

IN THE FIRST MEETING OF THE THIRD SESSION OF THE SEVENTH PARLIAMENT OF THE FOURTH
REPUBLIC

**REPORT OF THE FINANCE COMMITTEE ON THE PUBLIC
INTEREST AND ACCOUNTABILITY COMMITTEE (PIAC) REPORT
ON THE MANAGEMENT OF PETROLEUM REVENUES FOR THE
YEAR 2017**

1.0 INTRODUCTION

The Public Interest and Accountability Committee (PIAC) Report on the Management of Petroleum Revenues for the year 2017 was laid in the House on 31st October, 2018 in accordance with Section 56 (d) of the Petroleum Revenue Management Act, 2011 (Act 815) and the Standing Orders of the House.

The Rt. Hon. Speaker referred the report to the Finance Committee for consideration and report in accordance with Order 169 of the Standing Orders of the Parliament of Ghana.

The Committee was assisted in its deliberations by the Hon. Deputy Minister of Finance, Mrs. Abena Osei Asare, a Deputy Governor of the Bank of Ghana, Dr. Maxwell Opoku Afari, and officials from the Ministry of Finance, the Bank of Ghana, Ghana National Petroleum Corporation (GNPC), Ghana National Gas Company (GNGC), Ghana Revenue Authority (GRA), Ghana Infrastructure Investment Fund (GIIF), Tullow Oil Ghana Limited, Kosmos Energy and the Public Interest and Accountability Committee (PIAC).

The Committee is grateful to the Hon. Deputy Minister and officials for their assistance.

2.0 DOCUMENTS REFERRED TO

The Committee referred to the following documents at its deliberations:

- The 1992 Constitution of Ghana;
- The Standing Orders of the Parliament of Ghana;
- The Petroleum Revenue Management Act, 2011 (Act 815); and

- The Semi-Annual Report of the Public Interest and Accountability Committee (PIAC) on the Management of Petroleum Revenues for the period January – June, 2017.

3.0 BACKGROUND OF THE REPORT

The Public Interest and Accountability Committee was established under Section 51 of the Petroleum Revenue Management Act, 2011 (Act 815) to:

- i. monitor and evaluate compliance with the Act by government and other relevant institutions involved in the management and utilization of the petroleum revenues and investments as provided in the Act; and
- ii. provide independent assessment on the management and use of petroleum revenues to assist Parliament and the Executive in the oversight and performance of related functions respectively.

Pursuant to its mandate under Section 52 and 56 of Act 815, the Public Interest and Accountability Committee submitted its annual report on the Management of Petroleum Revenues for the 2017 Financial Year to Parliament. The Report covered a broad range of issues associated with the management and utilization of petroleum revenue including information on production, liftings, total revenues accruing to the state, allocation and utilization of these revenues by government. The report also examined the performance of the various institutions charged with responsibilities under Act 815 and the level of compliance of the institutions to provisions in the Act.

4.0 KEY FINDINGS BY PIAC

4.1 Crude Oil Production

A total of 58,658,063 barrels of crude oil was produced from Ghana's three production fields in 2017:

- i. Jubilee Field produced 32,749,975 barrels representing fifty-six percent (56%) of total production;
- ii. Tweneboa Enyenra Ntomme (TEN) produced 20,452,577 barrels representing thirty-five percent (35%) of total production; and
- iii. Sankofa Gye Nyame (SGN) which started commercial production in May 2017, produced 5,455,511 barrels representing nine percent (9%) of total production.

In comparison with the 2016 crude production of 32,298,638 barrels, there was an 82% increase in 2017.

4.2 Gas production

A total of 77,294.44 Million standard cubic feet (MMScf) of associated gas was produced from the Jubilee, TEN and SGN fields in 2017 as follows:

- i. Jubilee produced 42,261.35 MMScf;
- ii. TEN produced 26,818.33 MMScf; and
- iii. SGN produced 7,214.76 MMScf.

4.3 Crude Oil Pricing

Ghana's crude oil from the Jubilee Field was sold at an average achieved price of US\$54.43/bbl, which compared favourably with the average dated BRENT price of US\$54.25/bbl as well as the average achieved price of all the other Partners (Tullow-US\$54.20/bbl; Anadarko-US\$53.84/bbl; Kosmos-US\$53.73/bbl).

Ghana's crude oil from the TEN Field achieved an average price of US\$51.92/bbl, falling behind both the estimated benchmark price and the average dated BRENT price during the same period.

The Jubilee Partners however were able to sell a portion of their liftings at a higher price mainly as a result of respective marketing strategies and hedging policies of their parent companies, with Kosmos and Tullow Plc. realising a unit price of US\$57.82/bbl and US\$58.30/bbl respectively.

4.4 Petroleum Revenues

Total petroleum receipts paid into the Petroleum Holding Fund in 2017 was US\$539,832,157.44. Additionally, an amount of US\$579,278.46 was earned as interest on undistributed funds held in the Petroleum Holding Fund during the year.

An amount of US\$302,634,338.36 was paid into the Petroleum Holding Fund (PHF) in respect of six crude oil liftings from the Jubilee Field.

An amount of US\$198,666,095.13 was paid into the Petroleum Holding Fund (PHF) in respect of four crude oil liftings from the TEN.

An amount of US\$99,658.80 earned as premium on the sale of the Ghana Group's second lifting from TEN was not included in the transfer to the PHF.

Total amount paid into the PHF in respect of corporate income tax was US\$36,957,622.

An amount of US\$1,569,827.91 was paid into the PHF as surface rentals from the various companies in the petroleum upstream sector.

An amount of US\$13,518,852.98 which was wrongfully paid into GRA account instead of PHF during the period is yet to be transferred into the PHF as required by Act 815.

The Ghana National Gas Company (GNGC) received raw gas worth US\$94,776,691.97 from GNPC during the year. Payment for this supply is outstanding. The total GNGC indebtedness to GNPC stood at US\$230,315,198.37 as at the end of 2017.

4.5 Operations of the Ghana National Gas Company

GNGC received 30,927 MMScf of raw gas from GNPC in 2017, mainly made up of Jubilee gas, with 291.71MMScf exported from Tweneboa Enyenra Ntomme (TEN).

GNGC's receivable from the sale of lean gas, LPG, and condensates for the period was US\$360,936,668.21, of which only US\$58,107,000.63 was paid.

During the year, GNGC supplied VRA with lean gas worth US\$279,910,118.08. VRA is yet to pay for the gas thereby, incurring an interest of US\$16,737,531.29.

The prices of raw gas and lean gas were stable. However, the prices of condensates and LPG witnessed a year on year appreciation of 9% and 33% respectively.

4.6 Petroleum Funds Distribution and Utilisation

Total PHF disbursement from the PHF in 2017 was US\$555,332,410.54. The breakdown is as follows:

- The GNPC received US\$182.04 Million representing 33%.
- The ABFA received US\$169.46 Million which represents 30%.
- The Ghana Stabilisation Fund received US\$142.68 Million representing 26% and
- Ghana Heritage Fund received US\$61.15 Million representing 11%.

The ABFA's allocation of US\$169.46 Million (GHC736.03 Million) for 2017 represented an increase of 72.26% over the amount of US\$98.38 Million received in 2016.

During the year 2017, an amount of GHC332.29 Million taken out of the ABFA's allocation was utilized on selected priority areas, leaving a balance of GHC403.74 Million. Total ABFA balance brought forward to 2018 stands at GHC481.47 Million. The selected priority areas are captured in table 1 below.

Table 1 Selected Priority Areas

	Item	Amount (GH¢m)	%
1	Education	202.38	60.9
2	Agriculture	49.07	14.8
3	Road, Rail and other critical Infrastructure	41.62	12.5
4	GIIF	29.22	8.8
5	Health	8.65	2.6
6	PIAC	1.35	0.4
		332.29	100.0

Under Education priority area, a total amount of GH¢196.38 Million out of the total amount GH¢202.38 Million representing Ninety-seven percent (97%) of the ABFA disbursement went into the Free Senior High School programme. Approximately Eighty-three percent (83%) (amounting to GH¢40,668,271.93) of the ABFA disbursement to the Agriculture priority area was used to construct irrigation infrastructure.

The report revealed that only Thirty-seven percent (37%) of the utilised ABFA was used for capital expenditure, less than the Seventy percent (70%) stipulated in the PRMA. Sixty-three percent (63%) was spent on the supply of goods and services.

Twenty-four percent (24%) of the amount utilised for Capital Expenditure, was allocated to GIIF. GNPC spent US\$3.8 Million on the Secretariat activities of the Ghana-La Cote d'Ivoire Maritime Boundary Dispute.

4.7 PERFORMANCE OF THE GHANA PETROLEUM FUNDS (GPFs)

The GPFs reserves at the end of 2017 was US\$697.84 Million, with the Ghana Heritage Fund (GHF) and Ghana Stabilisation Fund (GSF) holding US\$344.79 Million and US\$353.05 Million respectively. Accumulated net realised income (net profit on investment) of the GPFs since inception in November 2011 to the end of 2017, was US\$28.21 Million. There were no withdrawals from both the GHF and GSF in 2017.

5.0 OBSERVATIONS

5.1 Uncollected Gas Sale Proceeds – US\$758,857,915.94

The report revealed that an amount of US\$758,857,915.94 realised from the sale of lean gas, LPG, and condensate by Ghana National Gas Company (GNGC) remain uncollected.

The Committee was informed that the situation was occasioned by the inability of Volta River Authority (VRA) to pay for gas supplied to it. About 80% of GNGC gas is supplied to VRA and the remaining 20% is sold to the private sector on cash basis. The inability of VRA to honor its debt obligations is adversely affecting the operations of the Company.

5.2 Absence of Investment Advisory Committee

The report also revealed that the Investment Advisory Committee provided for in the Petroleum Revenue Management Act to advise the Minister on investment options is yet to be set up. The absence of the Investment Advisory Committee is likely to deny the Minister critical advice required to help identify profitable investment portfolios for the Petroleum Funds.

5.3 Outstanding Surface Rental Bill - US\$67,438.36

The report brought to the fore that a surface rental bill of US\$67,438.36 issued to Oranto/Stone Energy in February 2013 still remains outstanding as at the end of 2017.

The Committee learnt that Oranto/Stone which is one of the companies licensed to undertake exploration works in Ghana has defaulted in the payment of surface rentals. Unfortunately, they are no longer operating in the country. It has therefore become difficult for GNPC to collect the sums due. Attempts to reach the shareholders have also proved unsuccessful. Information reaching GNPC indicates that Oranto might be operating in Nigeria, Zambia and Equatorial Guinea.

The Commissioner of GRA undertook to collaborate with the tax authorities in Nigeria to get the company to honour its obligations.

5.4 Missing Petroleum Funds – US\$403.74 Million

The report indicated that during the year under review, only US\$332.29 Million was utilized out of the amount of US\$736.03 Million allocated to ABFA, leaving a balance of US\$403.74 Million, yet to be accounted for.

PIAC informed the Committee that the Ministry of Finance had indicated that the said amount has been transferred to the Consolidated Fund. PIAC holds the view that since there is no corresponding expenditure to authenticate the need for the funds as required by law, the amount must be transferred back to the Petroleum Holding Funds.

The Committee however was informed by the Ministry of Finance that the amount had been earmarked for the payment of contracts awarded for which works have been executed and certificates duly raised. However, due to a decision by government to

audit all contracts for which interim certificates have been raised, payments for those works/contracts could not be effected. The unused amount is currently in the treasury main accounts waiting to be disbursed to contractors.

The Deputy Minister of Finance assured the Committee that detailed breakdown of the disbursement will be captured in the annual expenditure report of the Ministry.

5.5 Violation of section 21 (4) of PRMA

Section 21 (4) of the Petroleum Revenue Management Act, 2011 (Act 815) provides that “For any financial year, a minimum of seventy percent (70%) of the Annual Budget Funding Amount (ABFA) shall be used for public investment expenditures consistent with the long-term national development plan or with subsection (3).”

The report revealed that contrary to the above provision, only 37% of the utilized ABFA was used for capital expenditure in the 2017 financial year. This was less than the seventy percent (70%) stipulated in the Act. Further, the report indicated that sixty-three (63) % of the ABFA was expended on goods and services.

The Committee was informed that the ABFA expenditure was not in violation of the Petroleum Revenue Management Act, 2011 (Act 815). The key phrase is “public investment expenditure” which is what has not been complied with.

5.6 Wrongful Payments into GRA – US\$13,518,852.98

The report indicated that an amount of US\$13,518,852.98 meant for Petroleum Holding Funds (PHF) has been wrongly paid into Ghana Revenue Authority’s accounts in violation of the Petroleum Revenue Management Act, 2011 (Act 815).

The officials from the Ghana Revenue Authority (GRA) conceded but indicated that, an amount of US\$13,488,368.98 has since been transferred to the PHF leaving a balance of US\$30,484.00. The Deputy Governor confirmed the transfer.

5.7 Cost of Maritime Dispute

The report revealed that a total amount of US\$3.8 Million was spent by GNPC on Secretariat activities of Ghana – Cote D’Ivoire Maritime Dispute. PIAC recommended that the Ministry of Finance should refund the said amount to GNPC to finance its development and operational activities.

The Committee was informed that the Maritime Boundary Dispute between Ghana and Côte d’Ivoire which went under arbitration at the Special Chamber of the International Tribunal of the Law of the Sea (ITLOS) in Hamburg has direct impact on the activities

and operations of GNPC. GNPC, a state institution is mandated to hold and protect the crude reserves in trust for the people of Ghana. GNPC also submits its annual work program and budget to Parliament for approval. The expenditure on the maritime dispute was part of its activities submitted to Parliament for approval.

5.8 Returns on the Petroleum Funds

The Committee noted that the Ghana Petroleum Funds yielded a net return on investment of US\$9,288,334.14 in 2017. The Ghana Heritage Fund contributed US\$6,668,879.64, representing 71.80% of the total investment income. The remaining US\$2,619,454.05, representing 28.20% of the total investment income was the contribution from the Ghana Stabilization Fund. As at December, 2017 the GSF has accumulated an amount of US\$353,052,037.36 while the closing balance in the GHF stood at US\$344,781,422.32.

5.8 Participation in the work of PIAC

The Committee was informed that many institutions do not attach the needed importance to the work of PIAC. PIAC lamented that many of the concerned institutions fail to cooperate with them by not participating in the validation process of the draft reports generated by PIAC. The institutions, in addition to failing to attend also fail to give written response to issues raised by PIAC. This creates a situation where issues that could have been easily addressed find its way into the final report.

6.0 RECOMMENDATIONS

6.1 Uncollected Gas Sale Proceeds – US\$758,857,915.94

The Committee noted that the failure of VRA to settle its debt was as a consequence of the inability of Electricity Company of Ghana (ECG) to collect monies owed by government and private consumers.

The Committee expressed concern that should ECG continue to fail in its revenue collections, the resultant effect would be the continuous accumulation of new debts despite the issuance of the ESLA Bond to relieve the sector of the legacy debts burden.

The Committee therefore urges the Minister of Energy to take steps to ensure that ECG honours its debt obligations to ensure stability in the energy sector value chain.

6.2 Absence of Investment Advisory Committee

Given the important role envisaged under the Act, the Committee recommends that the Minister of Finance should constitute the Investment Advisory Committee as soon as possible, and report on same to Parliament.

6.3 Outstanding Surface Rental Bill - US\$67,438.36

The Committee urged the Commissioner-General to take measures to recover the outstanding surface rental bill. However, the possible cost to be incurred in the recovery of the outstanding bill should be of concern.

The Committee is of the opinion that where the cost of recovery exceeds the amount involved, the Minister of Finance should take steps to write off the amounts from the books of GNPC. The Committee also recommends that going forward the Ministry of Energy should ensure that companies that go into exploration post a mandatory guarantee so that in the event of default, the country could fall on the guarantee for settlement.

6.4 Cost of Maritime Dispute

The Committee disagreed with the recommendations of PIAC on the above issue. It was of the view that the expenditure on the Maritime Boundary Dispute directly affects the operations of GNPC and since it was part of the approved work program of GNPC for 2017, it was rightly expended. Further, in such disputes, the timely release of resources is key to the speedy resolution of the dispute. The Committee accordingly rejects the recommendation of PIAC on the above issue.

6.5 Participation in the work of PIAC

The Committee noted that the work of PIAC in promoting accountability in the management of petroleum revenues is very important. If Sector Agencies would take this function very serious, it would go a long way to safeguard our petroleum resources and help in the proper use of same.

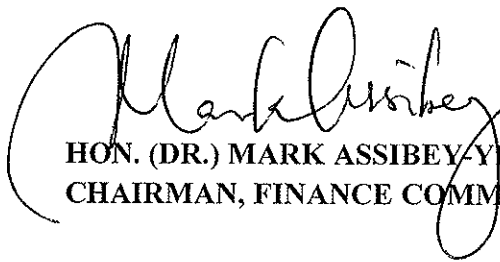
The Committee therefore wishes to remind all stakeholders in the Upstream Petroleum Sector that PIAC is an independent statutory body established under the Petroleum Revenue Management Act, 2011, Act 815 and as such they must take PAIC's work very serious.

The Committee urges the Minister of Finance to ensure that all institutions cited by PIAC in its draft report participate actively in the validation process to help clean up the final report. Further, all institutions cited must give written responses to PIAC on issues raised. In addition, all relevant Agencies must attend and participate in the validation process organized by PIAC.

7.0 CONCLUSION

The Committee having carefully examined the referral recommends to the House to adopt its report on the Public Interest and Accountability Committee report on the Management of Petroleum Revenues for the 2017 financial year.

Respectfully submitted.



HON. (DR.) MARK ASSIBEY-YEBOAH
CHAIRMAN, FINANCE COMMITTEE



MS. EVELYN BREFO BOATENG
CLERK, FINANCE COMMITTEE



