SUMMARY OF ACEP'S ANALYSIS OF THE 2020 BUDGET STATEMENT

2019 TOTAL OIL PRODUCTION

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SANKOFA GYE NYAME FIELD

12.13 million barrels

TEN FIELD

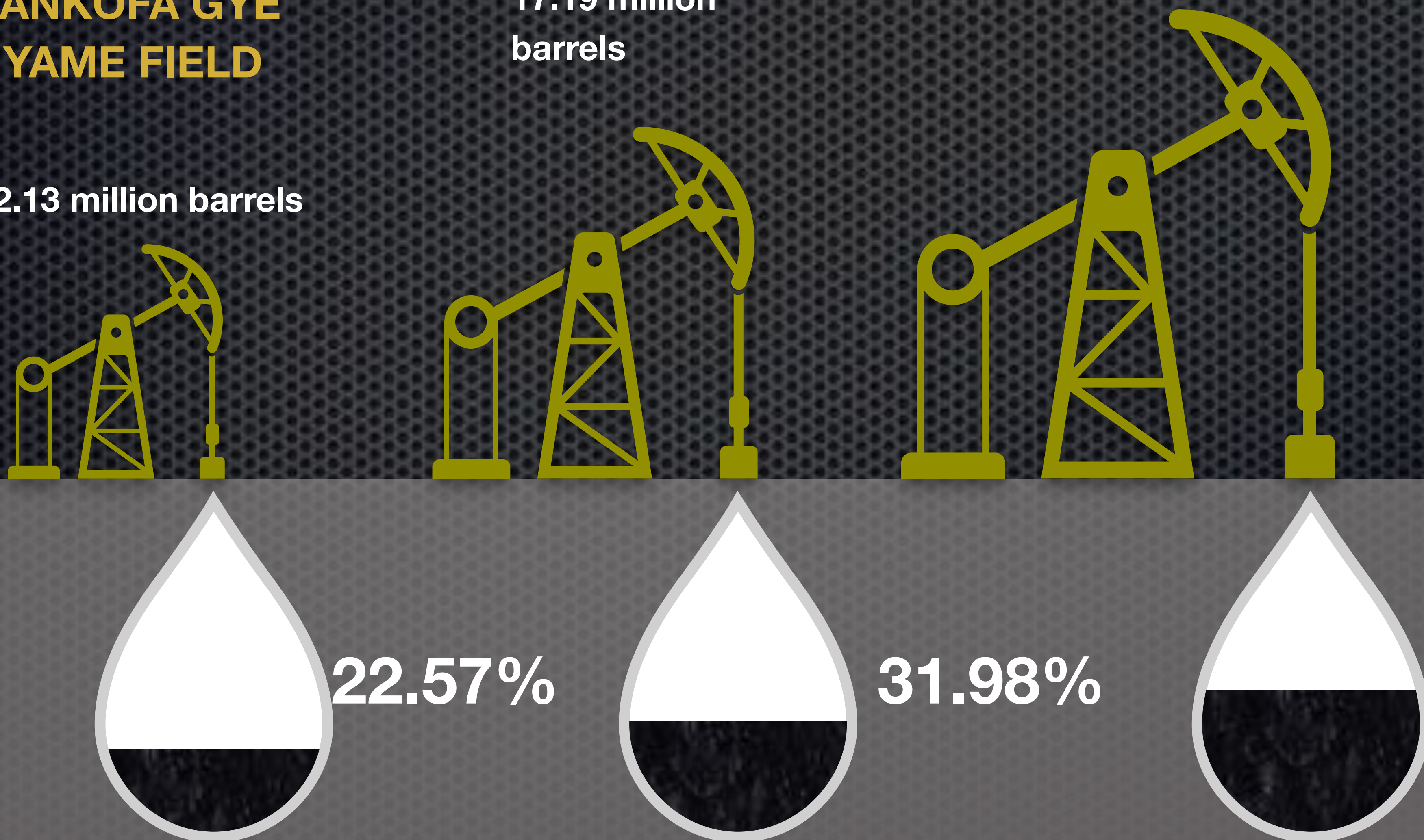
17.19 million barrels

JUBILEE FIELD

24.43 million barrels

TOTAL PRODUCTION

53.75 million barrels



22.57%

31.98%

45.45%

2019 TOTAL GAS PRODUCTION AND UTILISATION

TOTAL PRODUCTION

118,891.4 mmscf

TEN FIELD

35,148.54 mmscf

29.56%

JUBILEE FIELD

37,939.32 mmscf

31.91%

SANKOFA GYE NYAME FIELD

45,803.54 mmscf

38.53%

PERCENTAGE OF GAS PRODUCED BUT NOT UTILISED

JUBILEE

63%

TEN

98%

SANKOFA

55%

DEFINITION OF TERMS

Petroleum Revenue Management Act (PRMA): The legal document that governs the collection and utilisation of oil revenue.

Petroleum Holding Fund (PHF): This is a transit account for disbursement to GNPC and the Benchmark revenue- GHF,GSF and ABFA

Benchmark revenue: The total projected revenue minus the allocations to GNPC

Equity financing cost: This is GNPC's contribution to the cost of development and production (Cash calls on producing fields)

Share of Net CAPI: This is the share of carried and participating interest allocation for GNPC's own operations and programs aside equity financing cost.

Annual Budget Funding Amount (ABFA): Portion of oil revenue allocated to the budget in line with the PRMA

Ghana Heritage Fund: Portion of benchmark revenue that is saved for future generations every year.

Ghana Stabilisation fund: Portion of the benchmark revenue set aside to support the budget when oil revenues drop below expectation in a particular year

Petroleum Revenue Receipt and disbursements as at Q3, 2019

REVENUE SOURCES TO THE PETROLEUM HOLDING FUND

24.1%

CORPORATE INCOME TAX

$161,254,385.05

28.1%

ROYALTIES

$187,654,914.70

47.4%

CARRIED AND PARTICIPATING INTEREST

$317,149,155.90

0.4%

OTHERS (PHF INCOME AND SURFACE RENTALS)

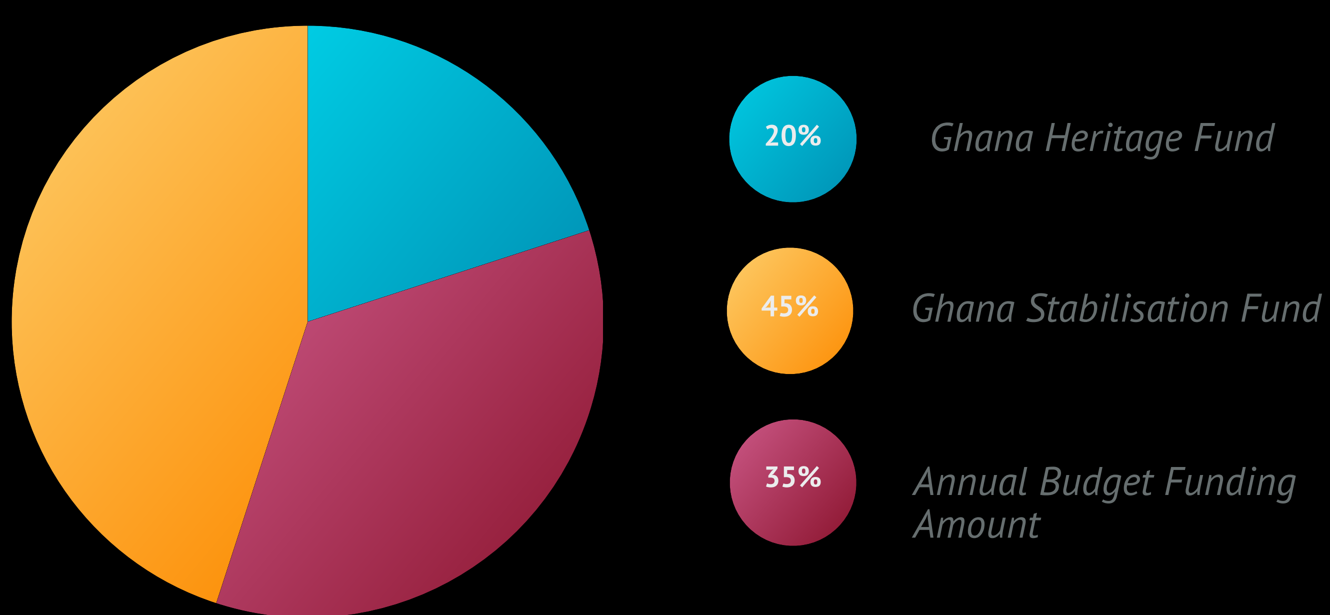
$2,354,205.87

$668.4M

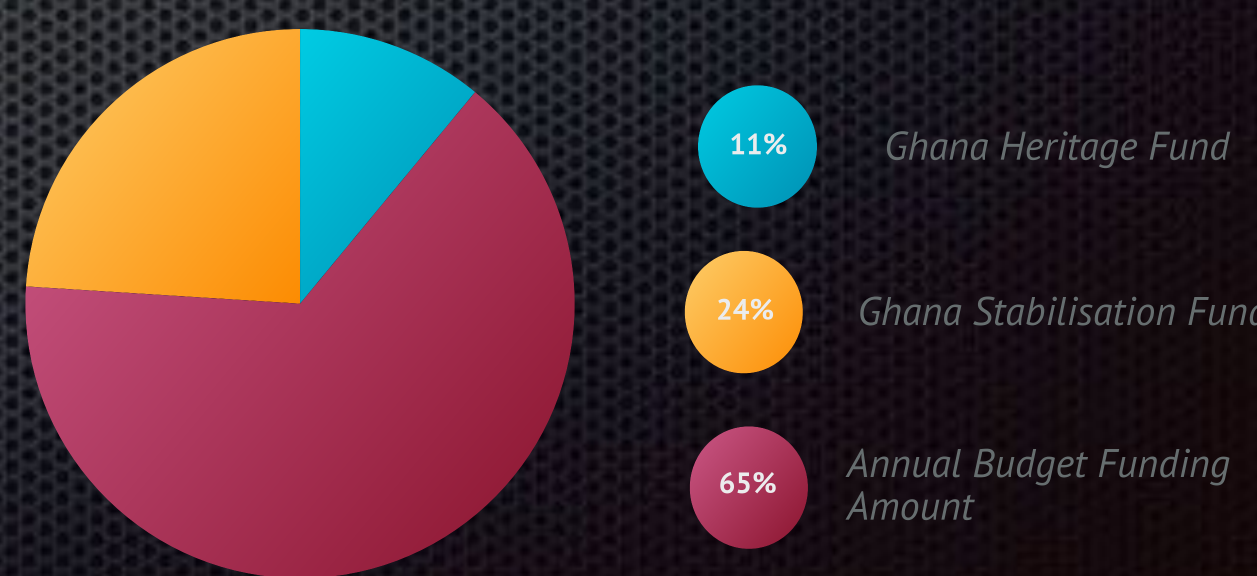
DISBURSEMENT OF PETROLEUM RECEIPTS AS AT 2019

Disbursements	Amount	Percentage
Transfer to GNPC	148,199,311.32	22.20%
Benchmark Revenue	415,698,370.51	62.20%
Balance of the PHF	104,514,977.68	15.60%
Total Receipts	**668,412,659.51**	**100%**

Distribution of Benchmark revenue 2018



Distribution of Benchmark revenue 2019



Disbursement to ABFA improved in 2019 compared to 2018 when debt service through the GSF was prioritised

OBSERVATIONS

THE PHF BALANCE 15.6%

PHF is only a transit

The PHF should not keep significant balances. This indicates late disbursements of petroleum revenues to GNPC, ABFA and the GPF

IMPLICATION ON GNPC

Cash call constraints

When GNPC delays in paying its share of cost, the corporation pays interest for defaults

ABFA DISBURSEMENT DELAYS

ABFA is not funded on time

Funds sit in the PHF while the target for budgetary expenditures are not met

PHF YIELDS INTEREST

Marginal interest on PHF, high cost on projects

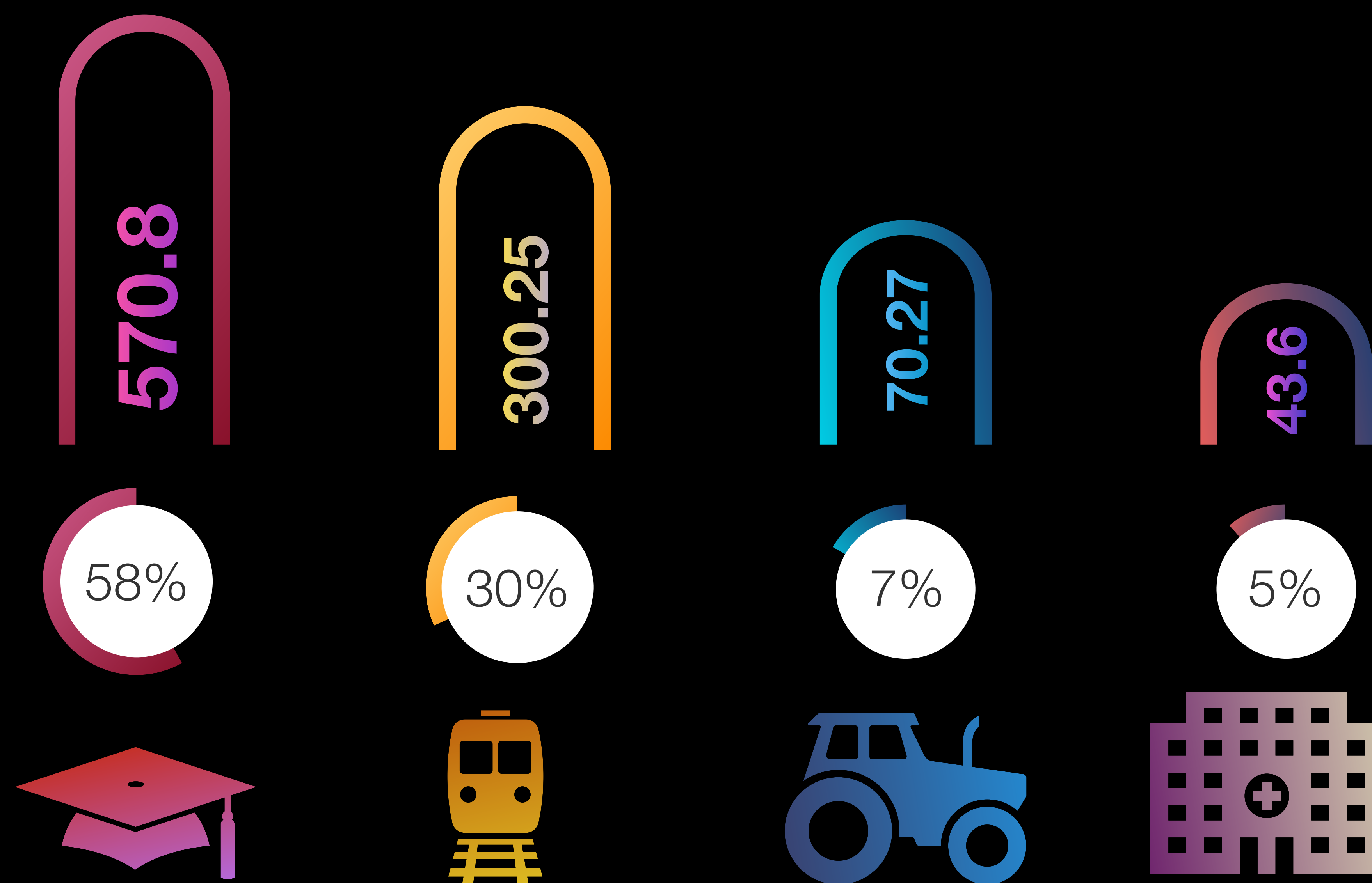
while the PHF balance yields marginal interest, time and cost overruns on projects are higher

Section 16 (4) of the PRMA as amended requires that disbursements be made to the national oil company not later than three working days after receipt of petroleum revenue into the Petroleum Holding Fund. However, this is not complied with because of internal bureaucracies at the Ministry of Finance which delay the release of funds. Ministry of Finance needs to remedy the situation to comply with the Act.

2019 ABFA ALLOCATION AND UTILISATION BY PRIORITY AREA

PRIORITY AREA	BUDGETED AMOUNT (GHS MILLION)
EDUCATION	679.6
ROADS AND RAIL	1069.02
AGRICULTURE	388.04
HEALTH	47.5

DISBURSEMENT OF ACTUAL ABFA TO PRIORITY AREAS (GHS MILLION)



THE ABFA CONTINUES TO PILE UNSPENT

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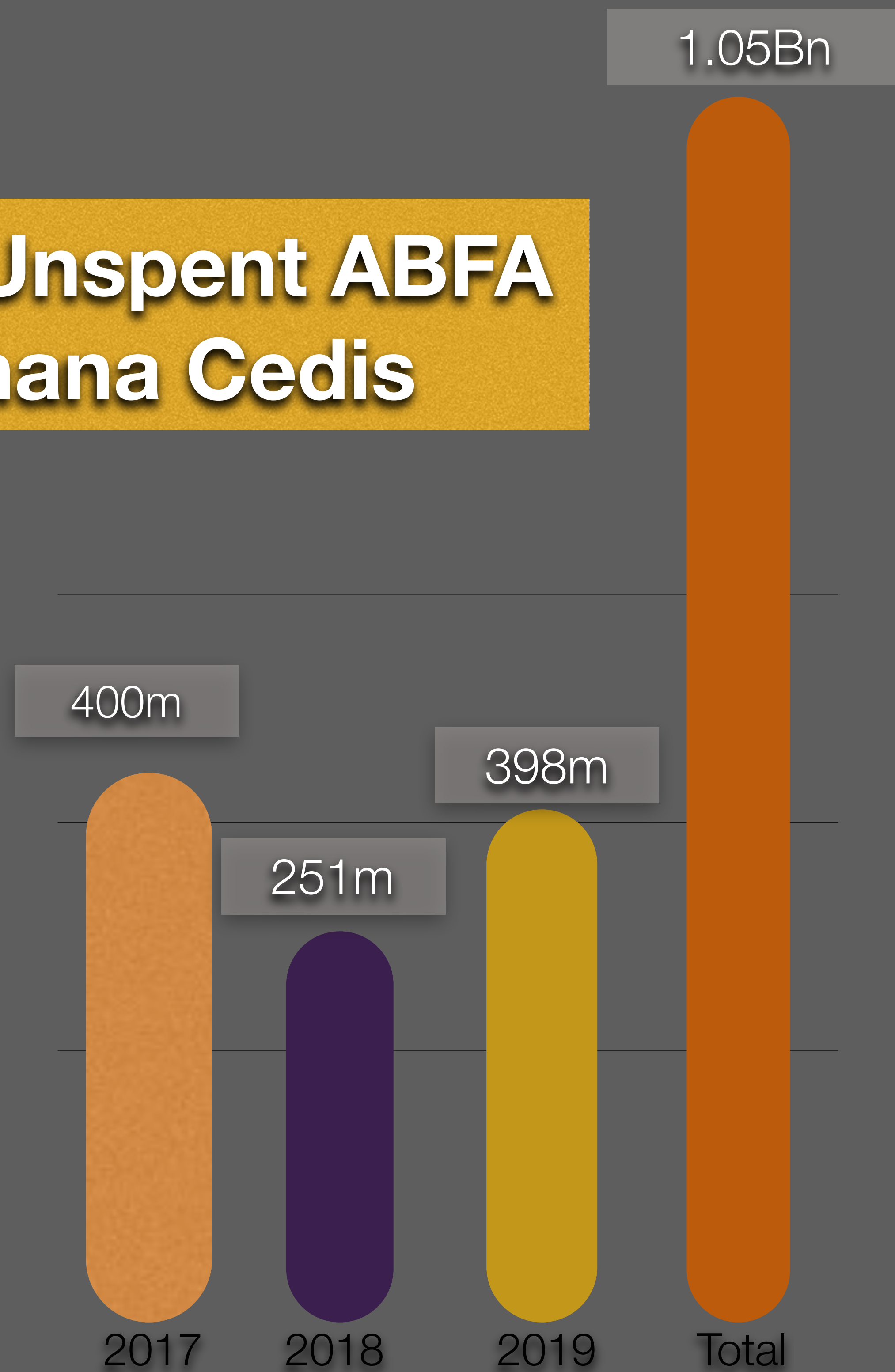
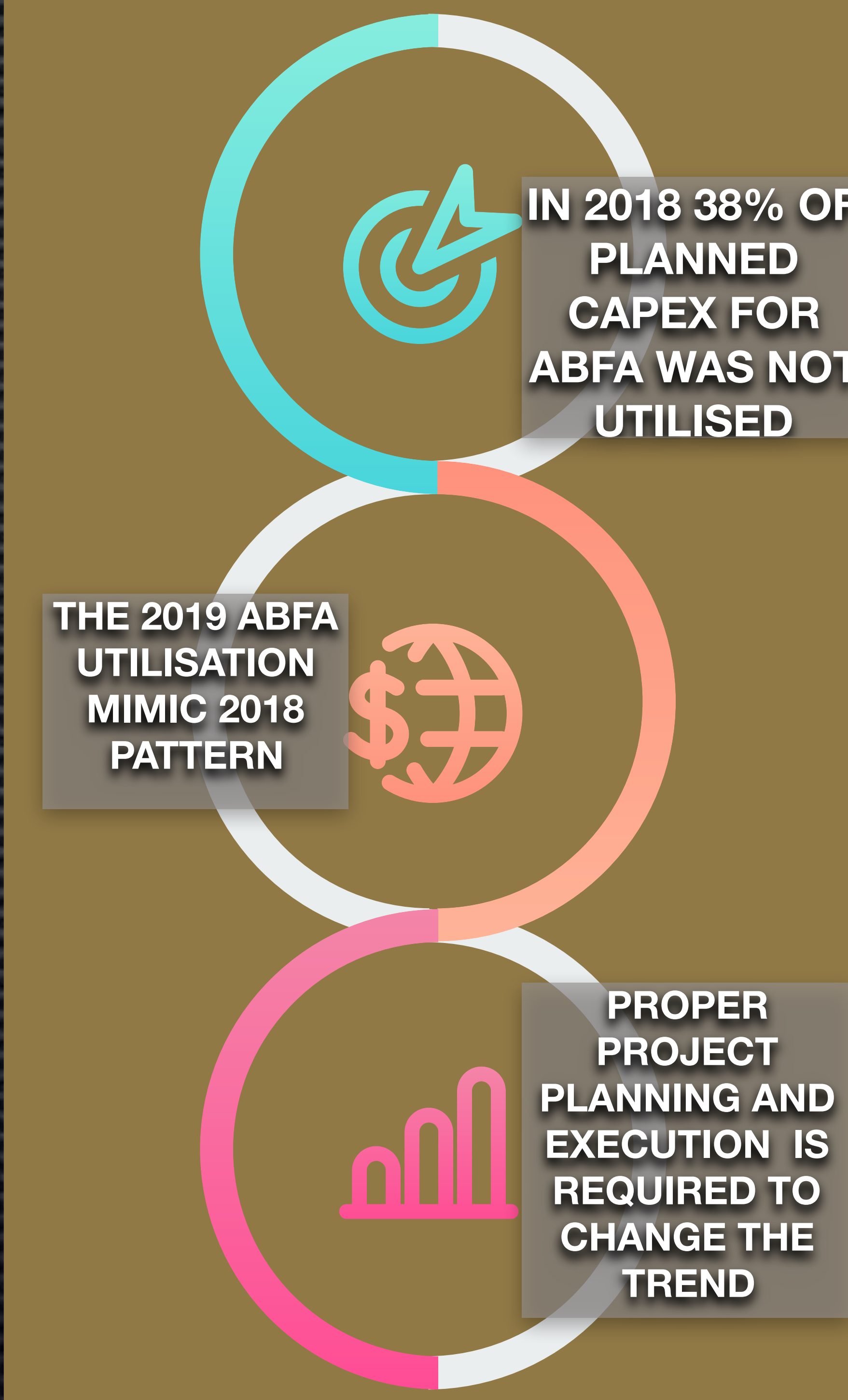
Annual Unspent ABFA in Ghana Cedis



23.2%

Total unspent ABFA (2017-2019) is equivalent to 23.2% of cumulative Capital budget for that period



PROJECTED PETROLEUM REVENUE AND ALLOCATION

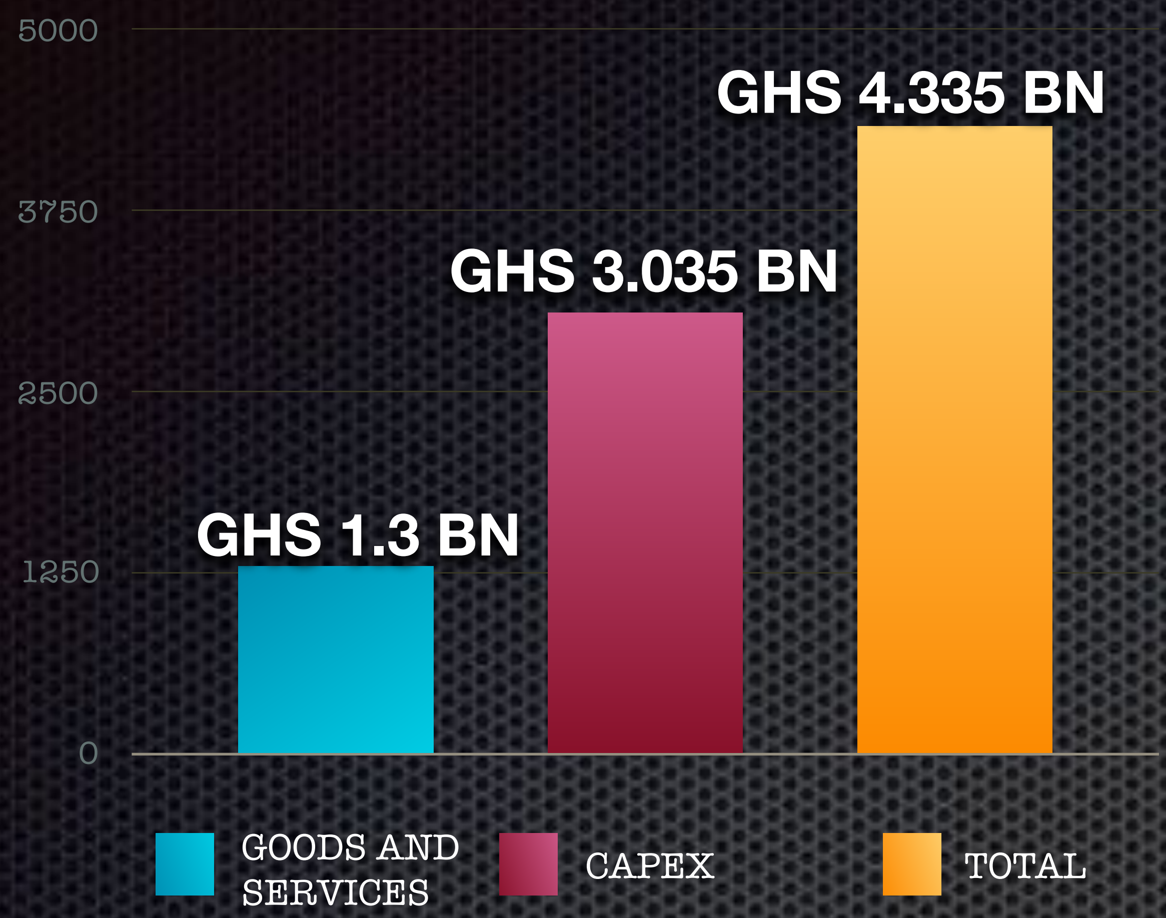
TOTAL REVENUE $1.567 BN

- 30.6% — **GNPC** $479.5M
  - 69.8% — **EQUITY FINANCING COST** $334.8M
  - 30.2% — **SHARE OF NET CAPI** $145M
- 69.4% — **BENCHMARK REVENUE** 1087.5M
  - 30.0% — **GHANA PETROLEUM FUNDS** 228.4M
    - 70.0% — **GHANA STABILISATION FUND** 228.4M
    - 30.0% — **GHANA HERITAGE FUND** 97.9M
  - 70.0% — **ANNUAL BUDGET FUNDING AMOUNT** 761.3M

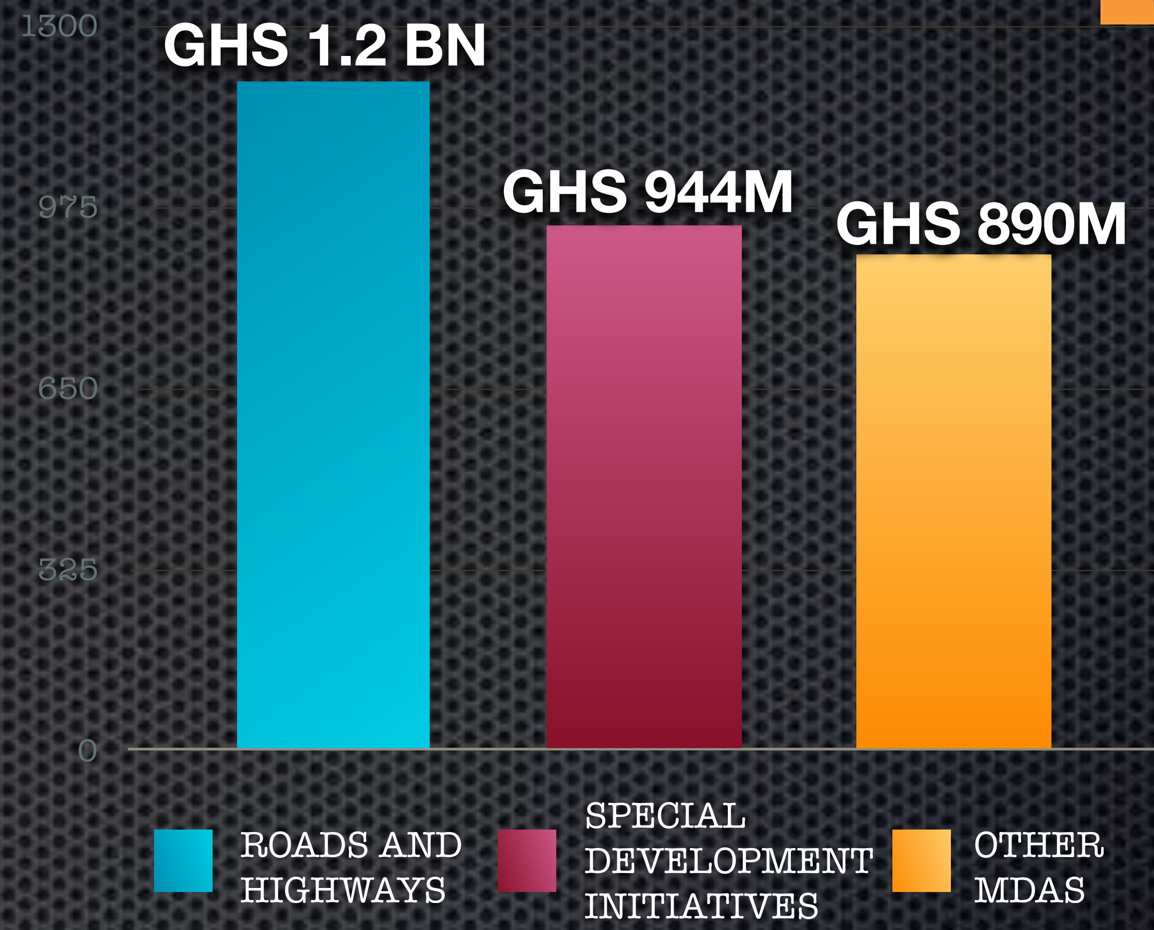
This is generally in compliance with the PRMA. The law prioritises allocation to GNPC for equity financing and their share of net CAPI. The net of GNPC's share becomes the benchmark revenue which is further broken into the ABFA and the GPF in the ratio 70%:30%. The GPF is also further broken into 70%:30% for the GSF and the GHF respectively.

2020 ABFA ALLOCATIONS

ABFA Allocations to Capex and Goods and services



ABFA allocation under CAPEX for various MDAs



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- 71 percent of ABFA CAPEX is allocated to the Ministry of Roads and Highways and the Ministry of Special Development Initiatives
    - 40% to Ministry of Roads and Highways
    - 31% to Ministry of Special Development Initiatives
- The remaining 29 percent was allocated among other ministries such as Health, Food and Agriculture, Trade and Industry, Energy, Water Resources and Sanitation, Works and Housing, Transport, Education, and the Ministry of Defence.

ABFA AND CAPITAL BUDGET FROM DOMESTIC SOURCES (2020)

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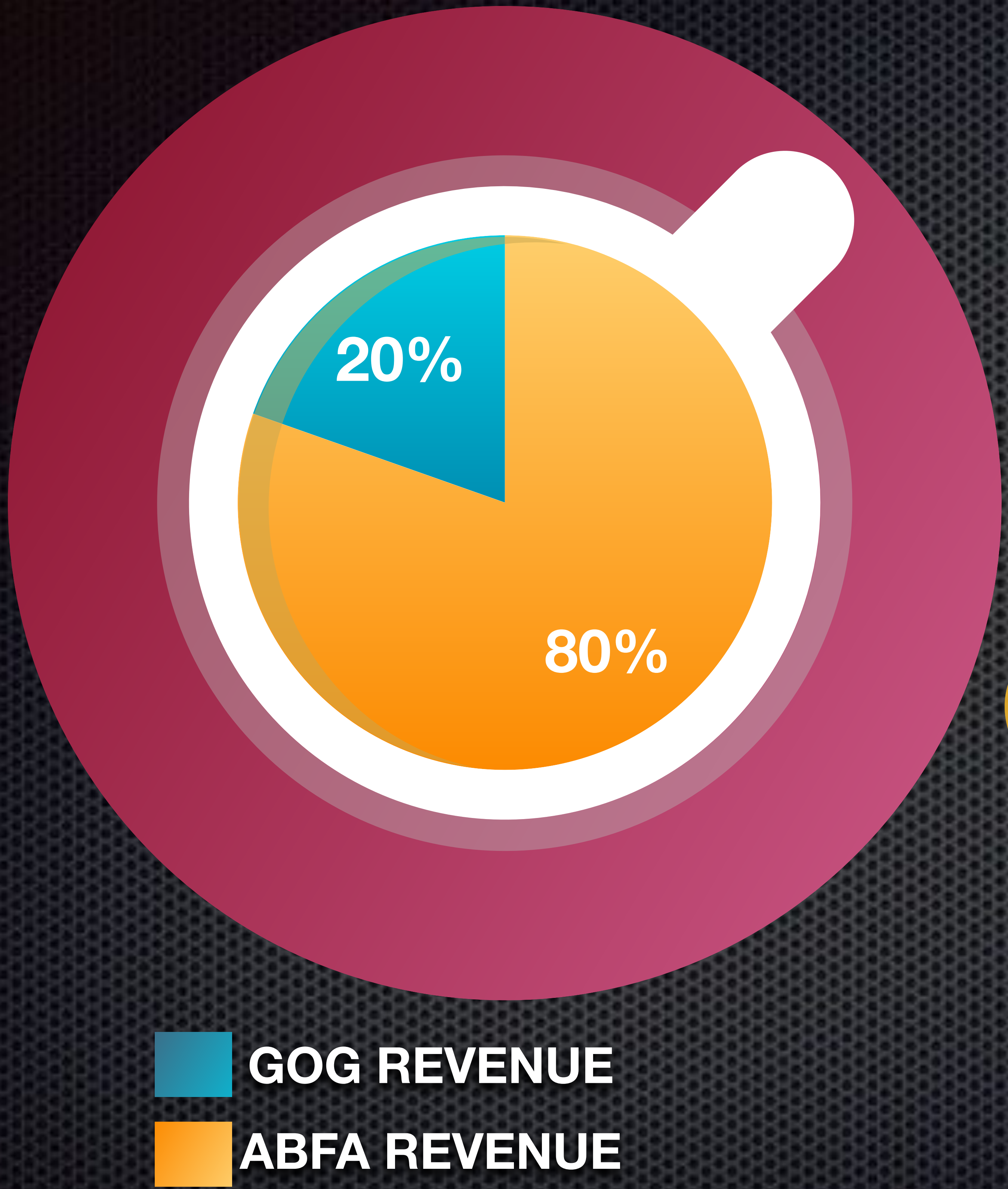

80%

Government's capital budget from domestic sources for 2020 is dependent on oil revenues.

1. This means that all other revenue sources of the country are spent on recurrent expenditure; essentially salaries, good and services and debt repayments.

2. This exposes development to significant risks as a drop in oil production and /or price will reduce government's expected revenues.

KEY CONCERNS FOR OIL REVENUE MANAGEMENT

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1. The 2020 budget is silent on the priority areas for ABFA investment over the medium-term period of 2020 to 2022.
2. Instead, government plans to disburse ABFA to programs and activities between the Office of Government Machinery and 14 other Ministries.
3. The implication of not prioritising the revenue is the thin spreading of oil revenue over many projects resulting in time and cost overruns
4. There is not much clarity on specific projects on sectors to which oil revenues will be funded
5. ABFA investments do not account for the vulnerable. The objective of the PRMA focuses on equity, welfare and economic opportunities. The expenditure of oil revenue thus far shows worrying discrimination against persons with disability and those requiring social protection

RECOMMENDATIONS

1. Government must clarify its priorities for the next medium term in line with the law. This will require than an amendment to the budget is presented to Parliament.

2. Specific details of the projects must be provided to enable tracking of the delivery of the projects.

3. Funds should be targeted at projects that can be completed with the budgetary allocation, accompanied by a robust framework to ensure that project execution follows stated timelines and within budget.

4. Critical investment in specific infrastructure across the country is needed to ensure the inclusion of persons with disability.

KEY HIGHLIGHTS OF THE POWER SECTOR IN THE BUDGET

1. Government plans to renegotiate some of the Take or Pay agreements of the power sector in an attempt to address the financial challenges facing the sector.

2. Government plans to suspend ongoing power purchase agreements and gas sales agreements

3. Government has declared its commitment in the budget to democratise a new process for private sector participation in ECG.

4. Government intends to cancel LNG projects under negotiation and to place a moratorium on future procurements of LNG.

5. Government has successfully relocated the Karpowership

KEY CONCERNS FOR THE POWER SECTOR

1. The slow action on the power sector challenges continues to hurt government finances, creates uncertainty in the power market and worsens the challenges of the power sector value chain.

2. There is no clarity on the status of the Tema LNG project under construction which presents a liability of over $820 million a year when completed.

3. The price of gas from the SGN field remains unclear to the public, thereby limiting any assessment of the extent to which a gas-run power plant will impact positively on tariff for consumers.

4. Since the power sector does not exhaust the entire quantity of take or pay gas from the SGN field, the government still faces the reality of continuously paying for unutilized gas.

5. Gas utilisation does not entirely solve the financial burden on government if the power sector is unable to pay for it. The problem of inefficiency and debt accumulation in the power sector, which were supposed to have been resolved by private sector participation in ECG have not been addressed.

RECOMMENDATIONS

1.Government must be bold to cancel some of the emergency power plant contracts that currently serve no purpose and pay the liabilities. ACEP believes that it is better to cancel and pay than to renegotiate the continuous existence of some of the power contracts.

2.Government should outrightly purchase some of the maturing power plants to save payment on recurrent capacity charges. This should be guided by a framework that prioritises the efficiency of the plants and the associated tariff.

3.Government must ensure that there is transparency and fairness in the bilateral consultation process between Government and each Independent Power Producer (IPP).

RECOMMENDATIONS

4.Ghana needs to focus on reducing rather than accumulating more debts through the importation of LNG. The government of Ghana should therefore suspend the construction of the LNG facility at Tema and rather focus on the optimisation of domestic gas which is enough for short to medium gas needs for the country.

5.Government must be transparent about gas price renegotiations to enable interested stakeholders to conduct independent assessment of tariff implications for consumers.

6.Government must communicate a robust plan to increase demand for and utilisation of domestic gas to minimise the fiscal burden on the state for unutilised gas under the take or pay GSA. One way to increase domestic consumption of gas is to increase consumption of electricity by industries. This requires that potential consumers of excess power are mapped out to take power at a cost below the average tariff. This provides extra incentive to activate demand suppressed by high tariff to come on stream.