ANALYSIS OF GNPC'S WORK PROGRAMME FOR 2019 FINANCIAL YEAR
19th February, 2019

Introduction

The Ghana National Petroleum Corporation (GNPC) has submitted its annual program of expenditures to the Parliament of Ghana for approval. This is a legal requirement of the state Corporation to receive expenditure clearance and account for public investment through its activities. This paper analyses the expenditure priorities of the Corporation in 2018, as well as proposed expenditure in 2019, through the lens of value for money and corporate accountability in accordance with the Petroleum Revenue Management Act (PRMA), 2011 (Act 815) as amended. The PRMA has restricted allocations to the Corporation from the proceeds of Carried and Participating Interest (CAPI) of producing fields to ensure that some revenue would still be available for supporting the national budget while the Corporation focuses on its core mandate to support the development of the oil industry. Between 2011 and September 2018, a total of $716.4 million has been given to the Corporation as its share of net CAPI to finance its core operations and development of its competence as a commercial player in the industry. This paper does not cover detailed analysis of the Corporation's expenditure over the period.[1]

This analysis is presented as a guide to Parliament for its scrutiny of GNPC's summary expenditures of 2018, and the work program for 2019 as presented by the Corporation. To that extent, the table below represents a comparison of the broad expenditure areas for both years.

[1] This will be released soon

Table 1: GNPC's 2019 projected expenditure and expenditures for up to September 2018

Broad Expenditure Areas	2019 estimates (US$ million)	2018 expenditures (US$ million)
Commitment to Producing fields	269.92	157.51
Commitment to Subsidiaries (Voltaian and Explorco)	20.30	22.31
Midstream projects	371.51	0[2]
Downstream Petroleum project	0[3]	2.95
Capital Projects (offices and fix assets)	76	18.95[4]
SOPCL[5]	29.47	1.24
General Operational Cost	17.49	29[6]
CSR commitments	43.05	N/A[7]
Staff emoluments	32.32[8]	17.66
Gas Expenditure	748.01	
TOTAL	**1357.30**	**249.62**

Source: GNPC's 2019 and 2018 work programme

We note that the 2018 expenditures are not for the entire fiscal year but for the first three quarters. Ideally, GNPC should have had a more definite sense of its expenditure for 2018 by this time; yet, it chose to provide expenditure for only three quarters of 2018. We will therefore project for the last quarter of 2018 where necessary.

Concerns on the 2018 expenditure

GNPC received $223.43 million at the end of the third quarter of 2018 as a share of CAPI. This increased the cash at the disposal of the Corporation to $302.46 million, accounting for $70.03 million cash brought forward. A total of $249.65 million was spent over the period on the Corporation's activities. The expenditure for 2018 will be analysed simultaneously with the projected expenditure for 2019. However, GNPC's specific expenditure of $2.95 million to West Coast Ghana Gas Limited requires separate treatment for parliamentary scrutiny.

The Corporation reports that the amount was spent on gas management service and capacity charges in 2018. The specific details of that expenditure are not stated in the document presented to Parliament. However, ACEP traces the background of GNPC's engagement with WCGGL and finds the payments intriguing. WCGGL is the local company in the consortium that started the Tema LNG project involving Gazprom and Blystad Energy Management (BEM) in early 2017. The same company is still involved in the new LNG project with Rosneft, following Gazprom's exit. It is surprising why GNPC has already started paying capacity charges and management fees to WCGGL ahead of the delivery of gas, and most importantly

[2] There were no projects for 2018

[3] 2019 estimate has no project in the downstream sector

[4] Includes administrative capital expenditure and the Western corridor road projects

[5] Saltpond Offshore Producing Company Limited

[6] CSR was quoted as part of the expenditure on capital projects in 2018. We can't determine how much exactly was spent on CSR from the report submitted to parliament.

[7] We are unable to determine how much was spent on CSR for 2018.

[8] Staff strength of 300 with average annual emolument of US$ 107,733.33 per staff

to a company that is party to an agreement which GNPC is the sole off-taker. Unpacking the full details of the relationship that exist between the WCGGL and GNPC is important to ensure that the former is not the advisor to GNPC on a project it is party to.

2019 Expenditure programme

The total projected revenue for the Corporation is estimated at $1,357.30 million. This includes allocation to GNPC from CAPI by the Finance Minister in accordance with the PRMA ($346.06 million), Royalties ($232.82 million) and gas revenue ($748.01 million). In addition, $28.25 million will accrue from technology fund contribution from the oil companies and miscellaneous income from other activities the Corporation is involved in. The period also projects expenditure of $1,608.06 million. This creates a deficit of $250.67 million which will be financed from debt.

Issues

1. **Royalty as part of the cash flows of GNPC**: For the first time, GNPC has included royalty from oil in its expected revenue. This is anomalous to the extent that GNPC is not entitled to receive royalty from Ghana's petroleum operations; it is payment to the state as owner of the resource. It is erroneous therefore for GNPC to account for petroleum royalty as revenue accruing it from "ordinary activities". This fact has been acknowledged since oil production begun. The new development presents two challenges;
    a. **It is illegal for the share of royalty due the Petroleum Holding Funds (PHF) to be given to GNPC**: GNPC is only entitled to two disbursements from the PHF as prescribed by Section16 (2) and (3) of the PRMA as amended. The Act provides that GNPC's share of the petroleum revenue should first be for its equity financing cost deductible from the CAPI. Next, up to 55% of the CAPI - less equity financing cost (net CAPI) - must be ceded to the Corporation either in cash or barrels of oil equivalent. Therefore, the basis for GNPC's revenue from oil does not accrue from royalty but from the CAPI which they have already budgeted to take from the three producing fields, amounting to $348.06 million. Budgeting to take additional $232.82 million from royalty is not only illegal but also unconscionable. This opens the government up for legal challenge in court for breaching the PRMA.

    b. **Significant reduction in revenue to Annual Budget Funding Amount (ABFA):** Royalty is a significant part of revenue allocation to the ABFA. Up to seventy percent of the royalty goes to support the budget. Therefore, assignment of royalty to GNPC substantially affects oil revenue contribution to the budget. ACEP estimates a total shortfall of $162.974 million to the budget.

    Parliament should disapprove GNPC's intention to take royalty for its 2019 operations. The implication is that, without the royalty, the deficit to GNPC's programmed expenditure will come up to $482 million.

2. **Inconsistencies in the revenue projections of GNPC and the national budgetary allocation to the Corporation**: The allocation of funds from the budget for Equity Financing Cost (EFC) and GNPC's share of Carried and Participation Interest (CAPI) is

not consistent with GNPC's expectation for the year 2019. While the 2019 Budget projects an expenditure of $320.1 million on EFC, GNPC projects $240.8 million. Again, while the budget proposes $84.8 million as GNPC's share of net CAPI, GNPC programmes to receive $105.26 million. This follows a recent trend of overestimating the EFC in the budget to create more cash at GNPC's disposal for subsequent diversion to other activities of the Corporation. The consistent disparity in the Budget and GNPC's programme is worrying to the extent that GNPC plays an important role in determining the thresholds in the National budget.

Table 2: Variations in 2019 National Budget and GNPC's Work Programme on EFC and Net CAPI

Item	Budget ($ million)	GNPC's Programme ($ million)	Variance ($ million)
EFC	320.1	240.8	79.3
Share of Net CAPI	84.8	105.26	20.46

Source: 2019 National Budget and 2019 GNPC work programme

3. **Corporate Social Responsibility (CSR) Spending** - The Corporation plans to spend US$ 43.05 million on corporate social responsibility for the 2019 operational year. Spending that much on corporate social responsibility gives a cause for concern particularly, when it is juxtaposed against its operations expenditure beyond the traditional cash call on the producing fields. In 2019, GNPC proposes to spend $20.3 million on its operations in the Voltaian Basin and its subsidiaries in the sector. This is less than 50% of what GNPC wants to spend on CSR. In recent times, the Corporation has become more popular in delivering development projects rather than its core mandate. While GNPC, like any corporate entity, has a responsibility towards society, it is unusual for sound corporate organisations to spend more than 10% of its cash flow (not profit) on corporate social responsibility.

   The Corporation's CSR expenditure becomes more profound when its CSR budget is compared with the budget of some critical ministries. For instance, the CSR budget of the Corporation represents 2819%, 270%, 240%, 629% of the capital budget of the Ministries of Justice and Attorney General, Energy, Agriculture and Finance respectively. In relation to the total budget of the mentioned ministries, GNPC's CSR budget represents 210%, 254%, 47%, and 65% respectively. Table 3 below provides more details on this comparison.

Table 3: Comparison between GNPC's CSR budget and GoG budgetary allocations to selected critical ministries

Item	Capital Budget	% of CSR to Capital Budgets	Total Budget	% of CSR to Total Budgets
GNPC CSR	219,555,000.00		219,555,000.00	
Ministry of Justice And AG	7,787,093	2819%	104,655,796	210%
Ministry of Energy	81,169,682	270%	86,416,134	254%
Ministry of Gender, Children and Social Protection	4,750,000	4622%	468,150,788	47%
Ministry of Roads and Highways	380,000,000	58%	426,565,371	51%
Works and Housing	171,177,451	128%	184,151,965	119%
Ministry of Agriculture	91,400,000	240%	468,581,710	47%
Ministry of Finance	34,917,459	629%	339,381,110	65%

Source: 2019 National Budget and GNPC's 2019 Work Programme

The government, in law, can withhold monies in excess of what the Corporation needs for its core activities and channel the monies to appropriate ministries to deliver the CSR projects. If government supports GNPC's CSR expenditure pattern, it then becomes a deliberate strategy to use the Corporation to deliver public services which is the responsibility of government.

4. **Takoradi LNG**: There is an allocation of $30 million to an LNG project in Takoradi by West Africa Gas Limited (WAGL). ACEP has followed the LNG conversations for some time now and understands the genesis of the Takoradi LNG project. This project was originally destined for Tema but later substituted with the "Tema LNG" project. ACEP is reliably informed that the $30 million is a settlement fee for GNPC's delay in fulfilling its contractual obligations. However, the details of this are missing in the programme sent to parliament.

   In 2017, the Ministry of Energy insisted that Ghana needed only one LNG project in light domestic gas supply commitments, for which GNPC is already paying about $32 million every month as the off-taker for the OCTP gas it is unable to effectively market. Yet the Corporation is pushing to source more gas through LNG projects like the Takoradi LNG project it seeks to fund in 2019. These are potential liabilities in waiting. Parliament must scrutinise these commitments carefully because, ultimately, the State will be called upon to pay if GNPC fails to settle its liabilities, just as is being done for gas sales from the OCTP project.

5. **One million dollars for ammonia fertilizer project**: The Corporation is committing **$1 million to desktop studies and engagement with relevant stakeholders.** This is extremely high for the stated activities. Inter-agency discussions on the feasibility of fertilizer production in Ghana is not new. Again, many private companies have explored the idea and engaged GNPC in the past on potential challenges to the

possibility of a fertilizer plant. These include the cost of gas in Ghana, regional dynamics such as excess supply of fertilizer from Nigeria in the medium term, and the effect of trade liberalisation on the fertiliser market in the sub-region.
Based on the fact that there is existing literature on the feasibility of such a project, ACEP believes that the cost is outrageous.

6. **Investment in Takoradi refinery**: GNPC is also committing $50 million to acquire 15% stake of a refinery project in Takoradi. However, the Corporation neither mentions the status of its partnership arrangement with the private sector on this project, nor the identity of the lead company in the programme presented to parliament. ACEP's investigations show that GNPC is advancing the $50 million for the private company to do feasibility studies in exchange for 15% stake in a business which might not happen. The fundamental questions arising from this arrangement are;

    a. Where are the guarantees from the private company that they will commit the needed 85% equity stake when GNPC is granted the $50 million by Parliament?
    b. In the midst of the challenging fiscal position of GNPC, is it necessary for the Corporation to take on all the big-ticket experiments in the oil and gas sector?
    c. Would it not be prudent for the country to find a solution to the sorry state of the Tema Oil Refinery before committing more public funds to another refinery?
7. **Reserve Escrow Account for OCTP gas sales**: GNPC has stated that it requires $65 million in 2019 to satisfy the escrow threshold of $157 million, having already deposited $100 million into the account. However, GNPC is aware that by the end of December 2018, all the $100 million had been drawn down by the OCTP partners for non-payment of the take or pay volumes of gas. The requirement for 2019, therefore, should be the full $157 million to meet the escrow amount. Beyond that, GNPC needs to figure out how it can pay $32million every month for the gas. This is the real threat that should dominate GNPC's programmed expenditure for 2019. Instead, it wants to spend on projects such as LNG, a refinery, and a fertilizer plant whose viability are in doubt.
8. **Borrowing $250 million at the request of the Ministry of Energy**: GNPC states it has to borrow $250 million for the Ministry of Energy to meet some financial challenges in the energy sector. Though inappropriate, the Ministry of Energy needs to provide details on the loan and what it will be used for in defence GNPC's statement. If GNPC is being asked to borrow for the energy sector, that raises questions about the sustainability of the sector in spite of the ESLA burden on citizens to repay the energy sector debt.
9. **Funding Road Projects**: Last year GNPC spent $3.37 million on road construction in the Gas Evacuations Enclave in the Western Region under a pre-financing arrangement with the Ministry of Finance. In 2019, the Corporation proposes to spend $25 million on the same project. Experience has shown that Government does not pay back loans from GNPC; this expenditure may be no exception. This reiterates the question of why government uses GNPC as a slush fund to deliver projects rather than retain the amount required for appropriate agencies to deliver those projects.
10. **Ballooning recurrent and non-core project expenditures:** In 2018, the Corporation spent $17 million on wages, salaries and other staff cost as at the end of September. ACEP projects the full year expenditure to be about $22 million. In 2019, the

Corporation projects to spend $32 million on staff costs translating to an average of $107 thousand per staff for a staff strength of 300. The requirement of additional $10 million in 2019 compared to the 2018 figures for staff cost is a significant shift that requires interrogation. At the same time, the non-core expenditures of the Corporation are also growing substantially; for example, in addition to CSR expenditure, GNPC proposes to spend $75 million on its headquarters in Accra and $10million on its Takoradi operational head office.

11. **Prestea Sankofa Gold Limited:** This company is one of the wasteful ventures that continues to suck money from GNPC without returns. In 2019, GNPC will invest $15.5 million into the operation of the company. Parliament must stop these kinds of investments. We propose that the concession of the company must be structured as a small-scale mining site to organise the "galamsey" miners into regulated mining operations.

Conclusion

National oil companies play important roles in many oil rich countries. However, the tendency for these companies to operate as miniature governments are popular across the world. The GNPC is gradually assuming these characteristics. Since 2011, the cumulative investment of $716 million in the Corporation was expected to provide consistent cash flow to prop its work into a commercial player to harness the interest of the State in the petroleum sector.

It must be observed that companies such as Kosmos and Tullow, who ushered Ghana into commercial oil production, did not show the consistency of cash flows as GNPC has had when they came to Ghana as small oil companies. The petroleum agreement signed with Kosmos for example, showed a minimum investment requirement of $8 million every two years whereas that of Tullow was $20 million which they used to raise funding. The defining difference is the show of focus and commitment to what they set out to do; their core business as explorers. The contrary can be said of GNPC who has similar ambitions, if not higher. The Corporation has focused a significant part of its revenue on acquiring assets unrelated to its core businesses, lending to government, bloated staff strength, annexing government's social commitments, and a show of poor understanding of the Ghanaian context in many of the projects it has committed to in recent past. On the basis of the foregoing, Parliament has a critical role in ensuring that the Corporation is refocused to specific deliverables that ensure sustained value creation in its expenditures.

Recommendations

ACEP, therefore, makes the following recommendations in respect of the programme of activities proposed by the corporation for 2019;

1. Parliament should not approve any CSR budget for the Corporation until the end of the fifteen-year financing window provided in the PRMA has elapsed. This should free up funds for the Corporation to deliver on its core mandate as an upstream oil player.
2. Parliament should not approve GNPC's advancement of $250 million to the Ministry of Energy to finance the Ministry's operations and the energy sector challenges. In addition, Parliament should reject GNPC's proposal to pre-finance the construction of the Gas Evacuation Enclave Roads for the Ministry of Finance. Instead, Government

should work on its credit worthiness and stop using GNPC as a slush fund to undertake its projects.

3. The proposed precedence of allowing GNPC to annex royalty belonging to the state is dangerous and can deepen inefficiency of the Corporation while denying the State required investment in public expenditure and savings for future generations. Parliament should reject this proposal.
4. Parliament should demand a robust plan and timelines for utilising the OCTP gas to ensure that the payment of $32 million monthly is optimised through full consumption of the contracted volumes from the OCTP fields.
5. Parliament should direct GNPC to focus on optimising local gas source to encourage investment in Ghana's basins. The basis for LNG investments requires strong justification and guarantees that insulate the country from potential debt resulting from importations of external gas when local gas is unutilised.
6. Parliament should demand that the GNPC provides details of each expenditure item, alongside justifications, to allow for careful and informed study ahead of the Mines and Energy Committee's sitting and subsequent approval of the Corporation's programme.