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The Petroleum Revenue Management Act

PIAC (2017) *Simplified Guide to Petroleum Revenue Management in Ghana* [online]. Available at http://www.piacghana.org/portal/files/downloads/simplified_guide_to_ghana%27s_petroleum.pdf

The Petroleum Revenue Management Act – PRMA- was enacted to govern the management of petroleum revenues. The PRMA is guided by one major principle: petroleum resources as stipulated in the Constitution belong to the people and are vested in the President in trust for and on behalf of the people of Ghana. As such, all activities related to such resources must benefit the citizens of Ghana which is why the law is potentially so important for national development.

At its core the PRMA defines the framework for accounting for receipts and expenditure from petroleum revenues. It also provides rules on investment and savings in line with industry practice. Revenues accrue to the Ghanaian state as follows:

1. A royalty of 5% is imposed on gross oil production.
2. GNPC is entitled to 10% carried interest.
3. GNPC has acquired an additional interest of 3.64%.
4. A 35% income tax on profits is levied.
5. An additional oil entitlement of between 10-25% of petroleum revenue (minus royalties and the GNPC interest) can accrue depending on the rate of return of the project
6. Surface rentals are paid per square kilometre of field acreage.
7. Any interest or dividend payments made would be subject to 8% withholding tax.

These revenues are then spent through various funds as shown in the diagram below.

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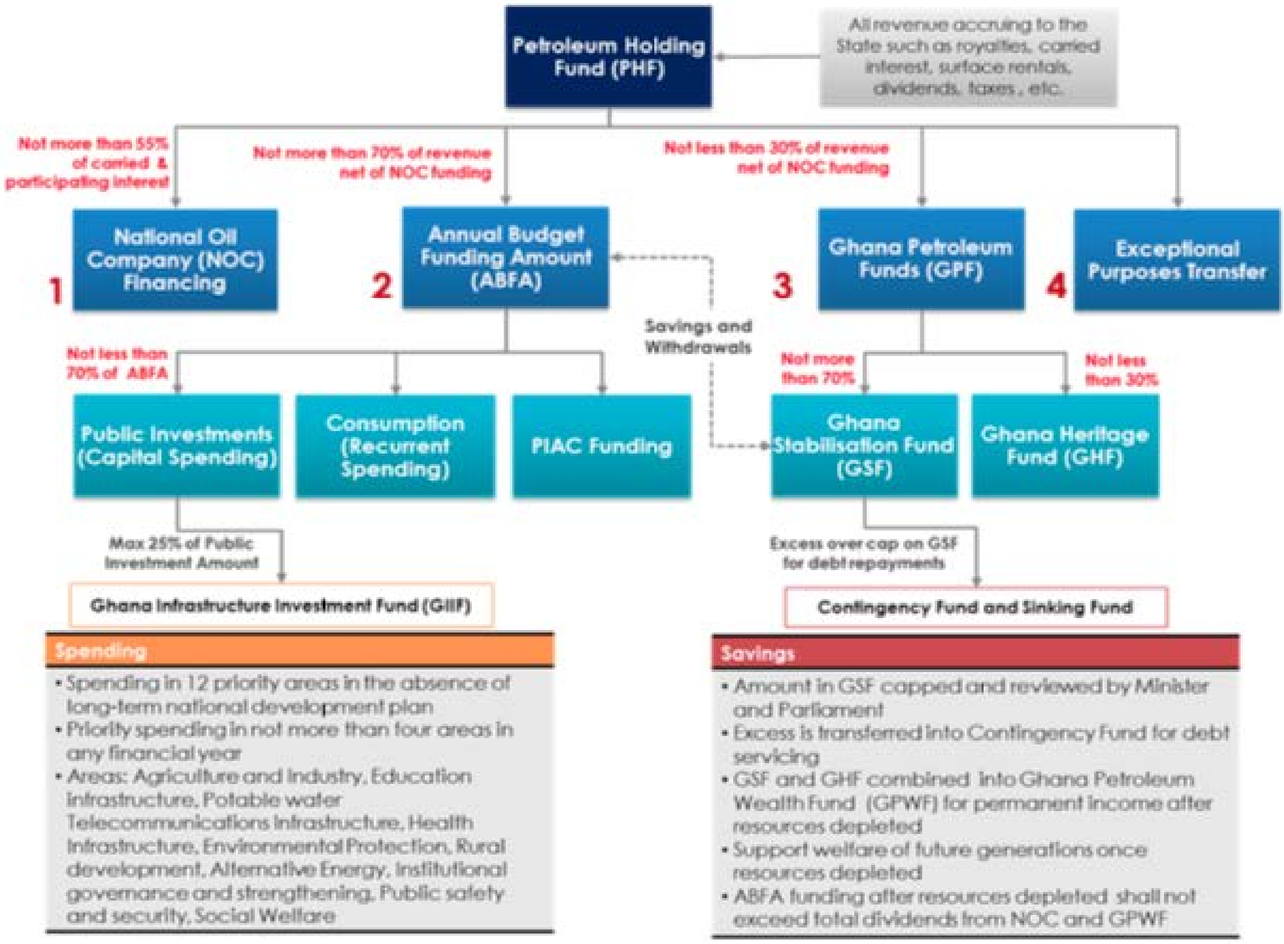

Figure 9: **Spending Allocation of Oil Revenues under the PRMA**

Of most importance to our discussion is the Annual Budget Funding Amount (ABFA) which is the main channel through which petroleum revenues are used to support the budget. The PRMA calls for allocations to the ABFA to be guided by a medium-term development strategy aligned with a long-term national development plan. Because Ghana lacks a long-term national development plan, the PRMA mandates that the ABFA should give priority to programmes or activities relating to twelve areas. The government can prioritise up to four areas when submitting a programme of activities for the use of the petroleum revenue. This is to avoid a situation where a government attempts to tackle too many of these areas at the same time thus spreading revenues too thinly. The 12 priority areas for selection are shown in Figure 10 below.

Figure 10: ABFA Priority Areas

Amounts allocated to the ABFA have to be approved by Parliament as part of the national budget and are reviewed every three years. Thus, from 2011 to 2013 and from 2014 to 2016, the government prioritised expenditure and amortisation of loans for oil and gas infrastructure, road infrastructure, agriculture modernisation, and capacity building (including oil and gas). The new areas selected for the 2017 to 2019 period are agriculture, physical infrastructure and service delivery in education, physical infrastructure and service delivery in health, road, rail and other critical infrastructure development. In addition, the law allows the ABFA to be used as collateral for debt servicing and settling other government liabilities but only for a period of not more than ten years after the commencement of the PRMA, that is, no longer than 2021.

While the ABFA is for medium-term programmes, albeit tied to a longer-term vision, the Ghana Petroleum Funds are about the long term. The Ghana Petroleum Funds comprise the Ghana Stabilisation Fund (GSF) and Ghana Heritage Fund (GHF), which are the channels through which excess petroleum revenues are deposited for savings and investments.

- **Ghana Heritage Fund:** provides for an inheritance to support development for unborn generations when Ghana's petroleum reserves have been depleted. The funds are invested outside Ghana in safe investments and the yields are generally low because they are low-risk investments.

- **Ghana Stabilisation Fund:** government can draw from the stabilisation fund in times of shocks to the economy, or unanticipated shortfalls in oil revenue which necessitates that money be sourced to balance the budget. Hence, the Fund cushions the impact on public expenditure capacity

A minimum of 30% of the revenue accrued to the Ghana Petroleum Funds is transferred into the GHF Fund and the balance transferred into the GSF.