


IN THE THIRD SESSION OF THE SIXTH PARLIAMENT OF THE FOURTH REPUBLIC OF GHANA

REPORT OF THE FINANCE COMMITTEE

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ON

THE 2012 AND 2013 ANNUAL REPORTS ON
THE PETROLEUM FUNDS



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THE OMS AND ITS FINANCIAL STATEMENTS

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REPORTS ON PETROLEUM FUNDS

1.0 INTRODUCTION

As part of the presentation of the 2013 and 2014 Budget Statement and Economic Policy and in consonance with Clause 48 of the Petroleum Revenue Management Act, 2011 (Act 815), the 2012 and 2013 Annual Reports on Petroleum Funds were respectively presented to the House on Tuesday, 5th March, 2013 and 10th December 2013 and referred to the Finance Committee for consideration and report in accordance with Order 169 of the Standing Orders of the House.

The Committee met and discussed the report with the Hon. Minister of Finance, Mr. Seth Terkper, Hon. Deputy Ministers of Finance and Energy, Mrs. Mona K. Quartey and Messrs. Cassiel Ato Baah Forson and Ben Dagadu and officials from the Ministry of Finance and Ghana National Petroleum Corporation and presents this report to the House pursuant to Order 161(1) of the Standing Orders of the House.

2.0 REFERENCE DOCUMENTS

The under listed documents serve as reference guide to the Committee during its deliberations:

- The 2012 and 2013 Annual Reports on Petroleum Funds;
- Petroleum Revenue Management Act, 2011 (Act 815);

- The 2011, 2012 and 2013 Annual Budget Estimates and Economic Policies of Government;
 - The 1992 Constitution of the Republic of Ghana; and
 - The Standing Orders of the House.
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3.0 BACKGROUND AND STRUCTURE OF THE REPORT

The Petroleum Revenue Management Act, 2011 (Act 815 or PRMA) was passed by Parliament in the first quarter of 2011 and assented to by H.E. the President on 11th April, 2011. The PRMA requires the Minister responsible for Finance to submit an annual report on the petroleum funds as part of the annual presentation of the Budget Statement and Economic Policy to Parliament. And in fulfillment of this, the 2012 and 2013 Annual Reports on Petroleum Funds has been presented to Parliament.

The reports is structured as follows:

Section B of the 2012 report provides a brief on the performance of the 2011 petroleum receipts and utilization, while Section C presents developments in the upstream petroleum industry in 2012. Section D reports on the petroleum receipts and utilization in 2012 with section E concluding the report.

The 2013 report comprised seven sections. The first section is the introduction, while section two gave an account of developments in the upstream petroleum sector from January to September, 2013. Section three provided a brief on the performance of petroleum receipts and their utilisation, section four presented the performance of the GPFs with section five given an update on the audited financial statements of the petroleum funds. Section six suggested the way forward while section seven concluded the report.

4.0 **2011 PETROLEUM RECEIPTS AND UTILIZATION**

The total volume of crude oil produced in 2011 amounted to 24,195,895 barrels (average of 66,2990 barrels per day) against a target of 30,929,005 barrels (average of 84,737 barrels per day). The lower than targeted production levels was mainly due to production difficulties in the Jubilee fields. The amount of crude oil lifted in 2011 is slightly higher than the total production because the amount lifted included production in November and December of 2010. The total volume of crude oil lifted in 2011 amounted to 24,451,452 barrels. Of this amount, the Ghana National Petroleum Corporation (GNPC), on behalf of the State, lifted 3,930,189 barrels through four liftings which realized a total revenue of US\$444.12 million (GH¢690.26 million).

4.1 *Analysis of 2011 Petroleum Receipts*

The Petroleum Holding Fund (PHF) was established by the PRMA, as a designated Public Fund to receive petroleum receipts due the State from the upstream petroleum sector. The PHF was opened at the Federal Reserve Bank of USA on 11th April 2011 and has since been receiving petroleum revenues due the State

The PHF received a total amount of US\$444.12 million (equivalent of GH¢690.26 million) against a budget estimate of US\$833.86 million (GH¢1,250.78 million) resulting in a shortfall of US\$389.73 million (GH¢560.52 million). The main reason for the shortfall was the non-realization of corporate income tax (CIT) from the Jubilee Partners as a result of off-setting profits or gains against the capital allowances and other incentives allowed under the Internal Revenue Act (IRA), Act 592 of 2000 and other laws and agreements. An amount of US\$402.51 million (GH¢603.76 million) was budgeted as corporate income tax for 2011. Of the three sources of petroleum receipts in 2011, only the Carried and Participating Interest exceeded the budget target.

4.2 *Allocation of 2011 Petroleum Receipts*

The 2011 total petroleum receipts was allocated to the various allowable sources, in accordance with the relevant sections of the PRMA, to the National Oil Company (NOC) or GNPC, the Annual Budget Funding Amount (ABFA) and the Ghana Petroleum Funds (GPFs). The GPFs comprise the Ghana Heritage Fund (GHF) and the Ghana Stabilization Fund (GSF). The relevant shares, including the payments to GNPC, were pre-approved by Parliament.

Of the total petroleum receipts of US\$444.12 million (GH¢690.26 million), an amount of US\$207.96 million (GH¢323.47 million) was transferred to GNPC. This comprised Equity Financing Cost of US\$132.48 million (GH¢206.33 million) and GNPC's 40 per cent share and Carried and Participating Interest of US\$75.48 million (GH¢117.14 million), in line with Section 7 of Act 815.

4.3 *Utilisation of the 2011 ABFA*

The ABFA is the annual allocation to the budget from the petroleum receipts. According to Section 21(1) of the PRMA, the ABFA is part of the national budget and is regarded as part of the Consolidated Fund. Hence, its use is subject to the same budgetary processes that are necessary to ensure efficient allocation, responsible use and effective monitoring of expenditure. In addition, Section 21(4) requires that a minimum of 70 per cent of the ABFA be used for public investment.

In accordance with Section 21(5) of the PRMA, four priority areas have been approved by Parliament for the ABFA expenditures as follows:

- Expenditure and Amortization of Loans for Oil and Gas Infrastructure;
- Road and Other Infrastructure;
- Agriculture Modernization; and
- Capacity Building (Including in Oil and Gas).

In 2011, the ABFA received a total allocation of US\$166.96 million (GH¢261.54 million) against a budget of US\$430.94 million (GH¢646.41 million). As noted earlier,

the big deviation of the actual ABFA from its target was due mainly to the non-realization of the projected corporate tax receipts. The ABFA amount of GH¢261.54 million was spent on public investments in the four priority areas listed above.

5.0 **PETROLEUM RECEIPTS AND UTILISATION IN 2012**

5.1 **Analysis of 2012 Petroleum Receipts**

The 2012 fiscal year experienced an improvement in production of crude oil amidst initial production difficulties in the first two quarters of the year. The total volume of crude oil produced in 2012 was 26,351,278 barrels, representing an increase of 8.9 per cent over the 2011 production levels. The GNPC lifted crude oil five times on behalf of the State and this amounted to 4,931,034 barrels and yielded US\$541.07 million (GH¢978.27 million).

Of the total petroleum receipts of US\$541.07 million (GH¢978.27 million) from the five liftings in 2012, Royalties, which constituted 28 per cent of the receipts, amounted to US\$150.64 million (GH¢272.37 million) and the remaining US\$390.43 million (GH¢705.91 million) or 72 per cent of the receipts represented the State's Carried and Participating Interest.

The other sources of petroleum receipts which amounted to US\$552,418 (GH¢1,044,290) is made up of Surface Rentals of US\$448,225 (GH¢847,324) and Royalties from Saltpond Offshore Producing Company Limited (SOPCL) of US\$104,193 (GH¢196,967). Thus, the Petroleum Holding Fund received a total of US\$541.62 million (GH¢979.32 million) in 2012.

The total petroleum receipts for 2012 represents 6.6 per cent of Domestic Revenue and 1.4 per cent of GDP.

5.2 *Allocation of 2012 Petroleum Receipts*

Petroleum receipts obtained in 2012 were disbursed in accordance with section 7 of the PRMA which stipulates, inter alia, that funds received into the PHF should be applied to meet the NOC's Equity Financing Costs in respect of the NOC's share of development and production cost after which the net proceeds are shared between the Government of Ghana (60%) and the NOC (40%) as approved by Parliament in consonance with Section 7(3) of the PRMA.

Of the 2012 petroleum receipts of US\$541.62 million (GH¢979.32 million), an amount of US\$230.95 million (GH¢416.89 million) was transferred to GNPC comprising Equity Financing Cost of US\$124.63 million (GH¢224.21 million), and GNPC's 40 per cent share of net Carried and Participating Interest of US\$106.32 million (GH¢192.68 million) in line with Section 7 of the PRMA. The transfer in respect of Equity Financing Cost represents 118 percent of the amount budgeted for equity finance. The higher than projected Equity Financing Cost follows remedial and acidisation works done in the Jubilee Field to arrest decline in production during the year 2012.

5.3 *Utilisation of 2012 ABFA*

An analysis of the allocation of ABFA in 2012 shows that a total amount of US\$286.55 million (GH¢516.83 million) was allocated as ABFA in accordance with the PRMA against a projected ABFA of US\$383.52 million (GH¢614.55 million) for the year, resulting in a shortfall of US\$96.96 million (GH¢97.71 million). The main reason for the shortfall in the 2012 ABFA allocation was the shortfall in production targets, as well as the non-realization of corporate tax in 2012.

6.0. **PERFORMANCE OF THE GHANA PETROLEUM FUNDS IN 2012**

Consistent with Sections 11(2), 23(1a) and 23(2) of the PRMA, transfer to the GPFs were only made in the second quarter of 2012 since the allocable petroleum receipts to the GPFs and ABFA in all other quarters fell short of the 2012 quarterly ABFA of US\$95.88 million. A total amount of US\$45.60 million was transferred to the GPFs out of which

US\$31.92 million, representing 70 per cent, was transferred to the GSF and the remaining 30 per cent (US\$13.68 million) transferred to the GHF.

In 2012, the turbulence in the global financial markets and general economic downturn caused monetary authorities to take drastic expansionary measures to inject growth stimulus. Benchmark lending rates of the European Central Bank, Federal Open Markets Committee, and Bank of England were held at record low levels of near zero. This enhances downside risks to returns in the fixed income markets where the GPFs are invested.

Amidst the volatility and the uncertainty in the markets for 2012, the GPFs delivered positive returns on investment (ROI). Over the year, ROI was 0.29 per cent for GSF and 0.26 per cent for GHF. Net total ROI of the GPFs was US\$262,207.12, with GSF contributing US\$205,008.40 and GHF, US\$57,198.72.

7.0 PETROLEUM RECEIPTS AND UTILIZATION IN 2013

7.1 2013 PETROLEUM RECEIPTS

For the period January to September 2013, GNPC lifted crude oil five (5) times on behalf of the State. This involved 4,977,922 barrels of oil which yielded US\$ 533.86 million (GHS 1,025.05 million) of petroleum revenue to the State. Total petroleum receipts (i.e. proceeds from Jubilee liftings and other petroleum receipts) as at end of the third quarter of 2013 was US\$707.28 million (GHS 1,358.18 million). This compares with a total 2013 Budget estimate of US\$581.72 million (GHS 1,122.72 million). The main reasons for the positive variation in 2013 were the realization of more corporate income tax than projected on one hand, and increased production, on the other. In spite of the fact that the actual data on petroleum receipts and production are up to end-September 2013, the 2013 petroleum receipts show a positive variance of approximately US\$125.56 million (GHS 235.40 million) over the 2013 Budget estimate.

7.2 ALLOCATION OF 2013 PETROLEUM RECEIPTS

The allocation of petroleum receipts is guided by the allocation formula provided for in the PRMA. Parliament, acting within the confines of the law, approved a 40 percent share of the Carried and Participating Interest, net of Equity Financing Costs, for the National Oil Company (NOC) in 2011, with the rest going to Central Government. Out of Government's net petroleum receipts, 70 percent is designated as the Annual Budget Funding Amount (ABFA) while 30 percent is transferred into the GPFs. By the same arrangement, the GHF and the GSF attract 30 percent and 70 percent, respectively, of the total receipts into the GPFs. A total amount of US\$ 707.28 million out of the petroleum revenues for 2013 was allocated to GNPC (the NOC) as its share of the Equity Financing Cost (US\$ 53.50 million) and Net Carried and Participating Interest (US\$132.69 million). The Bank of Ghana (BOG) transferred an amount of US\$100,000 to the Reserve Bank of New York on GNPC's behalf for the payment of its share of the minimum balance on the Petroleum Holding Fund Account. GOG also paid US\$100,000 for the same purpose. An amount of US\$56.00 and US\$40.00 was also deducted by BOG from the claims of GOG and GNPC, respectively, in respect of overpayments to them in the first and second liftings in 2011.

The ABFA totaled US\$204.90 million from January to September 2013. The quarterly ABFA target was achieved for all the three quarters. The first lifting for each quarter was enough to meet the applicable quarter's ABFA, so the proceeds from GOG's share in the quarter's second lifting was transferred into the GPFs except in the third quarter where only one lifting was made. In all, a total of US\$ 316.09 million was transferred into the GPFs in respect of the first nine months of 2013. Out of this amount, the GHF received US\$94.83 million while the GSF received US\$ 221.26 million. An amount of US\$204.90 million (GHS392.94 million) was allocated as the ABFA in the first three quarters of 2013 in accordance with the PRMA.

7.3 UTILIZATION OF THE 2013 ANNUAL BUDGET FUNDING AMOUNT

Of the total ABFA of GHS 392.94 million received in the first three quarters of 2013, an amount of GHS 299.41 million, representing 76.2 percent, was disbursed to the four priority areas. Out of the total amount disbursed, GHS 142.34million, representing 47.5 percent, was spent on Road and other Infrastructure, while GHS 32.58 million, representing 10.9 percent, was spent on Capacity Building. Expenditure and Amortization of Loans for oil and Gas Infrastructure received GHS 19.88 million or 40.0 percent, while Agriculture Modernization received GHS 4.60 million or 1.5 percent. Thus, by the end of September 2013, approximately 93.8 percent of the ABFA had been expended on assets, with the rest going to goods and services.

7.4 UTILIZATION OF 2013 GNPC ALLOCATIONS

The sum of US\$186.09 million was allocated to GNPC for its equity financing and other activities as at September, 2013. An amount of US\$84.24 million had been disbursed by end-September 2013, leaving a balance of US\$101.95 million. When added to the cash-on-hand at the beginning of 2013 of US\$ 61.67 million, this results in total available cash as at end-September 2013 of US\$163.63 million. The table below provides details of the utilization of GNPCs share of petroleum Funds:

TABLE 1 Utilization of GNPCs 2013 allocation of petroleum revenues.

SN	DESCRIPTION	AMOUNT (US\$)	%
1	Jubilee Equity Financing Cost	60,890,000.00	32.7
2	Petroleum Projects other than Jubilee (TEN, Sankofa, Voltain Basin etc)	6,702,378	3.6
3	Staff Cost	8,745,531	4.7
4	Admin. Capital Expenditure	1,210,568	0.7
5	General Operation Expenditure	4,728,309.	2.5
6	Bank Charges (BOG)	1,960,961	1.1
	TOTAL EXPENDITURE	84,237,746	54.8

7.5 PERFORMANCE OF THE GHANA PETROLEUM FUNDS IN 2013

An amount of US\$316.09 million was transferred into the Ghana Petroleum Funds during the first nine months of 2013, compared with US\$ 24.12 million and US\$69.21 million in 2012 and 2011, respectively. Out of this amount, GSF received US\$221.26 million while GHF received US\$94.83 million, based on the formula provided in the PRMA. The time weighted return on the Ghana Petroleum Funds from January to September 2013 was 0.491 percent, compared with 0.28 percent, net of bank charges for 2012. The time weighted return was 0.370 percent for GSF and 0.805 percent for GHF over the period. By the end of the third quarter of 2013, GSF had returned investment income of US\$783,869.51 and GHF, on the other hand, had earned an Investment income of US\$658,314.26. The return on both the GSF and GHF amounted to US\$1.442 million, compared with US\$0.286 million in 2012.

8.0 OBSERVATIONS

The Committee after a careful deliberation, made the following observations:

Year of Reporting

The Committee noted that though the relevant reporting year was 2012, the 2012 it also provided complete information on Petroleum Receipts and Utilisation for the year 2011. Information provided in 2012 Economic Policy and Budget Statement however, covered only January to September, 2011. The Committee also noted that the information provided in the 2013 reports covered the period January to September, 2013.

Annual Audit

The Committee observed that contrary to Clause 46 (2), the audited reports on the receipt and utilization of Petroleum funds for the 2011 and 2012 financial years have not been submitted by the Auditor-General. The Minister of Finance explained that though there was time constraint, the Ministry needed to comply with Act 815 which enjoins the Ministry to submit an annual report on the Petroleum Funds as part of the presentation of the 2013 Budget Statement and Economic Policy of Government. The Minister added

that the teething problems associated with any new project might have caused the delay in the submission of the Audited reports to Parliament and promised to cooperate with the Auditor-General to submit the audited reports as soon as practicable.

Though the Committee accepts that the Auditor-General needed time to prepare its report due to the technicalities and peculiarities in the petroleum sector, the continuous delay is unacceptable. The Committee argues that report may outlive its usefulness when it is presented two to three years after the accounting year and urges the Auditor-General to submit the reports without further delay.

Expenditure on Capacity Building

The Committee also noted an amount of GH¢111,959,738 representing 14.1% of the ABFA amount of GH¢516,834,831 for 2012 was spent on capacity building. GNPC also spent GH¢3 million on capacity building (GNPC's Oil and Gas Foundation). It was stated that GNPC has as part of its mandate, to build national capacity in the fields of Oil and Gas. It was further explained that following the discovery and commercial production of oil there is a continuous need for the state to develop national capacity to allow for greater local participation in the industry. According to the experts, if it is left to the individuals alone to develop their capacities, it could take about 15 years for the requisite capacities to be developed by which time the petroleum resources might be near depletion.

High interest rate /transfer charges

The Committee observed that the Bank of Ghana charges one per cent on the petroleum funds received on behalf of the GNPC, and in 2012 the Bank appropriated US\$ 1.79 million to itself as transfer charges.

Though the Committee acknowledges that a fee may be charged by the Bank to take care of its administrative charges, 1% (US\$1.79 million) is on the high side and calls on the Bank to review downwards the transfer charges.

7.5 Staff cost (GNPC)

The Committee observed that staff cost for GNPC increased from US\$7,661,475 (3.7% of the allocated amount) in 2011 to US\$9,013,162 in 2012. It was explained that with its expanding role, GNPC had to invest heavily in hiring industry specific talents needed to execute its strategic goals. It was further added that with the influx of international oil companies on the local front, it was important for GNPC to ensure that it does not lose its staff to competitors.

7.6 Analysis of 2013 Petroleum Receipts

Commenting on the 2013 petroleum proceeds, the Hon. Minister of Finance indicated that in line with the fiscal regime of the petroleum agreements, Government is entitled to a royalty of 5% and 3% of the gross production of the Jubilee and Saltpond Fields respectively. The petroleum agreements also grant a Jubilee Carried and Participating Interest of approximately 13.64% and corporate income tax rate of 35% to Government.

The Hon. Minister indicated that except gas receipts which were not realised, all the sources of petroleum receipts had outperformed their targets by end-September 2013. It was outlined that Corporate Income Tax received amounted to US\$ 172.22 million (GHS 330.83 million) as at end-September 2013. This amount, it was explained included a receipt of US\$ 40.2 million (GHS 75.70 million) which was 2012 corporate tax assessment paid in the first quarter of 2013. It was further hinted that the corporate income tax received as at end-September 2013 exceeded the Annual Budgeted Amount of US\$55.86 million (GHS 107.81 million). A further analysis revealed that contribution from Corporate Income Tax was 24.36 percent of the total petroleum receipts as at end-September 2013, compared with 54.48 percent from Carried and Participating Interest, 21.06 percent from Royalties and 0.1 percent from Surface Rentals.

7.7 2013 Allocations of ABFA

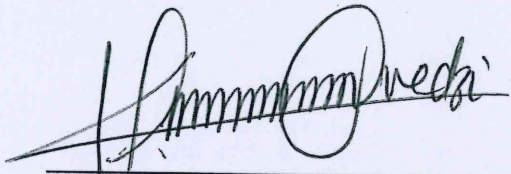
The Committee learnt that to ensure proper accounting, monitoring and reporting of the ABFA, a separate sub-consolidated account was opened in 2013 at the BOG and by the end of the first three quarters, a total amount of US\$204.90 million (GH¢392.94million)

was allocated in accordance with the PRMA. It was further observed that the actual ABFA allocation in US Dollars was equivalent to the 2013 Budget estimate but lower in cedi terms due to exchange rate differentials. The 2013 ABFA allocation thus, showed an improvement in allocations over that of 2012.

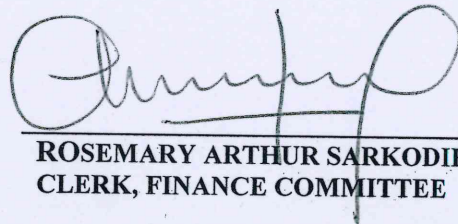
8.0 CONCLUSION/RECOMMENDATION

The Committee having diligently examined the 2012 and 2013 annual reports on petroleum funds is satisfied that the reports is in accordance with Clause 48 of the Petroleum Revenue Management Act, 2011 (Act 815) and therefore recommends to the House to adopt its report.

Respectfully submitted.



HON. JAMES KLUTSE AVEDZI
CHAIRMAN, FINANCE COMMITTEE



ROSEMARY ARTHUR SARKODIE (MRS)
CLERK, FINANCE COMMITTEE

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