2014 GHANA EITI RECONCILIATION REPORT

SUMMARY ANALYSIS

OIL AND GAS SECTOR

The Extractive Industries Transparency Initiative (EITI) seeks to encourage natural resource-dependent countries to publicly disclose information on their revenues, utilisation, and governance of the sector to their citizens, as part of efforts to enhance the demand-side of social accountability. Having signed on to the initiative shortly after its launch at the World Summit for Sustainable Development in Johannesburg in 2002, Ghana took immediate steps to implement the initiative in its mining sector in 2003. In 2010 Ghana was proclaimed EITI compliant after going through international validation. In September 2010 Ghana extended the initiative to its nascent oil and gas industry. The 2014 Oil and Gas reconciliation report is the fourth to be produced for the sector.

Overview of the Oil and Gas Industry in Ghana

The Jubilee discovery in 2007, together with other notable ones that have followed, including: Tullow's Tweneboa, Owo, Ntomme; ENI's Sankofa and Gye Nyame; Kosmos' Mahogany, Odum, Teak, Akasa, and Hess' Paradise, Beech, Hickory North, Pecan have helped to emphasise Ghana's offshore potential.

GNPC has also intensified exploratory activities in the Voltaian basin, and is in the process of acquiring 2D seismic data across the basin.

As at 2014, progress made towards putting in place the full complement of policies and laws required to efficiently manage Ghana's petroleum sector include:

a) Cabinet's approval of the draft Petroleum Exploration and Production bill;
b) The passage of Local Content regulations (L.I. 2204) which became effective in February 2014;
c) Amendments to the Petroleum Revenue Management Act, 2011, Act 815.

The Fiscal Regime

There were no changes to the fiscal regime as detailed in the Model Petroleum Agreement during the year under review. The applicable taxes remained as follows:

- Royalty 10%
- GNPC Initial Interest (Carried) 10%
- GNPC Additional Interest (Paying) 15%
- Petroleum Income Tax 35%
- Surface rental - US$30/sq. km/year (Initial exploration phase)
- Additional Oil Entitlement

Table 4.1.1: Relevant Revenue streams and Materiality

Receipt type(Revenue Stream)	Amount(US$)	%	Cumulative %
Carried Interest	366,055,428	37.05	37.05
Corporate tax	284,546,191	28.80	65.84
Royalty	192,812,737	19.51	85.36
Additional Paid Interest	133,274,924	13.49	98.84
Training Allowance	4,725,000	0.48	99.32
Technology/Technical support	4,500,000	0.46	99.78
Surface Rental	1,775,767	0.18	99.96
Unipec 2013 Differentials	297,249	0.03	99.99
Interest on PHF investment	124,083	0.01	100.00
Tota l	988,111,379	100.000	

In 2014 the government extended the applicability of the Capital Gains Tax provisions in the Internal Revenue Act, 2000 (Act 592) to petroleum operations.

OPEN CONTRACTING / LICENCE REGISTRY

The Ministry of Petroleum continues to award oil and gas contracts on first-come-first-served basis. It does not have an on-line repository for contracts. The Ministry also does not have any policy regarding the publication of details of contracts between Oil companies and the government of Ghana. This fact makes Ghana fall short of meeting the EITI Standard.

CONTRIBUTION OF THE OIL AND GAS SECTOR TO THE ECONOMY

GDP data released by the Ghana Statistical Service indicates that the economy grew by 4.0 percent at the end of 2014. This is lower than the 7.3 percent recorded in 2013 and the 7.1 percent projected for the overall growth of 7.1 percent (including oil), and 6.6 percent (excluding oil) for 2014. In Percentage terms, Oil and Gas contributed 7.2% of total GDP in 2014 having slowed down from 8.2% in 2013.

Contribution of Oil and Gas Sector to Exports

Comparison of Oil and Gas with other sectors of the economy indicated that Oil and Gas sector recorded about 28.6% of the total Merchandise Export in 2014 from 28.23% in 2013.

Breakdown of the other commodities shows that Oil and Gas constituted the second highest export commodity in 2014.

Contribution of the Oil and Gas Sector to Employment

The oil and gas sector provided employment opportunities for all categories of workers – technicians and professionals - during the period. As at the end of 2014, a total of 7,000 people were employed in the Ghanaian upstream oil and gas industry. Of these, 5,600 (or 80%) of the employees were Ghanaians; and 1,400 (or 20%) were Expatriates. Of the total employees, 3,616 were employed by the International Oil Companies, of which 2,315 were Ghanaians. The Oil Services Companies and the Public Sector absorbed the rest.

Marketing of Jubilee Crude

The Ghana National Petroleum Corporation (GNPC) has entered into an agreement with Unipec Asia for the sale of the country's share of Jubilee crude.

In the agreement, dated the 1st of February 2012, GNPC shall deliver to Unipec Asia Company Ltd, 5 cargoes per calendar year (@13,000 barrels per day of Jubilee Crude Oil.

The standard cargo size shall be 950,000 net US barrels. Deviations from the standard cargo sizes may be mutually agreed between seller and buyer on a cargo by cargo basis.

The U.S. Dollar FOB price per (net bill of lading) barrel shall, unless the Parties agree otherwise, have the following components:

a) Dated Brent Component; and
b) Differential;

The price shall be calculated in accordance with the following formula: The US dollar FOB Price =Dated Brent + Differential.

For the Dated Brent Price, the buyer shall have the option to choose from four (4) Dated Brent component pricing options as the applicable pricing method for the sale of the jubilee crude oil. The buyer shall pay a margin of US cents eight (8) per barrel for exercising any price option.

Jubilee Oil Price and how it compares with that of Equity Partners

The Ghana Group achieved a relatively lower price for its share of jubilee oil in 2014 compared with its equity partners trading at a discount of US$6.41/BBL against Anadarko, US$4.12/BBL against Tullow, and US$4.68/BBL against Kosmos. The trend over the period 2012 – 2014 however showed that jubilee oil price was on a downward trend consistent with general movement of market prices.

It was found that on average, the Ghana Group sales price was however competitive to dated Brent.

Local Content

The Petroleum (Local Content and Local Participation) Regulations(LI2204), 2013 mandates oil and Gas companies (both IOC and ISP) to meet certain stipulations regarding human resource and supply chain requirements.

For data on human resource see section on Contribution of the Oil and Gas Sector to Employment (above).

Along the supply chain, from 2010-2015 Q4, a total of US$ 6,242,757,339 worth of contracts, were awarded. Out of this US$ 1bn was awarded to indigenous companies. As at Q3 2015, US$ 201,072,785 has already been awarded to indigenous companies.

The local fabrication industry has been able to supply Module Stools, Jumpers, Suction pipes, Sleepers, Riser Base, Manifolds, Mud mats.

Beneficial Ownership Information

Tullow Oil, KOSMOS Energy and Anadarko are publicly quoted and have details of company ownership publicly disclosed. GNPC is a SOE in Ghana and Sabre Oil is owned by the South African Government.

State Owned Enterprise (SOE) in the Oil and Gas Sector

Ghana National Petroleum Company is the National Oil Company. Its subsidiaries and joint ventures are: Explorco, Tradeco, GNPC Oil and Gas Learning Foundation.

Explorco

Explorco is a subsidiary, wholly owned by GNPC, and serving as its operating arm on selected projects. Explorco is a partner in five Petroleum Agreements.

Tradeco

Tradeco is GNPC's trading arm which has been set up to carry out the business of trading crude oil and gas. It will market and sell Ghana's crude oil and gas, as well as buy and sell crude oil on its own account.

GNPC Oil and Gas Learning Foundation

The GNPC Oil and Gas Learning Foundation is a company limited by guarantee, with GNPC initially as its sole subscriber. It is set up to ensure the training of citizens of Ghana and the development of national capabilities in all aspects of petroleum operations.

OTHER GNPC INVESTMENTS

Mole Motel

GNPC holds 60% equity in the motel located in the Mole National Park, the remaining 40% is held by the Wildlife Department of the Forestry Commission.

Prestea Sankofa Gold

GNPC holds 90% equity in the gold mine. The Government of Ghana holds the remaining 10%.

GNPC-Technip Engineering Services

This is a joint venture between GNPC and Technip to advance GNPC's goal of developing cutting edge expertise in upstream oil and gas engineering services, as well as project management. GNPC Technip Engineering Services designed, manufactured and installed the first subsea jumpers in Ghana industry. GNPC holds a 30% equity share with an option to increase its shareholding.

Saltpond Oil Field

GNPC owns 45% in this project, with the remainder held by Lushann Eternit Energy Limited. The Saltpond Field was discovered in 1970. Its current production is about 250 barrels of oil per day.

GNPC – AGM Operating Company (OPCO)

GNPC uses the Joint Operating Company concept in which GNPC-Explorco and AGM Ghana jointly operate selected blocks.

Airtel Ghana

GNPC holds a 25% equity stake in Airtel Ghana Limited after divestment of part of its stake in 2008. Airtel Ghana is currently the number 4 mobile operator by market share in Ghana.

CORPORATE SOCIAL RESPONSIBILITY (CSR) - 2014

Social Investment spending in 2014 was over US $ 2.2 million. KOSMOS contributed to the Jubilee Unit Social Investment Projects which focus largely on vocational training. These initiatives are overseen by a team of representatives from the Jubilee Partners.

RECONCILIATION, OBSERVATIONS AND RECOMMENDATIONS

Materiality

It was determined by the EITI steering Committee that all companies and joint venture partners engaged in the production of oil/gas and contributed up to 99% of oil/gas royalty, were expected to participate in the reconciliation exercise.

Crude Oil Lifting from Jubilee Field

There is no standard format for reporting on crude oil lifting by the three reporting agencies.

This has given rise to differences in the reported quantity of Ghana's crude oil lifting for the 2014 period. Both MOFEP and BOG reported total lifting of 6,690,798 BBLS linking lifting to periods in which the associated proceeds are received whilst PIAC reported it to be 7,681,120 BBLS based on the actual date of lifting.

It is recommended that all statutory crude oil and revenue reporting agencies prescribed in the Petroleum Revenue Management Act, should apply the same reporting standard consistent with section 4(1) of Act 815, PRMA 2011 which states that" where government elects for payment in petroleum instead of cash, the value of the petroleum in US dollars on the day the petroleum is received by or on behalf of the government shall be reported and recorded by the Ghana Revenue Authority as the payments for the Petroleum Holding Fund'.

Crude Oil Lifting from Saltpond Field

A total of 89,307 BBLS of crude oil was lifted from the Saltpond fields according to data provided by the Saltpond Offshore Producing Company.

Surface Rentals

A total of US$1,775,767 was received into the PHF as surface rentals in 2014. Of this amount US$802,251 was transferred from BoG account to the PHF in December 2014. Reporting companies Tullow (Gh) Ltd and Kosmos Energy HC paid US$ 70,356.

Companies outside the reconciliation scope paid US$903,190.14. Some exploration companies however, did not pay surface rentals in 2014.

The Petroleum Commission is encouraged to ensure that these outstanding surface rentals are collected.

Revenue Discrepancies

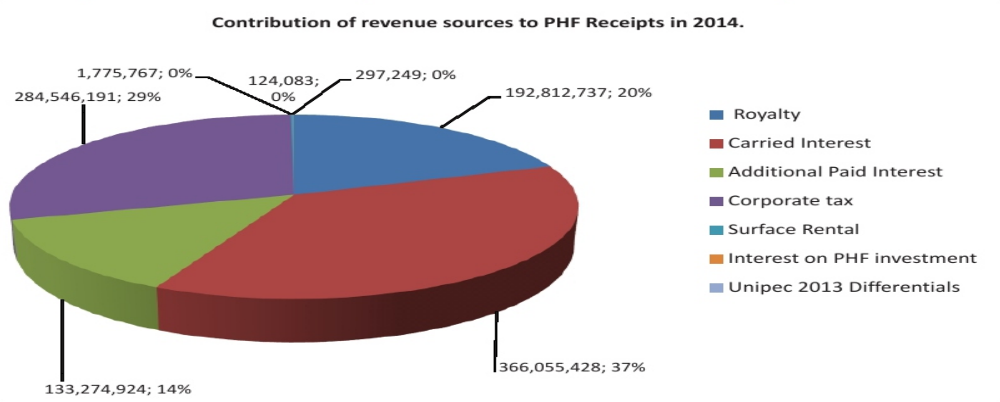
The final unresolved net discrepancy was US$84,382,088 from the initial figure of US$-126,765,356. The final unresolved discrepancy is 8% of the government receipts. The non-submission of template by Anadarko accounted for over 99% of the unresolved discrepancies.

REVENUE MANAGEMENT

Section 2(2) of the PRMA, Act 815, states that "Petroleum revenue shall be deposited in the Petroleum Holding Fund for subsequent transfers in accordance with the provisions of this Act'.

In 2014 the total amount paid into the Petroleum Holding Fund amounted to US$978,886,379.

Fig 5.1 Contribution by revenue source to PHF Receipts in 2014



PETROLEUM EXPENDITURE ACCOUNTING

Determination of Benchmark Revenue

The Benchmark Revenue is the estimated revenue from petroleum operations in a year.

It is computed by multiplying the benchmark crude oil price by the average crude oil share of the government of Ghana. Based on the average crude oil price projected for the 2014 revenue year, the Benchmark Revenue projected for the year was less than the actual benchmark by US$212.9 million.

Distribution of Petroleum Receipts

The higher actual benchmark revenue for the year was attributed to higher than projected oil production and the relative stability of crude oil prices. However, in spite of the higher than projected revenues for the year, transfers to GNPC were lower than projected. The total transfers to GNPC for the year stood at US$180,712,503.87 less than the projected amount of US$192,610,020. Thus, more revenue from petroleum was available for spending and savings in the year than projected.

Expenditure Pattern

Expenditure from petroleum revenues was categorized into two: Transfers to the NOC and the Annual Budget of the Government.

Transfer to the National Oil Company

The National Oil Company is entitled to a share of the total petroleum receipts to the Ghana Group according to Section 7(2) of the PRMA (now 16(2) of the PRMA (Amendment) Act 2015 (Act 893).

The analyses of GNPC capitalisation show that the equity financing cost in percentage of total GNPC receipts declined from 30% in 2013 to 24% in 2014. This was due to the significant retirement of GNPC's equity financing obligation in the Jubilee Fields. Also, the share of net CAPI in percentage of total GNPC receipts increased from 69% in 2013 to 76% in 2014. This was due to higher than projected carried and participating interest. Revenue from carried and participating interest in 2014 was US$88.6 million more than the projected amount.

GNPC spent US$7.9 million more on its Jubilee Equity financing cost than budgeted for in 2013 and US$3.3 million more than budgeted for in 2014. It is not clear whether the extra spending was due to arrears or unexpected increase in the equity-financing obligation of GNPC.

ANNUAL BUDGET FUNDING AMOUNT (ABFA)

The Annual Budget Funding Amount (ABFA) is a proportion of actual revenue from petroleum operations allocated to the Government's annual budget for use in executing government programmes.

Distribution of ABFA to Projects under Priority Areas

The distribution of ABFA to the priority areas shows the sectors government targeted for maximizing the use of petroleum revenues. Over the last four years (2011 – 2014), road and other infrastructure were disbursed the largest amount of ABFA with GHS1 billion, followed by the expenditure and amortization of loans for oil and gas infrastructure with GHS421 million, and then by agriculture modernisation with GHS269.8 million. The priority with least disbursement was capacity building with GHS132.8 million.

Section 48(2b) of the Act 815 (now Section 48(2bi) in the PRMA (Amendment) Act 893) requires the Minister of Finance to issue an annual report "describing the stage of implementation of the programmed activities funded by and the expenditure incurred on the activities covered by the Annual Budget Funding Amount in the financial year of the report".

The evidence is that the Minister has only reported on the programmed activities funded by the ABFA and the expenditure incurred on those activities; but failed to report on the stage of implementation of the activities.

The following are the list of programmed activities funded by ABFA

Table 6.5: Disbursement of ABFA to Priority Areas 2014

Priority Area	CDB-Funded Counterpart	Budget	Actual	Budget	Actual
		US$	US$	GHS	GHS
Expenditure Amortization of Oil and Gas Infrastructure Development	i. Western Corridor Gas Infrastructure Project	114,883,351.00	56,122,713.00	252,743,372.00	163,084,572.00
	ii. Development of ICT Enhancement Surveillance Platform for Western Corridor "Oil Enclave"	50,999,325.00	-	112,198,515.00	-
Road and Other Infrastructure	i. Western Corridor Infrastructure Renewal Project: Takoradi Port Retrofit Phase 1	13,677,031.00	-	30,089,468.00	-
	ii. Accra Metropolitan Area ICT-enhanced Traffic Management Project	36,397,748.00	-	80,075,046.00	-
Agriculture Modernization	Coastal Fishing Harbour & Landing Sites Redevelopment Project	36,018,258.00	-	79,240,168.00	-
Capacity Building	SME Projects Incubation Facility	27,079,282.00	-	59,574,431.00	-
Total		279,054,995.00	56,122,713.00	613,921,000.00	163,084,572.00

Source: Ministry of Finance

Amortization of Loans for Oil and Gas Infrastructure

Under this category the main areas of expenditure were the Western Corridor Gas Infrastructure Project. Even though a budget of US$51million (GHS112.2 million) had been drawn for the ICT Enhancement Surveillance Platform for Western Corridor 'Oil Enclave' project, no disbursement was made to the project.

Infrastructure

The projects financed under this category were mainly educational infrastructure, such as classroom blocks, Dormitories and Facilities in tertiary institutions.

There was also expenditure on energy-related projects. A total of 10 expenditure items were reported by the Government in 2014. These included counterpart payment for the Regional Electrification Project, Electrification of newly created District Capitals, the Coastal Protection Works and Consultancies among others.

Agriculture Modernisation

The expenditure under this category covered various projects including part payments for sea defence in fishing communities, rehabilitation of irrigation infrastructure, works at Fisheries College, among others.

The bulk of the expenditure (about 69%) was spent on part payments for sea defence projects. This raises a categorization question, as sea defence projects do not fall under agriculture modernisation.

Further, about 27% of the total expenditure from agriculture modernisation was spent on 2013 Fertilizer Subsidy Programme. This means that this expenditure item was not budgeted for in 2013 for the use of ABFA.

The practice of using petroleum revenues for unplanned and adhoc spending is not good practice and must be stopped.

PERFORMANCE OF THE GHANA PETROLEUM FUNDS

Measurement of Performance

The Ghana Petroleum Funds consist of the Ghana Stabilization Fund and the Ghana Heritage Fund. In terms of return performance, the GHF year to date (YTD) return rose from 5.37% in H1 to 7.73% in H2, while GSF YTD rose from 1.47% in H1 to 1.61% in H2. In monetary terms, net return on investment of the Ghana Petroleum Funds since inception was US$8.64 million at the end of H2, 2014, compared to US$4.61million by end H1, 2014.

The Ghana Stabilization Fund

The Ghana Stabilization Fund had an opening balance of US$319.03 million, carried forward from 2013 to 2014, a total of US$271.76 million was received during the year and investment income received during the year was US$1.5 million. These receipts result in a total amount of US$592.4 million. With bank charges put at US$17,556, the closing balance should have been US$592.3 million. However, the reported closing balance was put at US$286.6 million due to the statutory withdrawals sanctioned by law upon the determination of the maximum cap on the GSF approved by Parliament.

It is observed that, even though Section 30(1) c of Act 815 requires the Investment Advisory Committee to develop investment guidelines for the Minister, as well as benchmark portfolio, the desired returns from, and the associated risks of the Ghana Petroleum Funds, taking into consideration the investment guidelines used by the Bank of Ghana for investments of a similar nature,' No such benchmark returns have been developed by the Investment Advisory Committee. The measurement of the performance of the Ghana Petroleum Funds by the Bank of Ghana therefore does not conform to the provisions of Act 815.

It is recommended that the provisions of section 30(1) c, is adhered to, by developing an investment guide for the Minister.

The 2014 GHEITI report on Oil and Gas has been produced in line with the EITI Standard adopted in 2013, which expands the frontiers of extractive industry transparency to cover contracts, fiscal and budgetary issues. GHEITI is taking urgent steps to implement the recommendations of the report.

This summary version of the report is produced by GHEITI, with technical support from GIZ

The full report is available on www.gheiti.gov.gh

GHANA EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

german cooperation
DEUTSCHE ZUSAMMENARBEIT

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