



PRESS RELEASE:

**MINISTRY OF FINANCE MUST HALT PLANS TO DRAW DOWN ON THE HERITAGE FUND
AND IMMEDIATELY SEEK ALTERNATIVE FISCAL MEASURES TO ADDRESS THE
IMPACT OF COVID-19**

2nd April 2020

Background

On 30th March 2020, the Minister for Finance, Hon. Ken Ofori-Atta, addressed Parliament on the economic and potential impact of Covid-19 on the economy of Ghana. This was pursuant to a directive given by the President of the Republic of Ghana in his 27th March 2020 televised address to the nation on the country's responses to the Covid-19 pandemic. In that address, the Minister underscored the disruption in economic activities and external shocks occasioned by the Covid-19 pandemic and outlined a variety of measures that the government intends to pursue to mitigate the impacts of the pandemic on the economy. For a country with a projected fiscal gap of GH¢11.4 billion (2.9% of revised GDP) relative to a recalibration of the 2020 Fiscal Framework underpinning the approved 2020 Budget, we find the Minister's statement not only responsible but timely and we commend government on the positive steps outlined in the statement. However, we are deeply worried about some radical proposals which, if carried through, would have serious implications on petroleum revenue management in particular and fiscal governance in general during and post the pandemic. These include:

- The proposal to invoke section 23 of the Petroleum Revenue Management Act, 2011 (Act 815 as amended) ("PRMA") to lower the cap on the Ghana Stabilisation Fund (GSF) from the current US\$300 million to US\$100 million ostensibly to allow for transfers of sufficient funds to the Contingency Fund to finance government's Coronavirus Alleviation Programme (CAP); and
- The proposal to amend the PRMA to allow for withdrawal from the estimated US\$591.1 million in Ghana Heritage Fund (GHF) to undertake urgent expenditures in relation to the Coronavirus pandemic.

Specific Concerns and Recommendations

In the case of the GSF, the proposal, though legal, is questionable. Like in many instances over the years, the proposed US100 million cap is very low and has the potential to trigger government's appetite for borrowing against the Sinking Fund to the disadvantage of the constitutionally mandated Contingency Fund established for purposes of helping government mitigate the impact of unanticipated fiscal imbalances. It is precisely because the Contingency Fund has consistently been starved of the needed earmarked funds that we are hard hit by this crisis in the first place. If successive governments had adhered religiously to the requirements of

law, we should not be having difficulty mitigating the economic impact of the present crisis (assuming the 30th March crude price of \$22.9 a barrel) without having to cap the GSF at US\$100 million below the current threshold of US\$300 million. In the absence of a clear plan to the people of Ghana on how this proposal would roll out and when the proposed cap would be restored to its original threshold, there is no guarantee that the excess amounts beyond the proposed lower capping threshold of US\$100 million would not be creamed off into the Sinking Fund for debt servicing purposes rather than into the Contingency Fund to finance government's proposed Coronavirus Alleviation Programme (CAP). This state of affairs results from the government's narrow understanding of savings in the GSF; while the spirit behind the Fund is to smoothen expenditure over the medium term and to cover major shortfalls such as occasioned by the Covid-19 pandemic, successive governments have subscribed to a construction that limits its role to smoothening expenditure only over a year's shortfall. In the circumstances, we must hasten cautiously in approving the Minister's plans to lower the current cap on the GSF.

We note a similar statement on 15th November 2018 on occasion of the Budget and economic policy for 2019 presented to Parliament by the Ministry of Finance. Here, the Minister stated: *"Mr. Speaker, the numbers on tax exemptions in Ghana's economy are disturbing. In the last eight (8) years, tax exemptions (import duty, import VAT, import NHIL and domestic VAT) in the economy have grown from GH¢391.90 million (0.9% of GDP) in 2010 to GH¢5,269.99 million (2.6% of GDP) in 2017."* At this scale and quantum of exemptions, a renegotiation and roll-back could have saved the economy funds more than the current estimated fiscal impact on the economy (2.5% of revised GDP) proposed by the Ministry. In the medium to long term, it is our call to government to take a serious and national look at our tax concessions starting with the exemptions bill to ensure that funds like these give us wider fiscal space to deal with unfortunate emergencies like Covid-19 and broadly, national development.

In the case of the GHF, we think the proposal should not be welcomed at all for the following reasons:

- The PRMA makes provision for excess resources to be deposited into the contingency fund. However, adherence to this requirement has often been problematic as observed by many CSOs. If this were adhered to, the proposal to use the Heritage Fund which is meant to be an intergenerational investment for when Ghana's oil resources are depleted to mitigate economic impact of COVID-19 would not be necessary. It is important going forward to streamline this and ensure that this is enforced in the long-term. In the short-term and within the remit of the exigency, we expect any crude price appreciation and subsequent revenues to be distributed in ways that would not constrain the contingency fund.
- The 5% threshold of fiscal deficit as a percentage of GDP as per the Fiscal Responsibility Act (Act 928) are also proposed to be amended. **However, the Minister in his statement does not indicate by what margin. This discretion is not anything welcoming and needs to be plugged. We recommend that there is specification, and we propose not more than 1% upward adjustment of the threshold, as basis for any approvals by Parliament.**

As the government seeks rapid financial facilities from the World Bank (GHS 1,716 million) and the IMF (GHS 3,145 million), we expect **that the processes for contracting and utilization of these funds be transparent and must prioritize the poor, vulnerable businesses in the informal sector, primary health care providers and especially target women and Persons**

with Disability. We further support expanding the LEAP programme to cushion the impact on extremely poor people.

We further call on Parliament to ensure that all legislative amendments requested by the Ministry have a transitional and temporal period and provision after which the original laws amended come back into force. We recognize that these amendments are sought to address extraordinary situations in such an extraordinary time **therefore, when all this stabilizes and when oil price appreciates by at least 100% further, the “normal” times should be governed by “normal” laws.**

Signed

**Friends of the Nation
Solomon Kusi Ampofo: 024-4055951**

**Center for Public Interest Law
Augustine Niber: 024-4613254**

**Natural Resource Governance Institute
Nasir Alfa Mohammed: 054-4924442**