Friends of the Nation

ANALYSIS OF THE PRO-POOR PROVISIONS AND INVESTMENTS OF THE ANNUAL BUDGET FUNDING AMOUNT IN GHANA

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OXFAM

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Abstract

This paper undertakes a legal review of the ABFA including expenditure analysis ABFA utilisation from 2011 to 2021, a review of the capital investment and which expenditure covers pro-poor investment, and a legal review to assess the compliance or otherwise of legal and regulatory framework guiding the ABFA expenditure. It finds among others that ABFA received the highest allocation of 40 percent among beneficiaries of petroleum revenues in line with the PRMA provision to allocate 70 percent of revenue net GNPC allocation to the ABFA. From a pro-poor analysis perspective, we find that largely, the selection of priority areas and investment in capital spending has the potential to propel pro-poor growth, but this has been limited by weak financial management regime, project management bottlenecks, large number of projects receiving meagre allocations, and weak monitoring and accountability systems. We identified some compliance issues with the use of the ABFA. It recommends the need for long term planning and coordination. We also propose measures to limit the number of projects in each priority area, improve monitoring and accountability systems to avoid delays, cost overruns and maximise the use of petroleum revenues in the budget.

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List of Acronyms and Abbreviations

ABFA	Annual Budget Funding Amount
AGPP	Atuabo Gas Processing Plant
BoG	Bank of Ghana
CAPI	Carried and Participating Interest
CIT	Corporate Income Tax
DACF	District Assemblies Common Fund
GHF	Ghana Heritage Fund
GIIF	Ghana Infrastructure Investment Fund
GNPC	Ghana National Petroleum Corporation
GPFs	Ghana Petroleum Funds
GSF	Ghana Stabilisation Fund
HR	Human Resource
LPG	Liquified Petroleum Gas
MDAs	Ministries, Departments and Agencies
MMDAs	Metropolitan, Municipal and District Assemblies
PFM	Public Financial Management
PHF	Petroleum Holding Fund
PIAC	Public Interest and Accountability Committee
PIE	Public Investment Expenditure
PIM	Public Investment Management
PIP	Public Investment Programme
PRMA	Petroleum Revenue Management Act
SHS	Senior High School

1.1 Introduction

Ghana joined the league of new oil producers when it discovered oil in commercial quantities in 2007. For such emerging producers, the opportunity to leverage the experiences and draw lessons from established producers was an asset in several respects. On the back of that learning, nationwide consultations were held to fashion an inclusive framework for managing the proceeds of the oil find even before the first barrel was filled. Lessons were also learned from the revenue management frameworks of other countries notably, Norway, Timor Leste and Trinidad and Tobago. A few months after first oil, the Petroleum Revenue Management Act (PRMA) (Act 815), 2011 was passed and assented to by the President to provide a framework for the collection, allocation, and management of petroleum revenue in a responsible, transparent, accountable, and sustainable manner for the benefit of the citizens of Ghana. To maximise the benefits of the petroleum resource to citizens and future generations, several unique provisions were included in the Act that makes the management of petroleum revenues distinct from other government revenues.

First, the Act established the Petroleum Holding Fund (PHF) into which petroleum revenue derived from various sources including royalties, government's participation in petroleum activity (carried and participating interest of the State), Corporate Income Taxes (CIT) by oil companies, surface rentals and capital gains tax among others would be paid.

Secondly, the Act provides a distribution formular that serves important purposes. It provides funding for the national oil company (the Ghana National Petroleum Corporation, GNPC or the Corporation) to pay for the State's equity share and for operational expenditures. It also for the first time in the history of resource management in Ghana, established a sovereign wealth fund, the Ghana Petroleum Funds (GPFs) to serve the dual purposes of ensuring intergenerational equity through the Ghana Heritage Fund (GHF) and expenditure smoothening via the Ghana Stabilisation Fund (GSF). To cater for the needs of the current generation, a chunk of the revenue is dedicated as transfers for budget spending through the Annual Budget Funding Amount (ABFA). Rules are provided to guide transfers for the purposes outlined. GNPC receives up to 55 percent of net carried and participating interest after deduction of equity cost. The remaining revenues are shared between the ABFA and the GPFs in the ration of 70-30 (i.e., 70 percent of revenues are transferred to the ABFA and 30 percent to the GPFs).

Thirdly, special provisions are made for transparency and disclosures by entities managing the revenues as well as accountability for the funds. The Minister of Finance is required to make quarterly publications of petroleum receipts (Section 8), submit revenue estimates to Parliament (Section 18), publish annual reports (Section 48) and reconciliation reports (Section 15) and submit same to Parliament. The Bank of Ghana is required to publish half year reports on the management of the GPFs and for the Auditor General to conduct audits of the Petroleum Funds and any special audits. Another novel transparency and accountability provision was the establishment of the Public Interest and Accountability Committee (PIAC), made up of representatives of citizen groups to among others monitor compliance with the Act and publish reports annually and a semi-annually.

2.1 Pro-poor provisions on the use of petroleum revenues

Poverty reduction is a key metric of development policy, and this was not left out in the formulation of the PRMA. Achieving the goals of poverty reduction has often resulted in what is termed pro-poor growth or policies. More recently, the term "inclusive growth" has emerged often in reference to growth that facilitates the participation of the less well-off in expanding market opportunities, and prioritizing improvements in basic services in health, education, and infrastructure.[1] The PRMA sought to balance several interests. While it was largely envisaged that the discovery of petroleum and the resulting revenues would propel growth, poverty bias of growth (potential to worsen inequalities) was also recognised. Several provisions were therefore included in the PRMA in recognition of the realities of the country:

a) Provision to Spend 70 percent of revenues on the Budget: This is arguably the most significant pro-poor provision in the PRMA. The decision to spend 70 percent of petroleum revenues net of GNPC allocation on the budget reflects the desire to address current development needs and better the lives of those worse off. Many have argued that meeting the needs of the current generation would in several respects benefit future generations especially when spending is targeted at long term capital projects. Some are even of the view that there is no need for a heritage fund as whatever is being built today is also for the future generations. Whatever the opinions, what is common ground is the understanding that a larger portion of the revenues be used to address issues confronting the citizens of today.

b) Principles on ABFA utilisation: To provide guidance and ensure that the use of the ABFA yields desired results including poverty reduction and balanced development, the PRMA provides four guiding principles for the use of the ABFA:
    i. to maximise the rate of economic development;
    ii. to promote equality of economic opportunity with a view to ensure the well-being of citizens;
    iii. to undertake even and balanced development of the regions; and
    iv. guided by a medium-term expenditure framework aligned with a long-term national development plan approved by Parliament.

    It is obvious from these provisions that the ABFA in principle is largely hinged on a pro-poor investment strategy. We will explore how these have been adhered to in practice.

c) Linking ABFA use to national development plan and priority areas: The PRMA recognizes the need for long term planning and severally refers to this. Long term planning helps to capture the current and future development priorities of the people and reduces the risks of short-term reactionary behaviours by the ruling authority. The PRMA therefore has as a primary requirement, that ABFA spending be aligned to a long-term development plan. It seeks to achieve sustainable development that responds to the needs of the people and benefits future generations. Despite efforts at developing a long-term plan, Ghana does not have a plan approved by Parliament. It has therefore resorted to the fallback position of selecting priority areas every three years for spending ABFA.

[1] Pro-Poor Growth: Concepts and Measures, Asian Development Bank

d) Provisions on Public Investment Spending: The ABFA provides that a **minimum** of 70 percent of ABFA be spent on public investment expenditures consistent with the long-term national development plan or with the selected priorities. While public investment is not defined in the PRMA, the term is generally understood to be conterminous with capital spending on assets or infrastructure with long lifespans.[2] The Ministry of Finance largely conformed to this interpretation except between 2017 and 2019 where spending on the Free Senior High School (Free SHS) programme (largely covering recurrent spending) was classified as public investment expenditures. The argument was that investment in education should be considered human capital investment. The government however made a turnaround in the 2021 Budget to comply with the 70-30 rule[3].

e) Transfers for exceptional purposes: The PRMA makes two provisions that can be considered pro-poor under allocations exceptional purposes:
    i. Payment of appropriate royalties where petroleum operations are carried out onshore
    ii. Payment of appropriate compensation for the benefit of the community where petroleum operations adversely affect a community

   These provisions recognise the unintended consequences of petroleum operations on host communities and their effects on lives and livelihoods. These provisions have not been triggered as petroleum operations are mainly offshore and the challenges with assessing adverse impact. GNPC has paid compensation in the Voltaian Basin following its onshore seismic activity in the area. It must be emphasized that this spending by GNPC was not covered under exceptional transfers as the payments did not represent a deduction from the PHF receipts.

f) Establishment of PIAC: the composition of PIAC was deliberate in ensuring that all segments of society are represented in decision making on how petroleum revenues should be managed and to provide a check on executive power as well as additional oversight to the work of Parliament. Among the functions of PIAC is to **consult widely** on the use of petroleum revenues. The committee also monitors compliance with provisions of this Act including those considered pro-poor, provides a platform for public debate, and conducts independent assessments on the use of revenues.

g) Sub-national Transfers: The Supreme Court of Ghana in 2019 in the case of Kpodo and Another versus Attorney-General upheld a declaration that the "exclusion of the District Assemblies Common Fund in the disbursement of benchmark revenue from oil operations as provided for under sections 3, 16 and 21 as well as the First Schedule of the Petroleum Revenue Management Act, 2011 (Act 815) as amended is unconstitutional and therefore null and void". This ruling allows for disbursements of five (5) percent of ABFA to the District Assemblies Common Fund (DACF) and provides a larger basket of funds for the DACF to draw on. It is considered a positive development for funding rural development. Funding for district assemblies has been a major challenge to local development

[2] Denis Gyeyir (2021): What Ghana's 2021 Budget Reveals About Its Oil Fund Management

[3] Provides that a **minimum** of 70 percent of ABFA be spent on public investment expenditures consistent with the long-term national development plan or with the selected priorities

particularly for districts in rural areas where opportunities for internally generated funds are limited.

2.2 Receipts and Distribution of Petroleum Revenues 2011 – 2021

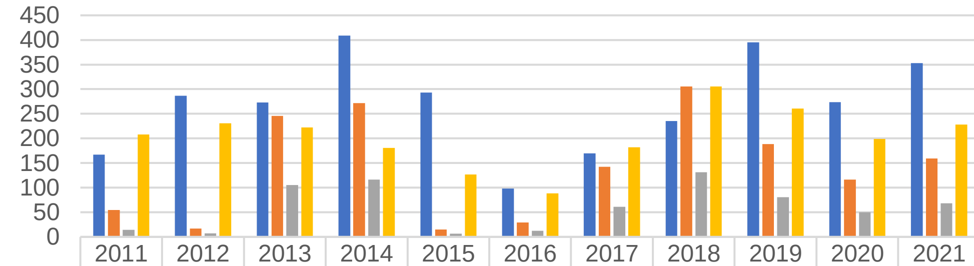
According to the PRMA, petroleum revenues assessed from whatever source shall be paid into and disbursed from the Petroleum Holding Fund (PHF). Between 2011 and 2021, a total of US$7.33 billion was received into the PHF as follows:

Table 1: Petroleum Receipts 2011-2021, US$M

Year	Petroleum Receipts
2011	444.12
2012	541.98
2013	846.53
2014	978.89
2015	396.17
2016	247.18
2017	540.41
2018	977.12
2019	937.58
2020	638.63
2021	783.38
Total	**7,331.99**

Data Sources: PIAC and Bank of Ghana (BoG)

The PRMA provides a distribution mechanism for the revenues received. GNPC receives up to 55 percent of net carried and participating interest after deduction of equity cost. In practice, it has received 30-40 percent of net Carried and Participating Interest (CAPI) in addition to receipts for its equity costs. The remaining revenues are shared between the ABFA and the GPFs in the ratio of 70-30 (i.e., 70 percent of revenues are transferred to the ABFA and 30 percent to the GPFs). Figure1. Illustrates the distribution of receipts between 2011 and 2021.



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
ABFA (Million US$)	166.96	286.55	273.2	409.07	292.98	98.38	169.46	235.1	395.47	273.38	352.79
GSF (Million US$)	54.81	16.88	245.73	271.76	15.17	29.51	142.68	305.72	188.3	116.63	159.24
GHF (Million US$)	14.4	7.24	105.31	116.47	6.5	12.65	61.15	131.02	80.7	49.98	68.25
GNPC (Million US$)	207.96	230.95	222.32	180.71	126.86	88.5	182.04	305.27	260.56	198.65	228.33

ABFA (Million US$) GSF (Million US$) GHF (Million US$) GNPC (Million US$)

Figure 1: Petroleum Revenue Distribution, PIAC and BoG
Data Sources: PIAC and BoG

2.3 Analysis of ABFA Utilization 2011 – 2021

The Annual Budget Funding Amount (ABFA) is the account through which petroleum revenues are allocated for current year spending through the budget. These transfers are made from the Petroleum Holding Fund at the Bank of Ghana into a Dollar Account of the ABFA from where it is subsequently transferred into a Ghana Cedi Account and into the Consolidated Fund for disbursement. The PRMA provides that the transfer of the ABFA from the Petroleum Holding Fund into the Consolidated Fund shall be in quarterly instalments of an amount not more than one-quarter of the ABFA amount approved by Parliament for the financial year. As noted earlier, not less than 70 percent of the ABFA is allocated for Public Investment Expenditure (PIE). Of the amount allocated for PIE, up to 25 percent may be transferred to the Ghana Infrastructure Investment Fund (GIIF).

Disbursement of ABFA to GIIF followed an amendment of Section 21 of the PRMA in 2015. Disbursements were made to GIIF from 2015 to 2017 (Act 947) but discontinued in 2018 following the enactment of the Earmarked Funds Capping and Realignment Act, 2017 which repealed sections of the GIIF Act. The GIIF Act was however amended in 2021 by the GIIF Amendment Act (Act 1063), 2021 which repealed applicable provisions in the Earmarked Funds Capping and Realignment Act and restored funding to GIIF from the ABFA.

The 2015 amendment of the PRMA also made provision for allocation of a portion of ABFA to fund activities of PIAC. The remaining balance of the ABFA after allocation to GIIF and PIAC is then shared among the priority areas.

To maximise the impact of the use of petroleum revenues, Section 21 of the PRMA stipulates the selection of up to four priority areas for spending ABFA in the absence of a long-term national development. Over the past 11 years, ABFA has been spent on seven priority areas including roads, rail and other critical infrastructure, agriculture, amortization of loans on oil and gas infrastructure, capacity building (including oil and gas), infrastructure and service delivery in education, infrastructure and service delivery in health, and industrialisation as shown in Table 2.

Table 2: Utilisation of ABFA, 2011 – 2021

Area	**Percentage (%)**	**Allocation (GHS million)**
Roads, Rail and Other Critical Infrastructure	54.13	5,613.84
Physical Infrastructure and Service Delivery in Education	21.97	2,278.23
Expenditure on Amortisation of Loans for Oil and Gas Infrastructure	8.29	860.24
Agriculture	6.67	692.26
Capacity Building (including Oil and Gas)	3.45	358.00
Physical Infrastructure and Service Delivery in Health	1.35	140.11
Ghana Infrastructure Investment Fund (GIIF)	3.22	334.37
Industrialisation	0.46	48.06
Public Interest and Accountability Committee (PIAC)	0.14	14.18
District Assemblies Common Fund	0.31	32.38
Total	100.00	10,371.67

Source: PIAC Reports

Of the seven priority areas that have benefited from ABFA funding, two (roads and other infrastructure, and agriculture) have constantly featured in the selection of priorities since 2011. According to the World Bank, agricultural sector employment as a share of total employment stood at over 30 percent as of 2019, a decline from 57 percent in 1991. Despite this decline, it remains a source of livelihood for most rural dwellers. The constant selection of these two priority areas therefore partly reflects the needs of a significant section of the population most of whom live in communities with deplorable roads and limited access to social services. Other areas such as health and education spending which is also largely pro-poor have also subtly featured in ABFA spending every year since 2011 as a result of (mis)classification of projects under the “roads and other infrastructure” priority area.

2.4 Pro-poor Analysis of ABFA Prioritisation and Spending

A thorough legal review of the PRMA and spending trajectory from a political economy worldview leads to the conclusion that there are enough provisions for propelling pro-poor growth if there is strict adherence to the PRMA guidelines on selection of priority areas and investment in capital spending. We identify factors that have diminished the maximisation of impact as weak financial management regime, project management bottlenecks, large number of projects receiving meagre allocations, and weak monitoring and accountability systems. This section provides a pro-poor analysis of ABFA prioritisation and spending under the priority areas.

2.4.1 Roads, railways, and other infrastructure:

For 11 years, roads and allied infrastructure has benefited from ABFA spending to the tune of GHC5.61 billion constituting 54.13% of total ABFA allocations since commencement of oil production in Ghana. This priority area has been the main sector for capital spending since 2011.

Roads provide a means for undertaking economic and social activities. In a developing country like Ghana, roads are the main means of transport for carting agriculture and industrial inputs and outputs, conveying goods and facilitating access to services including social services such as education, health, and government services. For rural folks whose livelihoods depend largely on agricultural output and who are mostly far off from social services, roads and transport infrastructure is even more important. For these reasons, this priority area has enormous potential to propel pro-poor growth. Within the period under consideration however, designation of this priority area i.e., “roads and other infrastructure” has provided cover for omnibus spending on almost every sector. Between 2011 and 2016, this priority area covered spending on the following:

- education - classroom buildings, dormitories, dining halls, teachers’ accommodation;
- energy - coastal protection for power plants, gas evacuation, hydro power production, rural electrification, street lightening, payments into escrow for Bui Dam construction.
- health – equipment, heath colleges infrastructure, hospital infrastructure, ambulance services,
- works and housing – markets, shops and washrooms, water supply, housing for security services, sea defense projects
- transport – water transport, road transport (bus branding), railways
- Others – environment and science, trade and industry

While almost all the projects under these areas went to addressing pressing needs and can be classified as pro-poor, their selection and attempt to address every need led to the disbursement of small amounts to many projects (thin spread), defeating the essence of prioritization and contributing to reducing the impact of ABFA spending contrary to the objective of maximising impact outlined in the PRMA. The following challenges have contributed to reducing the impact of road projects to beneficiaries:

- Delays in project execution: inspection of ABFA funded projects by PIAC and other civil society actors revealed widespread delays in execution of many road projects which has resulted in substantial cost variations running into millions of Ghana Cedis with associated effects on value for money. Roads are generally capital intensive and any delay in executive affects estimates and leads to substantially cost escalation.
- Variations and Cost Overruns: Packaging Road projects for award takes a long time, roughly about six months. To avoid the risks of losing out on funding for the financial year, influential persons and politicians working with supervisory authorities find it convenient to vary the scope of existing projects, sometimes across regions. It results in situations where projects are completed, yet disbursements continue to be made to fund variations to completed projects. Again, while this would often address the needs of people sometimes in deprived communities, it reduces the efficiency, cost effectives and accountability for funds as cost attribution becomes difficult.

2.4.2 Physical Infrastructure and Service Delivery in Education:

Since 2017, this priority area has benefited GHC2.28 billion from ABFA funding as a priority area constituting 21.97 percent of total ABFA allocations since 2011 and the second highest beneficiary of ABFA utilisation after road. Given that this priority area was selected only in 2017, it is very significant to note how much it has received so far. Prior to 2017, spending on Education was (mis)classified under “Roads and other infrastructure”. A key concern with the construction and rehabilitation of educational infrastructure at the time was the lack of provision for complementary equipment, resources, and facilities to maximise the impact of the projects.

Post-2017, the government’s flagship Senior High School (SHS) programme accounts for over 90 percent of the ABFA spending on Education. This is mainly applied in procuring food items, textbooks and other supplies generally classified as recurrent spending instead. While the programme has been reported to have increased access by absorbing the financial burden of low-income parents and caretakers, several challenges have been identified:

- Focus on supplies to the neglect of educational infrastructure: According to the PIAC 2017 Annual Report, Physical Infrastructure and Service Delivery in Education received GHC202.38 million, which was 60.9% of utilised ABFA. There was no capital expenditure for the education priority area in 2017. Between 2017 and 2019, recurrent expenditure on the Free Senior High School Program, which included the payment of fees and supplies, represented an average of 52 percent of ABFA. This led to what was described as a violation of the PRMA provision to spend at least 70 percent of ABFA on public investment expenditures. Government however argued that spending on Free SHS should be considered as public investment spending. The PIAC free SHS monitoring report identified infrastructure challenges were hampering the smooth implementation of the programme. Insufficient beds, classrooms, laboratories, equipment, school vehicles among others were rampant in 42 out of the 51 schools visited, particularly those in the rural areas. The report noted that infrastructural challenges needed to be addressed if the Free SHS programme is to make an impact.
- Sustainability of the Policy: Besides the issues of violation, questions have also been raised about the sustainability of such high recurrent spending particularly when the funding is sourced from volatile oil revenues. To make the policy sustainable, truly pro-poor, and reduce the fiscal burden on government, there is the need for
    - targeting those who cannot afford while excluding those who can;
    - diversifying the sources of funding to make it less reliant on volatile oil revenues;
    - funding some (not all) expenditure lines.
- Impact of Free SHS on Quality at the Basic and SHS Levels: Education sector watchers have bemoaned the risks of focusing on free SHS to the neglect of basic education. Africa Education Watch for instance has argued severally that it is crucial to build a stronger foundation at the basic level to supply the free SHS programme and the fact that pupils are enrolled en masse into the secondary level. Linked to this is the issue of quality at the SHS level due to the numbers of students enrolled which has compelled government to resort to a double-track system. Concerns have also been expressed about the abolishing of promotion exams and restrictions on sacking non-performing students which does not motivate students to pass examinations as previously was the case.

2.4.3 Expenditure on amortisation of loans for oil and gas infrastructure:

An amount of GHC860.24 million representing 8.29 percent of total ABFA allocations since 2011 has gone into this priority area. The priority area was selected to provide financial resources for payment of the China Development Bank facility that was contracted to build the Western Corridor

Gas Infrastructure which includes the Atuabo Gas Processing Plant (AGPP). An average of 30 percent of domestic LPG requirements have been met locally since the plant was completed in 2016.[4] However, there are limited benefits of this in terms of reduction in Liquified Petroleum Gas (LPG) prices for low-income consumers. Lean Gas from the plant has augmented gas supply and helped stabilise electricity prices, reducing gas import requirements from Nigeria which had been unreliable.

2.4.4 Agriculture modernization:
Agriculture has consistently been chosen as a priority area since 2011 and has received GHC685.84 million representing 6.67 percent of total ABFA allocations. Arguably, the sector hosts the most potential for poverty reduction, employment, and an important contributor to export earnings as well as a major source of inputs to the manufacturing sector. Despite its constant selection, it has not received as much as other priorities which were selected for limited periods. Expenditure on this priority area has been largely geared towards pro-poor interventions with significant capital spending components. Between 2011 and 2016, spending focused on fertilizer subsidies, construction/rehabilitation of irrigation infrastructure, agricultural education and research infrastructure (classrooms, dormitories, staff accommodation and laboratories), procurement of equipment and coastal protection facilities in fishing communities. From 2017, the focus has been on construction/rehabilitation of irrigation infrastructure under government's one-village one-dam policy, building and rehabilitation of warehouses and silos, the construction of a fisheries college, and counterpart funding for the agriculture sector investment programme. While these expenditure lines have pro-poor inclinations, several implementation bottlenecks have hindered the realisation of impact. Issues related to the quality of work done on some irrigation projects, delays in disbursement of funds and project completion, inadequate disbursements, lack of involvement of beneficiaries and local communities among others have limited benefits of these projects to local communities.

2.4.5 Capacity building (including oil and gas):
For the capacity building priority area, GHC358 million representing 3.45 percent of total ABFA has been allocated since 2011. Many expected this priority area to provide the resources needed to build the capacity of youth and equip them with the skills to participate in the nascent petroleum industry at the time. However, a significant portion of the allocation was applied to pay capitation grants, provide free uniforms, payment of Basic Education Certificate Examination (BECE) levy and cost of feeding, SHS subsidies, capacity improvements at primary and secondary schools and printing and transport of stationery to 7 regions. While most of this spending was pro-poor, they were considered misplaced, contributing to the thin spread of ABFA which limits the impact of its spending. Also curious was financial support provided under this priority area to Exim Guarantee Fund, Venture Capital Fund, HR audits and the creative industry.

2.4.6 Physical infrastructure and service delivery in health:
Health spending if properly targeted would have been one of the important pro-poor priorities. A total of GHC140.11million was spent on health between 2017 and 2020 when it was prioritised. This represents 1.35 percent of total ABFA allocations since 2011. In 2021, disbursement to health as part of the current priority area titled "physical infrastructure and service delivery in

[4] National Energy Statistics

education and health" was less that less than 5 percent. The allocations have been considered woefully inadequate given the importance of the sector to the very survival of the nation. These concerns have even been further justified with the COVID-19 outbreak and strain on health facilities, personnel, equipment, and supplies. At a public dialogue on ABFA spending on the health sector, stakeholders were of the view that, had substantial investment in made in the sector, some of the needless deaths and pressures witnessed at the peak of COVID would have been avoided.

2.4.7 Industrialisation:
This priority area was selected for spending between 2020 and 2022. Between 2020 and 2021, an amount of GHC48.06million representing 0.46 percent of total ABFA allocations was spent on governments one-district, one-factory programme. This has the potential to generate pro-poor benefits in terms of jobs creation and economic diversification. However, a review of expenditure for the two-year period shows expenditure lines such as funding the cost of setting up the Office of a Deputy Minister responsible for the implementation of the 1District, 1Factory programme, purchase of computers, IT equipment and a vehicle for the Ministry. In addition, disbursements are captured as transfers to different Banks instead of 1D1F projects which makes monitoring and assessment of impact difficult.

2.4.8 The District Assemblies Common Fund:
Following the ruling of the Supreme Court of Ghana in 2019 in the case of Kpodo and Another versus Attorney-General, the Ministry of Finance in 2021 disbursement an amount of GHC32 million to the District Assemblies Common Fund. Funding for district assemblies has the propensity to propel rural development. Unfortunately, initial evidence points to a replication of the low disbursements of the general government revenue in the petroleum sector. According to the PIAC 2021 report, the GHC32 million represents 1.74 percent, woefully falling short of the required 5 percent. If this trend continues, the potential impact of this ruling on funding for district assemblies and rural development would be a mirage.

2.5 Compliance assessment of ABFA Expenditure that Limit Pro-poor beneficiation
The ABFA has been the biggest beneficiary of petroleum revenues over the past 11 years, receiving 40 percent of revenues. This translates to about US$2.95 billion and has been spent on seven the priority areas discussed earlier. Apart from the issues identified under the priority areas including cross cutting issues of project selection, allocation, disbursement, project implementation, project quality, monitoring, value for money, community consultation, and impact valuation of ABFA projects, several compliance issues have been noted in more than a decade of implementation. These issues work together in most instances to hinder the realization of the objective of maximising the impact of spending petroleum revenues particularly for the populations least included.

The compliance issues include:

1. *Non-adherence to guidance on priority area selection*: Section 21(5) of the PRMA stipulate the selection of **not more than** four priority areas out of 12 areas for spending within the financial year. The 12 priority areas are:
    a) Agriculture and industry;

b) physical infrastructure and service delivery in education, science and technology;
c) potable water delivery and sanitation;
d) infrastructure development in telecommunication, road, rail and port;
e) physical infrastructure and service delivery in health;
f) housing delivery;
g) environmental protection, sustainable utilisation and protection of natural resources;
h) rural development;
i) developing alternative energy sources;
j) the strengthening of institutions of government concerned with governance and the maintenance of law and order;
k) public safety and security; and
l) provision of social welfare and the protection of the physically handicapped and disadvantaged citizens

The Act does not however limit the priorities to the 12 areas so the selection of areas such as “capacity building” and “amortization of loans on oil and gas infrastructure” even though not encouraged was within the law. The concern however has to do with the categorization of different priority areas into one area. For instance, between 2011 and 2016, “roads and other infrastructure” covered expenditure under at least six different priority areas listed above (education, health, energy, roads and transport, works and housing, environment, science and trade). Similarly, “capacity building” covered spending under education, training, providing capital for financial institutions, and the creative industry. The current priority area “Physical infrastructure and service delivery in education and health” is indeed two standalone priorities listed in the PRMA and which has now been categorized as one. What this mean is that in essence, about 10 priority areas were selected between 2011 and 2016 while about five priority areas have been selected between 2020 and 2022. The Table below shows annual ABFA, number of projects funded and average disbursement per project and GDP growth

Table 3: Annual ABFA, number of projects funded and average disbursement per project and GDP growth

Year	ABFA Disbursement	No of Projects	Av. Disbursement per Project	GDP Growth (%)
2011	261,539,420.00	62	4,218,377.74	14.05
2012	516,834,831	117	4,417,391.72	9.29
2013	543,782,682	148	3,674,207.31	7.31
2014	549,400,109	154	3,567,533.18	2.86
2015	1,124,200,214.14	113	9,948,674.46	2.12
2016	311,123,056.92	13	23,932,542.84	3.37
2017	332,293,648.05	64	5,192,088.25	8.13
2018	827,653,566.25	227	3,646,050.95	6.20
2019	1,270,944,339.86	312	4,073,539.55	6.51
2020	2,771,123,314.72	1577	1,757,211.99	0.41
2021	1,859,126,574.64	600	3,098,544.29	5.40

Source: PIAC Reports, World Bank national accounts data

We measure thin spreading as the number of projects executed relative to the total available ABFA i.e. the average disbursement per project. While the year 2020 has the highest amount of ABFA spend in the history of oil revenue utilization, that year also has the highest number of ABFA projects, the lowest disbursement per project as well as the lowest GDP growth rate. Of the available ABFA, about half (GHC1.4 billion) was arrears from 2017. GDP growth is largely attributed to the impact of COVID-19 on economic activity. It is generally observed that the number projects selected affects the amount that would be disbursed to a project which would most likely impact project completion and quality. For instance, in 2016, only 13 projects we selected to benefit from ABFA funding and therefore the highest average disbursement of GHC23.9 million per project. Limiting the number of projects can improve funding for projects, enhance monitoring, project completion rates, quality and reduce the waste associated with delayed completion of projects.

2. *Compliance/noncompliance with rules on public investment expenditure*: Section 21(4) of the PRMA provides that for any financial year, a minimum of seventy percent of the ABFA shall be used for public investment expenditures consistent with the long-term national development plan or with the selected priority areas.

This was complied with between 2011 and 2016. However, in 2017, the government prioritized spending of oil revenues on “physical infrastructure and service delivery in education,” in line with the PRMA. Much of this was on recurrent expenditure and on average, more than 50 percent of ABFA went into the Free SHS programme between 2017 and 2019. The Public Interest and Accountability Committee (PIAC) insistently called on government to adhere to the Ministry of Finance’s previous interpretation of Section 21(4) of the PRMA, but government argued that investment in education is human capital and qualified as public investment expenditure and that public investment spending is not entirely synonymous with capital expenditure. In the 2021 budget, however, government indirectly acknowledged in paragraph 144 that “2020 ABFA allocations were made in line with Section 21(4) of the PRMA, which requires the allocation of not more than 30 percent of ABFA receipts for Goods and Services Expenditure, and at least 70.0 percent of ABFA receipts to fund public investment expenditure”. This has therefore settled the debate on the interpretation, but it would be important to clarify this in the PRMA to avoid confusion in the future.

3. *Repeated phenomena of unspent ABFA:* Section 18(2) of the PRMA requires that the amount allocated for annual spending should be guided by the medium-term development strategy, absorptive capacity of the economy and the need for prudent macroeconomic management.

The issue of unspent revenues has been persistent since 2014 and has since been recorded every year. Between 2017-2019 alone, unspent revenues amounted to GH₵1.48 billion. In 2020, the Ministry of Finance brought forward and spent the unused ABFA alongside allocations for 2020. The recurrence of ABFA remaining unspent at the end of the financial year reflects poor planning of projects and programmes.

4. *Publication of the stage of implementation of ABFA projects*: Section 48(2)(b) of the PRMA requires the Minister of Finance to publish the stage of implementation of projects and programmes funded with petroleum revenues.

While the Minister has often complied by publishing the list of projects, it does not usually include the stage of implementation. This can be partly attributed to the tall list of projects that benefit from ABFA funding.

5. *Maximising impact from the use of petroleum revenues:* Section 21(5) of the PRMA states the objectives of prioritising ABFA spending as intended to maximise the impact of the use of petroleum revenues.

The spread of ABFA in small amounts (some as low as GHC10,000 and lower) does not maximise impact. It rather leads to many uncompleted projects which cannot be used. It also results in delays in completion and small projects that cannot benefit majority of citizens.

2.6 Proposed PRMA Amendments to Enhance Pro-poor beneficiation of ABFA Investment

From the analysis, we identify a number of amendments to the PRMA which can plug the loopholes in ABFA utilization and enhance the effectiveness and outcome of ABFA investment. These include:

i. Definition and application regarding Public Investment Expenditure (PIE): Given that a chunk of ABFA spending is mandated to go into PIE, it is necessary to define exactly what it is to avoid different interpretation by different Ministers of Finance.

ii. Basis for selection or re-selection of priority areas: It is necessary for ABFA prioritization to be based on some development outcomes. A review of the PRMA should require the Minister to identify spending objectives as basis for the selection and which would be measured at the end of the spending period. This will ensure that spending is targeted and measurable.

iii. Guaranteeing project completion: It is important to ensure that projects that benefit from ABFA spending are completed timeously and at no extra cost. To do this, a requirement should be introduced that prioritizes ongoing ABFA projects and fund these to completion before new projects are selected. This will also contribute to addressing the issue of thin spread of ABFA.

iv. Enhancing project visibility and monitoring by stakeholders: There have been calls by the public for projects to be easily identified and monitored by beneficiaries. To do this, project signage should include ABFA and marked similar to what was done with HIPC projects. Local assemblies should be informed and involved in project selection and monitoring processes.

v. Treatment of unspent ABFA: the phenomenon of unspent ABFA has been recurring since 2014. It is therefore necessary in any amendment to consider providing for where unspent ABFA would be lodged, allocated, disbursed, and accounted for.

vi. Inclusion of gender provisions on the use of ABFA: A provision should be included in the PRMA on the selection of projects and programs particularly in the agriculture sector to be cognisant of the gender imbalances in access to land, inputs and markets as women play a key role in this sector.

vii. Addressing adverse impacts of petroleum production on host communities: Although the PRMA provides for exceptional transfers to communities adversely impacted by petroleum activity, there is little clarity on how this should be administered. There is the need for guidelines in determining adverse impact and for the Minister of Finance to take proactive steps to determine impact and pay appropriate compensation.

3.1 Conclusion and Recommendations

It is clear from the pro-poor analysis that ABFA prioritization and spending over the nearly 11 years has been largely aligned with sectors identified in development literature globally as pro-poor growth enhancing sectors. The gaps that require attention has to do with streamlining pre-investment analysis and guidelines for Ministries, Departments, and Agencies (MDAs) receiving ABFA to ensure proper prioritisation, improve implementation and monitoring, ensure cross-sectoral linkages in projects, programmes and funding and conducting periodic impact assessments of projects and programmes to ensure objectives are met. The broader issues of public financial management including a strict adherence to the PFM Act must be a priority.

In addition to these, the following are recommended as a means of enhancing the pro-poor benefits of ABFA utilisation to achieve inclusive growth:

1. *The need for long term planning and coordination*: The 40-year development plan ought to be presented to Parliament for consideration and passage to guide ABFA spending as the default option in the PRMA. While this may not address the wanton disbursements, it may improve coordination among sectors towards a common vision if monitoring is improved. In the meantime, selection of projects under various priority areas should be aligned with the medium-term development plans of the relevant Assemblies to ensure 'shared prioritisation'. Authorities at the District/Municipal Assemblies should be informed and empowered to monitor progress of work and advise the implementing agencies accordingly;
2. *Support for the Public Investment Programme (PIP) Unit to improve its effectiveness and coordination*: The PIP unit of the Ministry of Finance has a mandate among others to provide guidelines, templates, and manual on Public Investment Management (PIM) and work with Ministries, Departments and Agencies (MDAs) to provide review, analyses and reporting on project documentation including pre-feasibility and feasibility studies for the grant of the seal of Quality by the Minister. If the unit is supported and allowed to function, it can help improve impact of ABFA spending for communities;
3. *Limiting the number of projects under each priority area and improving disbursements*: To improve the completion time of projects and its associated costs, there is the need to place limits to the number of projects that can be undertaken in each priority area based on the

amount of funds available. It has been established over the 11 years of implementation that political pressures lead to the selection of too many projects, defeating the essence of prioritisation. The use of petroleum revenue as counterpart funding for numerous projects should see a reduction if the number of projects is limited. Funds should be disbursed timeously with limited projects and fully funded to completion to yield the needed impact;

4. *Improving accountability, monitoring, and visibility of ABFA projects*: To improve monitoring and accountability, project signages should have or include ABFA for better tracking by communities, Metropolitan, Municipal and District Assemblies (MMDAs), PIAC and civil society. This, together with a reduction in the number of projects should improve accountability and impact assessment.
5. *Addressing the issues of unspent ABFA, delayed payments and cost overruns*: The issues of unspent ABFA arise due to the limitless number of projects and the time it takes to package and award projects. To address these, ABFA disbursements should **only** be made to projects that have been awarded, with **ongoing ABFA projects** as topmost priorities. This should bring an end to the issues of delayed payment to contractors and associated cost overruns. The Public Financial Management (PFM) Act requirement to spend by end of January should be adhered to with improvements in timing of project delivery; and,
6. *Conducting periodic impact assessments*: The Public Investment Programme (PIP) Working Committee working with the projects, planning, monitoring, and evaluation units of the various implementing MDAs of ABFA projects, and the host Assemblies should conduct periodic assessments of projects to inform planning and reforms. This will also ensure maximization of impact of petroleum revenue use as provided for under Section 21(5) of the PRMA.

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