))

1. Increased economic development
2. Improved wellbeing of Ghanaians through equal economic opportunities
3. Even and balanced development of the geographical regions.

MINISTERIAL DISCRETION OVER PRIORITY AREAS



LIST OF PRIORITY AREAS

2011 - 2016

- Expenditure and amortization of loans for oil and gas infrastructure
- Roads and other infrastructure
- Agriculture modernization and
- Capacity building.
- PIAC?

2017 – 2019

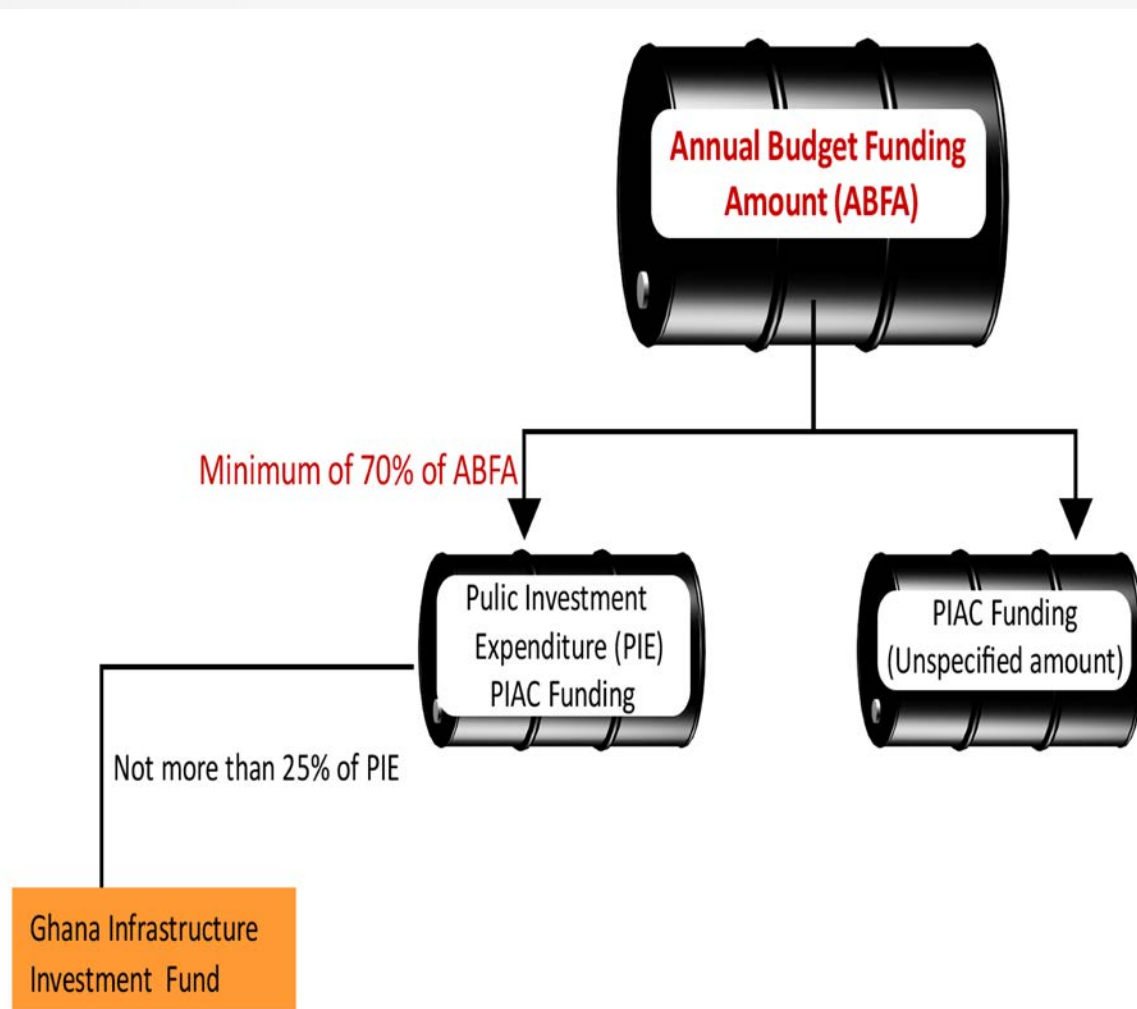
- Agriculture modernization
- Roads, rail and other critical infrastructure
- Education
- Health
- PIAC?

EFFECT ON PUBLIC INVESTMENT

- Limit to priority areas exceeded.
- Time and cost overrun of ABFA-funded projects
- Poor quality projects/non-existing projects due to weak institutional coordination in investment planning and implementation
- Limited evidence of investment outcomes and impacts



WHAT CONSTITUTES PUBLIC INVESTMENT EXPENDITURE?



Source: ACEP, 2018

WHAT DOES LITERATURE SAY?

- Public investment expenditure must bring returns regardless CapEx or current (UNCTAD, IMF).

HOW DO STAKEHOLDERS IN GHANA UNDERSTAND THIS?

- Public investment expenditure is CapEx.
- At all cost, 70% of ABFA must be for CapEx because that was the intention of the framers of the law

OUR INTERPRETATION OF THE LAW AND HANSARD?

- Minister of Finance can do whatever he wants. He only must ensure that up to 25% ABFA is secured for infrastructure (GIIF) at all times.

“...only 37% of the utilised ABFA was used for capital expenditure, less than the 70% stipulated in the PRMA.” ...
“Expenditure as reported by the MoF does not conform to the requirement to spend at least 70% of the ABFA on Capital Expenditure...”. “...the MoF must therefore comply with the provisions of Section 21(4) of Act 815 in respect of public investment expenditure”.

Source: Public Interest and Accountability Committee (2017). 2017 Annual Report on the Management of Petroleum Revenues <
http://www.piacghana.org/portal/files/downloads/piac_reports/piac_2017_annual_report.pdf> accessed 9 October 2018.

PUBLIC INVESTMENT EXPENDITURE & ACCOUNTABILITY LOOPHOLES

	Total ABFA received (Millions GHC)	ABFA utilization for public investment expenditures as percentage of total ABFA received	ABFA utilization in goods and services as percentage of total ABFA received	ABFA utilization in Capital expenditure as percentage of total ABFA received
2011	261.54	100%	-	-
2012	516.83	100%	24%	76%
2013	543.78	100%	-	-
2014	1215.46	46%	5%	41%
2015	1086.29	100%	16%	84%
2016	388.85	80%	23%	57%
2017	733.21	45%	29%	37%

GHC1.14 billion unutilized ABFA unaccounted for in 2014, 2016 and 2017.

This represents 24% of total ABFA received between 2011 and 2017.

Joint effect of PRMA (s. 21(4)) and PFM (s. 26 AND 49).

Source: Ghana Ministry of Finance

IS PIAC A PRIORITY AREA?



USE OF THE ABFA PER S 21(1) & (2)

- Part of the annual National Budget
- To be utilized to achieve section 21(2) objectives
- Spending of the ABFA within the budget must be in relation to programmes and activities that fall within at most four priority areas selected by the Minister in accordance with the non-exhaustive list in section 21(3).

PIAC'S FUNDING FROM ABFA

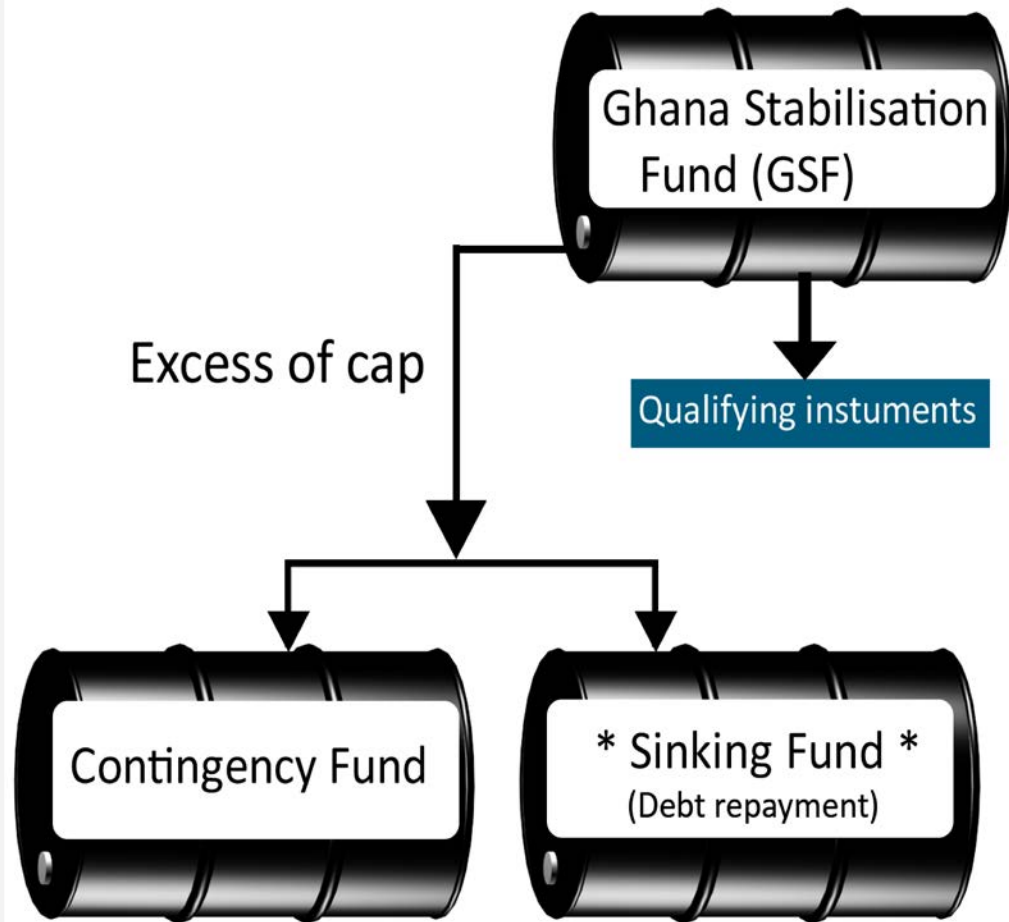
- PIAC's initial financing challenges
- PIAC's annual budget submitted together with ABFA expenditure prospects for parliamentary approval since 2016
- PIAC had received GHC 2.3 million from the ABFA in 2016 and 2017.
- PIAC's role geared towards achievement of section 21(2) objectives of the ABFA
- PIAC not listed as priority area under section 21(3); established by the PRMA
- PRMA regulations should separate PIAC's financing from ABFA for the 4 priority areas.

THE STATE OF THE GHANA STABILIZATION FUND (GSF)

Objective: sustain the economy during periods of unanticipated petroleum revenue shortfall

- Inflows: \$776.55 million by end of 2017
- Net interest: : \$7.13 million
- Withdrawals: \$430.63 million (\$53.69 million to ABFA in 2015; \$335.76 million to sinking fund for debt repayment; and \$41.19 million to contingency funds)
- Closing balance: \$353.05 million

EFFECTS OF MINISTERIAL DISCRETION TO CAP THE GSF ON PUBLIC DEBT AND PUBLIC INVESTMENT EXPENDITURE SMOOTHING



GSF Capping in practice GSF (s. 23(3) &(4))
2014: \$250 million
2015: \$150 million
2016: \$100 million
2018: \$300 million although closing book balance from 2017 was \$353 million.

Effects:

- Government unable to save excess revenue in boom times
- Government may be forced to borrow more if GSF balance cannot meet shortfall in bust times
- Increased government appetite to engage in unsustainable borrow on the back of GSF

Arbitrary capping of the shows that there is the need for regulations for the PRMA.



4. SUMMING IT ALL UP...

KEY FINDINGS

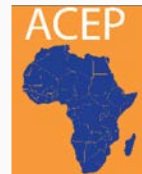
1. Unregulated ministerial discretion in the choice of priority areas, and combination of public investment expenditure has led to inefficient and ineffective spending of ABFA that violate value for money goals of the Public Financial Management Act, 2016 (Act 921).
2. The combined effect of section 21(4) of the PRMA, and sections 26 and 49 of the PFMA has created accountability loophole in unutilized ABFA. Unutilized ABFA, which were planned for capital investments, may be used for other purposes such as debt financing and salary payments.
3. Unregulated ministerial discretion in capping the GSF increases the risk that the GSF may not be adequate to achieve its primary purpose of smoothing public investment expenditure in bust times. It may also increase government's appetite for more debt.

RECOMMENDATIONS

Regulations on PRMA should be passed to define rules on discretionary powers of the Minister in ABFA investment choices and GSF capping decisions. Specifically,

1. There is the need for the Ministry of Finance to collaborate strongly with local governments, and Ministries, Departments, and Agencies (MDAs) to undertake planned ABFA investments.
2. The basis, objective, and outcome of the combination of public investment decisions, as well as information about the basis for unutilized ABFA in the face of numerous uncompleted infrastructure projects that need financing must be clarified.
3. There must be well-defined rules and basis for cap levels over the GSF.

Thank You



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