

**The IEA Petroleum Transparency  
and Accountability Index:**

# **The P-TRAC Index 2012 Report**

**Tracking Transparency and Accountability  
in Ghana's Oil and Gas Industry**



**IEA  
Ghana**

THE INSTITUTE OF ECONOMIC AFFAIRS  
*A Public Policy Institute*

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Index 2012 REPORT**

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The Institute of Economic Affairs (IEA) Ghana was founded in October 1989 as an independent institution dedicated to the establishment and strengthening of a market economy and a democratic, free and open society. It considers improvements in the legal, social and political institution as necessary conditions for sustained economic growth and human development.

The IEA supports research, and promotes and publishes studies on important economic, socio-political and legal issues in order to enhance understanding of public policy.

Further information may be obtained from The IEA  
P. O. Box OS 1936, Osu, Accra, Ghana

Tel: +233-302-244716  
+233-30-7010714  
Fax +233-302-222313  
Website: [www.ieagh.org](http://www.ieagh.org)  
Email: [iea@ieagh.org](mailto:iea@ieagh.org)

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## TABLE OF CONTENTS

<b>Executive Summary</b> .....	ii
Policy Recommendations.....	v
Acknowledgements.....	vi
<b>Acronyms and Abbreviations</b> .....	vii
<b>1. Introduction</b> .....	7
<b>2. Ghana's Oil and Gas Industry</b> .....	9
<b>3. Overview of the P-TRAC Index Methodology</b> .....	11
3.1 Revenue Transparency.....	11
3.2 Expenditure Transparency.....	12
3.3 Contract Transparency.....	12
3.4 The Ghana Petroleum Funds.....	12
<b>4. Results</b> .....	14
4.1 Revenue Transparency.....	14
4.1.1 Frequency of Reports.....	14
4.1.2 Quality of Reports.....	14
4.1.3 Public Availability of Reports.....	15
4.1.4 Institutional Environment.....	16
4.2 Expenditure Transparency.....	17
4.2.1 Frequency of Reports.....	17
4.2.2 Quality of Reports.....	18
4.2.3 Projects.....	18
4.3 Contract Transparency.....	19
4.4 The Ghana Petroleum Funds.....	22
4.5 Combined Results.....	23
<b>5. Summary and Policy Recommendations</b> .....	25
5.1. Revenue Transparency.....	25
5.2. Expenditure Transparency.....	25
5.3. Contract Transparency.....	25
5.4. The Ghana Petroleum Funds.....	26
5.5. Policy Recommendations.....	26
References.....	27

## Executive Summary

Natural resources such as petroleum can be a blessing or a curse for developing countries depending on how they are managed. On the positive side, the discovery of substantial reserves of petroleum in Ghana presents a unique opportunity for the government to use the revenues to fast-track plans to lift the country out of poverty and cement itself amongst the ranks of middle income countries. But on the negative side, failure to adequately manage the revenues could lead to the 'resource curse', which among other things could even result in the worsening of the living conditions of the people. Ghana is fortunate in the sense that in anticipation of being an oil producer, it has learned lessons from countries that have managed their oil resources well and from those that have not fared so well. The promulgation of the Petroleum Revenue Management Act, 2011 (Act 815) and the Petroleum Commission Act, 2011 (Act 821) are examples of attempts by the country to avoid some of the negatives aspects of oil exploitation.

One of the challenges presented by a significant oil discovery is how to manage the high expectations of the citizenry. Stakeholders' perceptions of what the benefits are or ought to be may be at variance with the actual realities on the ground. Failure to adequately manage the divergence in expectations can lead to conflict and tension between stakeholders. Transparency in the form of provision of adequate information to the public enables the government to be held accountable for its stewardship of oil and gas resources.

In view of the crucial role that transparency plays in national development and cohesion, the Institute of Economic Affairs (IEA) initiated the Petroleum Transparency and Accountability (P-TRAC) Index project in 2011 to track progress in the governance of the oil and gas sector. The Index is based on four aspects of the oil and gas value chain, namely; Revenue Transparency, Expenditure Transparency, Contract Transparency and management of the Ghana Petroleum Funds. 'Transparency' is defined specifically as the provision of information to the public and the extent to which international best practices are used in the management of the oil and gas resources. The P-TRAC Index is constructed on the basis of questions relating to the four components listed above. The Index is calculated as a simple average of the questions for each of the four components.

The inaugural 2011 P-TRAC report concluded that although some progress had been in the previous year, there were a number of areas that required further improvement in order to raise the level of transparency and accountability. The aim of the 2012 P-TRAC report is thus to analyse what progress, if any, has been made in efforts to improve the governance of Ghana's nascent oil and gas resources

since the last report. The key findings of the 2012 report are as follows.

The overall score for Revenue Transparency in 2012 was 69.9%, which indicates a 6% improvement over the score of 64.3% recorded in 2011. This result indicates that there has been some improvement in revenue transparency since our last report was published. Clearly, in order to make further improvement in revenue transparency, there is the need for Parliament to pass important pieces of legislation currently before it, as well as those that are still in draft form.

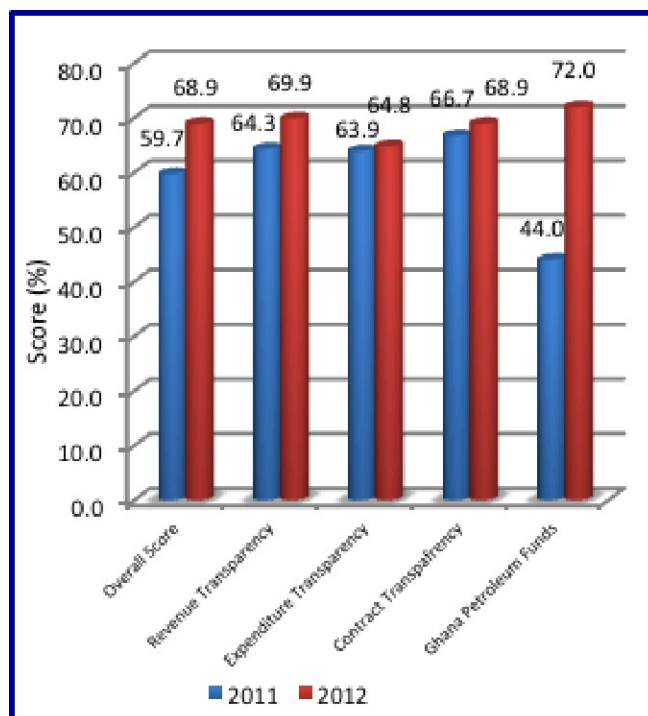
In the area of Expenditure Transparency, we observed a slight improvement over the previous year. To enhance transparency, we advocate the provision of more information on how the Annual Budget Funding Amount (ABFA) is spent besides what is reported in the annual Budget Statement. We are also of the view that there is a need for more stakeholder consultation on projects for ABFA funding. Currently, the Minister has discretion to identify projects for funding provided they fall within the four priority areas identified in the Petroleum Revenue Management Act (PRMA). Going forward, we are of the view that there is room for more inclusion in how such decisions are made. As the PRMA will soon be up for review, we strongly feel that there is a need to revisit the issue of the priority areas and to spell out more specific projects for funding following consultations with all stakeholders.

On Contract Transparency, we find that some progress has been made with the establishment of an independent authority to regulate the sector and to advise the government on the award of contracts and licenses. However, there is much room for improvement by establishing a more open and transparent process for awarding contracts and licenses.

Transparency in the management of the GPFs is the area where we have observed the greatest improvement since our last assessment exercise. One major area of concern is the lack of any information whatsoever on audited reports of the GPFs.

Our overall conclusion is that there has been significant progress over the previous reporting period in enhancing transparency and accountability in the management of Ghana's oil and gas resources. However, at the same time,

we have identified a number of areas for improvement which form the basis of our recommendations below.



## Policy Recommendations

The study makes the following recommendations:

1. To enhance transparency and accountability, not just in the oil and gas sector, but also in other extractive industries, there is a need for speedy passage of the following bills: the Ghana Extractive Industries Transparency Initiative Bill, the Right to Information Bill, the Petroleum Exploration and Production Bill, the Local Content and Local Participation Bill, and the Marine Pollution Bill.
2. We also advocate speedy passage of the Budget Act to enhance Parliament's ability to conduct comprehensive analysis of the Budget.
3. We recommend a more inclusive process of selecting projects for funding under the ABFA. In the medium term, the PRMA should be reviewed to identify more specific projects for funding after consultations with all stakeholders.
4. To enhance transparency in the award of contracts and licenses, we recommend a more open and transparent process of awarding contracts and licenses, with more public disclosure of information on the process. In particular, we advocate a points-based system for assessing licenses.
5. There is a need for the Auditor General to publish the audited reports on the GPFs.
6. Oversight bodies such as Parliamentary Committees (e.g., the PAC and the Select Committee on Minerals and Energy) and the PIAC must be adequately resourced to enable them function more effectively in their respective roles.



## Acknowledgements

The IEA P-TRAC Index 2012 Report was made possible with funding from The Royal Danish Embassy. The report was prepared by the research team of The Institute, led by Prof. John Asafu-Adjaye, Visiting Senior Fellow.

## Acronyms and Abbreviations

<b>ABFA</b>	Annual Budget Funding Amount
<b>BoG</b>	Bank of Ghana
<b>bopd</b>	Barrels of oil per day
<b>CSOs</b>	Civil Society Organisations
<b>EIA</b>	Environmental Impact Assessment
<b>EITI</b>	Extractive Industries Transparency Initiative
<b>EPA</b>	Environmental Protection Agency
<b>GHEITI</b>	Ghana Extractive Industries Transparency Initiative
<b>GNPC</b>	Ghana National Petroleum Corporation
<b>GoG</b>	Government of Ghana
<b>GPFs</b>	Ghana Petroleum Funds
<b>GRA</b>	Ghana Revenue Authority
<b>IAC</b>	Investment Advisory Commission
<b>IEA</b>	Institute of Economic Affairs
<b>IMF</b>	International Monetary Fund
<b>mmbo</b>	Millions of barrels of oil
<b>MoFEP</b>	Ministry of Finance and Economic Development
<b>MoEP</b>	Ministry of Energy and Petroleum
<b>NGOs</b>	Non-Governmental Organisations
<b>PA</b>	Petroleum Agreement
<b>PAC</b>	Public Accounts Committee
<b>PC</b>	Petroleum Commission
<b>PIAC</b>	Public Interest Accountability Committee
<b>PRMA</b>	Petroleum Revenue Management Act
<b>P-TRAC</b>	Petroleum Transparency and Accountability
<b>RTI</b>	Right to Information
<b>TEN</b>	Tweneboa, Enyenra, Ntomme



*The 2012 P-TRAC report uses updated data and the analysis makes comparisons with the previous report to shed light on the developments since then.*

*...although exploitation of the Jubilee I oilfield will contribute significantly to Ghana's export earnings, it could have negative impacts on the grains/crop, meat/livestock, manufacturing and some service sectors.*

## 1. Introduction

Natural resources such as petroleum can be a blessing or a curse for developing countries depending on how they are managed. On the positive side, the discovery of substantial reserves of petroleum in Ghana presents a unique opportunity for the government to use the revenues to fast-track plans to lift the country out of poverty and cement itself amongst the ranks of middle income countries. But on the negative side, failure to adequately manage the revenues could lead to the 'resource curse', which among other things could even result in the worsening of the living conditions of the people. Ghana is fortunate in the sense that, in anticipation of being an oil producer, it has learned lessons from countries that have managed their oil resources well and from those that have not fared so well.

Ghana's oil and gas resources present a number of challenges to the government. The first has to do with the issue of how to manage a non-renewable asset such that it benefits both current and future generations of Ghanaians. The Petroleum Revenue Management Act (PRMA) addresses this issue to some extent by identifying ways in which the revenues should be spent. However, other challenges include ensuring that the wealth is fairly and equitably distributed. Oil exploration and production is highly capital intensive and tends to create little direct employment. The challenge for the government is to address the enclave nature of the industry by promoting the downstream aspects of the industry and facilitating linkages between the oil and gas sector and manufacturing and processing activities in the economy.

Oil prices tend to be volatile and this could have negative implications for the country's budget particularly when prices fall. This aspect of uncertainty has been addressed with the setting up of the Ghana Stabilisation Fund as part of the Ghana Petroleum Funds (GPFs), while the Ghana Heritage Fund addresses intergenerational concerns by ensuring that a portion of the revenues are saved. However, the 'Dutch Disease' (Corden and Neary, 1982) presents a more formidable challenge that requires a carefully considered policy response from the Government. Using a model of the Ghanaian economy, Asafu-Adjaye (2010) has shown that although oil production will contribute significantly to Ghana's export earnings and overall growth, it could have negative impacts on the grains/crop, meat/livestock, manufacturing and some service sectors particularly as oil production is ramped up.

Another challenge presented by a significant oil discovery is how to manage the high expectations of the citizenry. Stakeholders' perceptions of what the benefits are or ought to be may be at variance with the actual realities on the ground. Failure to adequately manage the divergence in expectations can lead to conflict and tension between stakeholders. Transparency in the form of provision of adequate information to the

public enables the government to be held accountable for its stewardship of oil and gas resources. However, the benefits of transparency are two-way in the sense that in doing so the government builds trust with the people, while the people, on the other hand, are able to form realistic expectations based on the timely information they receive.

In view of the crucial role that transparency plays in national development and cohesion, the Institute of Economic Affairs (IEA) initiated the Petroleum Transparency and Accountability (P-TRAC) Index project in 2011 to track progress in the governance of the oil and gas sector. The goals of the project are to promote transparency and accountability in the management of Ghana's oil and gas resources and to enhance the level of responsibility on the part of the policy makers. The prime objective is to develop qualitative and quantitative indicators to track progress in the management of the oil and gas sector. The inaugural 2011 P-TRAC report (IEA 2011), which was launched in 2012, concluded that although some progress had been in the previous year, there were a number of areas that required further improvement to raise the level of transparency and accountability. The aim of the 2012 P-TRAC report is to analyse what progress, if any, has been made in efforts to improve the governance of Ghana's nascent oil and gas resources since the last report.

The 2012 P-TRAC report uses updated data and the analysis makes comparisons with the previous report to shed light on the developments since then. The report is organized as follows. Section 2 provides the context for the report by briefly reviewing developments in the oil and gas sector since 2011. Section 3 provides an overview of the methodology used in compiling the P-TRAC Index. The results of the 2012 P-TRAC Index are presented and discussed in Section 4, while Section 5 concludes with the summary and policy recommendations.

*The inaugural 2011 P-TRAC report (IEA 2011), which was launched in 2012, concluded that although some progress had been in the previous year, there were a number of areas that required further improvement to raise the level of transparency and accountability.*

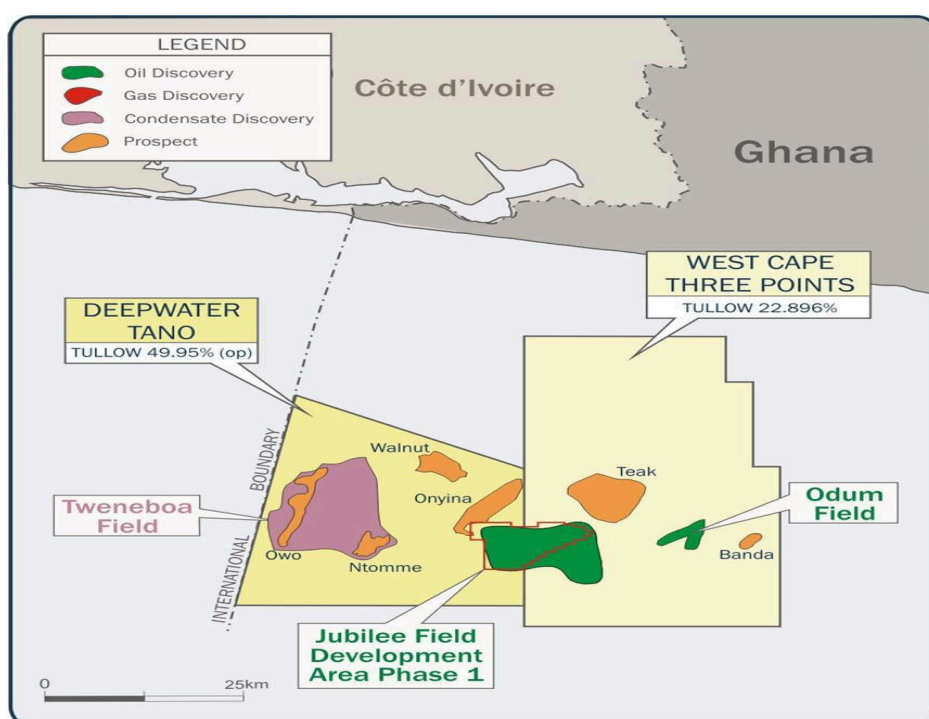


*These discoveries have led to surge in investor interest in oil exploration in Ghana. The Government of Ghana recently announced that it would invest about \$20 billion as its share of the development of new oil discoveries over the next five years.*

## 2. Ghana's Oil and Gas Industry

Oil was first discovered in Ghana in 1970 by the US firm AgriPetco off the coast of Saltpond. However, the reserves were not in sufficient commercial quantities and were abandoned for some time. The field is currently being exploited by a joint venture comprising the state-owned Ghana National Petroleum Corporation (GNPC) and Lushann Eternit Energy Limited of Houston. The first commercial oil discovery in Ghana, the Jubilee Phase I oilfield, was made by Kosmos Energy LLC in the Gulf of Guinea's Tano Basin (Figure 1).

**Figure 1: Location of Ghana's Jubilee Field Phase I Development**



Source: Tullow Ghana Ltd (2009)

The operator of the field, Tullow Ghana Ltd, estimates that 278 million barrels of oil (mmbo) can be recovered over 20 years (Tullow, 2009). However, the recoverable reserves of the field are estimated to be more than 600 mmbo with an upside potential of 1.8 billion barrels. The Jubilee Phase I oilfield commenced production in November 2010 with an output of 25,000 barrels of oil per day (bopd), which increased to 80,000 bopd in October 2011. It is currently producing 110,000 bopd, and according to Tullow Oil's projection, an additional 80,000 bopd is expected to be produced in the next five years.

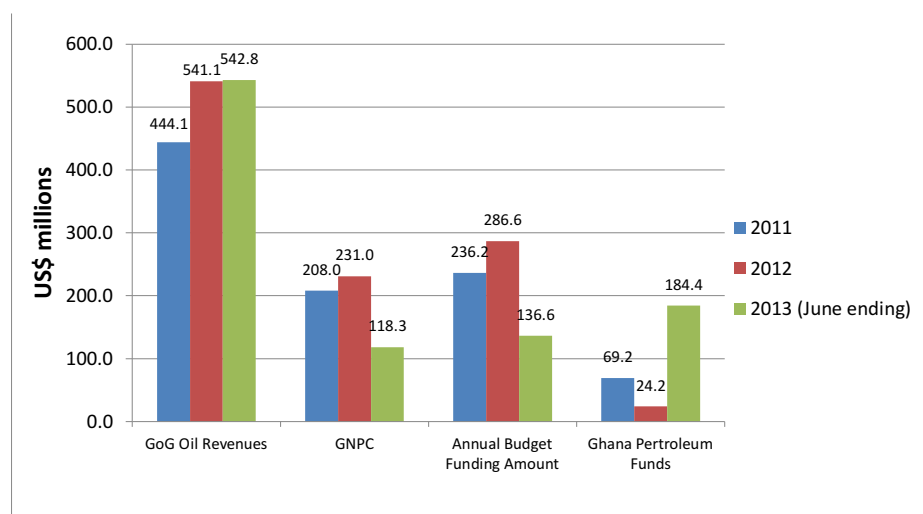
Since the Jubilee discovery, several substantial oil and gas discoveries have been made in the Deep Water Tano and West Cape Three Points

Blocks. In September 2010 Tullow Oil announced that it had discovered between 70 and 550 million barrels of light crude oil in the Owo field within its Deepwater Tano Block (see Figure 1). Apart from Kosmos Energy and Tullow Oil Ghana Ltd, companies that have made discoveries in that area include Lukoil, Anadarko Petroleum Corporation, Eni/Vitol and Hess Corporation. In all, there have been a total of 23 new oil discoveries in Ghana (Daily Graphic, 2013a). The latest discovery to proceed to the development phase is the Tweneboa, Enyenra, Ntomme (TEN) project, which was approved by the Government in May 2013. The TEN project will be operated by Tullow Ghana Ltd and it is expected that first oil delivery will be in 2016 with a steady ramp up to a production rate of 80,000 bopd.

These discoveries have led to a surge in investor interest in oil exploration in Ghana. The Government of Ghana (GoG) recently announced that it would invest about \$20 billion as its contribution in the development of new oil discoveries over the next five years (Daily Graphic, 2013b). The GoG is currently constructing a gas processing plant at Atuabo in the Western Region to process gas piped from the Jubilee field and other newly discovered fields. The plant is scheduled for completion in 2014.

As at the end of June 2013, GoG had received a total of US\$1.4 billion as its share of oil revenues since production began (Figure 2). Out of that amount, US\$481 million (about 34%) has been transferred to the GNPC to meet its equity financing cost and share of Carried and Participating Interest in line with Section 7 of the PRMA. The remaining amount of US\$727 million representing the Benchmark Revenue has been allocated to the Annual Budget Funding Amount (ABFA) (US\$591 million) and the GPFs (US\$136 million).

**Figure 2: Government of Ghana Oil Receipts and Distribution, 2011-13**



Sources: MoFEP (2012), BoG (2013)

*'Transparency' is defined specifically as the provision of information to the public and the extent to which international best practice is used in the management of the oil and gas resources.*

*Contract Transparency assesses the extent of transparency in the award of contracts and licenses in the oil and gas sector.*

### 3. Overview of the P-TRAC Index Methodology

The methodology used to construct the P-TRAC Index closely follows conventions proposed by the Extractive Industries Transparency Initiative (EITI), the IMF's Guide on Resource Revenue Transparency (IMF, 2007) and the Publish What You Pay Campaign. The Index is based on four aspects of the oil and gas value chain, namely, Revenue Transparency, Expenditure Transparency, Contract Transparency and management of the Ghana Petroleum Funds. 'Transparency' is defined specifically as the provision of information to the public and the extent to which international best practice is used in the management of the oil and gas resources. Our definition of 'publicly available' information is similar to the norms used by Revenue Watch Institute (Revenue Watch Index) and the International Budget Partnership (Open Budget Survey). In this context, we define publicly available information on the oil and gas sector to be information that can be freely obtained from the relevant government agency's website, or which can be obtained in hard copy form by request, or information that is published on a regular basis in national newspapers. The four components of the P-TRAC Index are briefly discussed below.

#### 3.1 Revenue Transparency

Revenue Transparency assesses the frequency and quality of reports on oil revenues, as well as the quality of the institutional environment governing the operations of the industry. A series of questions are used to measure how often reports are provided to the public on petroleum receipts, expenditures, oil reserves, production volumes, prices, exports, royalties, taxes and costs. The questions are based on a 4-point scale, with 0 representing no reports and 3 representing quarterly or monthly reports.

We include quality of the reporting as one of the variables because we believe that it is not only desirable for the Government to provide information to the public but also it is important that such reports contain information that can be understood by the average citizen. As such the quality of the reports is assessed by questions relating to how understandable and comprehensive they are. Each of these is assessed on a 6-point scale with 0 denoting not understandable or comprehensive and 5 denoting highly understandable or comprehensive. Revenue Transparency also assesses how freely available these reports are to the public. A 6-point scale is used here with 0 denoting no availability of reports and 5 denoting availability in newspapers, gazettes and on the Internet.

The questions on the Institutional Environment attempt to assess how adequate the institutional environment is for effective management of the oil and gas resources. This component begins with an assessment of whether the policy, regulatory and commercial roles in the industry are

divided across separate institutions. Next, there is an assessment of the legislation covering the sector and whether such legislation is published. The next series of questions enquire about the government agency in charge of receiving GoG's share of the oil revenues, in this case the Bank of Ghana. The questions enquire whether there are internal and external audits of these funds, including the role of Parliament in scrutinising the audit reports. The final question assesses the role of CSOs in the oversight of the revenues generated by the industry.

Each question is rated on a 6-point scale and all of them are averaged to provide an overall score for Revenue Transparency.

### 3.2 Expenditure Transparency

A similar approach to Revenue Transparency is used to assess Expenditure Transparency. There are questions on the frequency and quality of reports on expenditures out of the oil revenues. These are followed by questions on how the funds are spent, including the number and distribution of the projects, the extent to which they contribute to poverty reduction, the role of Parliament in ratifying these expenditures and the role of CSOs and industry groups in the oversight of the expenditure program. Again a 6-point scale is used and the individual scores are averaged to obtain an overall average for Expenditure Transparency.

### 3.3 Contract Transparency

Contract Transparency assesses the extent of transparency in the award of contracts and licenses in the oil and gas sector. It begins by enquiring whether legislation or rules exist for disclosure of contract or licensing information and whether such information is publicly available. There is also a question on whether the environmental and social impact assessments of oil and gas projects are published. The next set of questions deal with the contract award and licensing processes, in particular on the independence of the awarding authority. There are questions about whether the process is open and competitive, whether there are limits to the discretionary powers of the awarding authority, the role of Parliament in ratification of contracts and finally whether there is an appeal process on licensing decisions. As is the case with most of the questions, a 6-point scale is used and an overall average is obtained for Contract Transparency.

### 3.4 The Ghana Petroleum Funds

The final component of the Index is assessment of the management of the GPFs. The first question enquires whether the rules governing the GPFs are publicly available. This is followed by an assessment of whether the information on the activities and performance of the funds are published. The final two questions enquire whether the financial reports on the GPFs

*The P-TRAC index is constructed as a simple average of the questions for each of the four components.*

are audited and whether the audited reports are published. As usual a 6-point scale is used to score each question and an overall average for the GPFs is obtained.

The P-TRAC index is constructed as a simple average of the questions for each of the four components. For reporting purposes, the average scores are converted into percentage scores and an overall average is then taken to obtain a measure of performance in transparency and accountability in a given year.



## 4. Results

### 4.1 Revenue Transparency

#### 4.1.1 Frequency of Reports

The IEA is of the opinion that frequent reporting on oil and gas revenues by the relevant public agencies is one of the key ingredients for promoting transparency and accountability. Thus, this part of the P-TRAC Index assesses the frequency of reporting on revenue generation by the Ministry of Finance and Economic Planning (MoFEP) and on various aspects of the industry by other public agencies such as the Ministry of Energy and Petroleum (MoEP), the Bank of Ghana (BoG), the Ghana Revenue Authority (GRA) and the GNPC.

Under Section 8 of the PRMA, the Minister of Finance is required to publish petroleum receipts in the Gazette, two national newspapers and online within 30 calendar days of the end of each applicable quarter. Other reporting responsibilities under the Act include a report on the reconciliation of the actual total petroleum receipts to be published in the Gazette and at least two state-owned daily newspapers not later than 30<sup>th</sup> April of the year in which the reconciliation was carried out. The PRMA does not impose reporting requirements directly on the other agencies. However, as indicated above, best practice requires that all agencies should readily make information available to the public.

Seven questions were used to assess the frequency of reporting by the government agencies, beginning with the frequency of reporting by MoFEP on the oil revenues. As required by the PRMA, the Minister published the 2012 petroleum receipts in at least two state-owned daily newspapers, the MoFEP website and in the Gazette. Our assessment therefore is that all the reporting obligations on revenue generation were met and as such the maximum score of 3 (100%) was assigned. The remaining questions involved determining whether in the year under consideration, any of the agencies reported or provided information on oil and gas reserves production volumes, prices, exports, royalties, taxes dividends and production costs. Information was found for all of these indicators with the exception of oil and gas reserves and production costs. Therefore, our average score for Frequency of Reports was 1.6 out of a possible 3, equivalent to 53.3% (Figure 3). This shows a marginal improvement over the score of 48.4% recorded for 2011.

#### 4.1.2 Quality of Reports

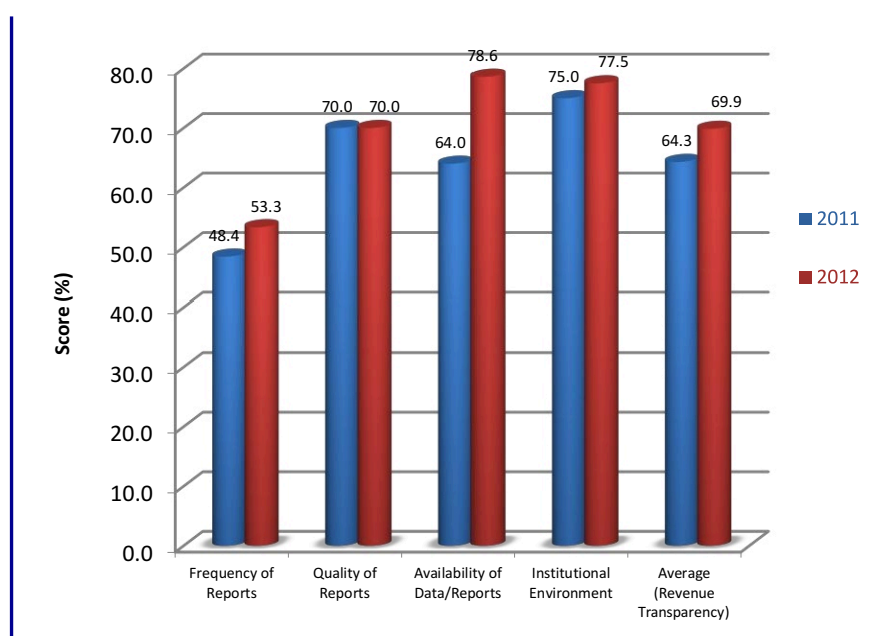
As indicated earlier, we strongly believe that reports generated by the government agencies (e.g., MoFEP) should not only have sufficient information but also should be comprehensible to the average citizen without a technical background. The main document used to rate the

*....our average score for Frequency of Reports was 1.6 out of a possible 3, equivalent to 53.3%. This shows a marginal improvement over the score of 48.4% recorded for 2011.*

*The predominant style of reporting was the use of tabular information with very little accompanying prose (or footnotes) to explain the contents of the tables*

quality of reporting was the Budget Statement, which contained reports on petroleum receipts, the Annual Budget Funding Amount (ABFA) and the Ghana Petroleum Funds. On this indicator, we found that there was not much change from last year's assessment. The predominant style of reporting was the use of tabular information with very little accompanying prose (or footnotes) to explain the contents of the tables. Given that the information given was mainly technical in nature, it would have been advantageous to have provided more explanation for the benefit of lay readers. Furthermore, as was the case in the previous assessment, we found the reporting not to be comprehensive. Thus the score remained unchanged at 3.5 out of a possible 5, or 70% (Figure 3).

**Figure 3: P-TRAC Index Scores for Revenue Transparency**



#### 4.1.3 Public Availability of Reports

To what extent were reports made publicly available by the various public agencies on the oil and gas sector? Reports were available to varying degrees by the individual agencies. The most comprehensive reports, in terms of amount of information provided, were made by MoFEP, BoG and MoEP. The GNPC had some information available, while the GRA had the least amount of public information. Therefore, the average outcome for this indicator was 78.6%, which is a fairly significant improvement over the score of 64% recorded in the 2011 report.

#### 4.1.4 Institutional Environment

Our assessment of the institutional environment includes, *inter alia*, the amount of legislation in place to enhance transparency and accountability in the oil and gas sector, availability of internal and external measures to deter fraud, Parliamentary oversight of the oil and gas revenues and the role of Civil Society Organisations (CSOs) in the oversight of revenue generation.

The first question dealt with whether the policy, regulatory and commercial roles in the oil and gas sector were divided across separate institutions. In the last report we assigned an index value of 4 out of 5 because we were of the view that even though the Petroleum Commission (PC) had just been established to perform the regulatory function through Act 821, it did not have the full capacity. We are now of the view that the Commission is fully functional and therefore scored the maximum score of 5 (or 100%) was given.

With regard to the amount of legislation in place to promote transparency and accountability in the oil and gas industry, we note that key pieces of information still remain to be passed. These include the Right to Information (RTI) Bill, the Petroleum Exploration and Production Bill, the Local Content and Local Participation Bill, and the Marine Pollution Bill. Therefore, the score for this indicator remains unchanged at 4 out of 5 (or 80%). The next question seeks to establish whether detailed oil and gas legislation is published. Again, the situation remains unchanged since the last report in the sense that the majority of the relevant legislation is not freely available, although some can be purchased from the Government. The score therefore remains unchanged at 3 out of 5 (60%).

The next series of three questions dealt with the extent to which internal and external measures have been put in place to prevent fraud. Although internal audit controls exist in oversight agencies such as the BoG, we were unable to establish the presence of independent external audit controls outside the functions of the Parliamentary committees and the Auditor General. Such a role could be fulfilled with the passage of the Ghana Extractive Industries Transparency Initiative (GHEITI) Bill. Among other things, this legislation would compel the extractive companies to disclose relevant information (e.g., payments to government and revenues) to the public. The GHEITI Bill is still in draft form and remains to be passed. Our assessment of each of these three questions therefore remained unchanged from last year's score of 4 out of 5 or 80%.

The final two questions on the institutional environment dealt with the roles of Parliamentary committees and CSOs in scrutinizing audit reports on oil and gas-related revenues and expenditures. On the former, the Public Accounts Committee (PAC) of Parliament is charged with examining audited public accounts submitted by the Auditor General under Article 103(3) of the Constitution and Sub-section 162(2) of the

*Our assessment of the institutional environment includes, inter alia, the amount of legislation in place to enhance transparency and accountability in the oil and gas sector ....*

*The overall score for Revenue Transparency in 2012 was 69.9%, which indicates a 6% improvement over the score of 64.3% recorded in 2011.*

Standing Orders of Parliament. In the last report, we highlighted a number of factors that constrain the PAC from effectively carrying out its mandate. While Article 103(6) gives the PAC the investigative powers of a High Court, it does not give them the prosecution powers of a High Court and as such the PAC cannot enforce its recommendations. We note that in the past the recommendations of the PAC have been ignored by government agencies that have appeared before it. The other challenges faced by the committee include lack financial autonomy and lack of adequate funding.

On the issue of the role of CSOs, they are legally mandated to participate in the oversight of the management of oil and gas revenues through their representation on the Public Interest Accountability Committee (PIAC) as specified in Section 51 of the PRMA. However, nearly two years after the establishment of the PIAC, it still lacks the resources required for it to effectively carry out its mandate. It has no secretariat and has to rely on NGOs for financial and material assistance. Nevertheless, it is significant to note that the PIAC has been able to meet all its reporting obligations under the PRMA in spite of these challenges. In light of the foregoing, our assessment of the roles of Parliamentary committees and CSOs in examining audit reports on the oil and gas sector remains unchanged from our last report. The average index for the Institutional Environment amounted to 3.9 out of 5, resulting in a score of 77.5%, which is a marginal improvement over the score of 75% recorded in 2011 (Figure 3).

The overall score for Revenue Transparency in 2012 was 69.9%, which indicates a 6% improvement over the score of 64.3% recorded in 2011. This result indicates that there has been some improvement in revenue transparency since our last report was published. Clearly, in order to make further improvement in revenue transparency, there is the need for Parliament to pass the important pieces of legislation currently before it, as well as those that are still in draft form.

## 4.2 Expenditure Transparency

Expenditure Transparency in the P-TRAC Index encompasses three aspects of reporting on the oil and gas sector: Frequency of Reports, Quality of Reports and the types of projects the funded under the ABFA.

### 4.2.1 Frequency of Reports

Under Article 179 of the Constitution, in each year, the Minister of Finance is required to present a Budget Statement and Economic Policy before Parliament for approval for the coming year. As has been the practice since 2011, the Minister presents its report on revenues and expenditures from the oil and gas sector as part of the Budget Statement. However, the IEA is of the view that more frequent reporting (e.g. half yearly) would be necessary to enhance transparency and accountability.

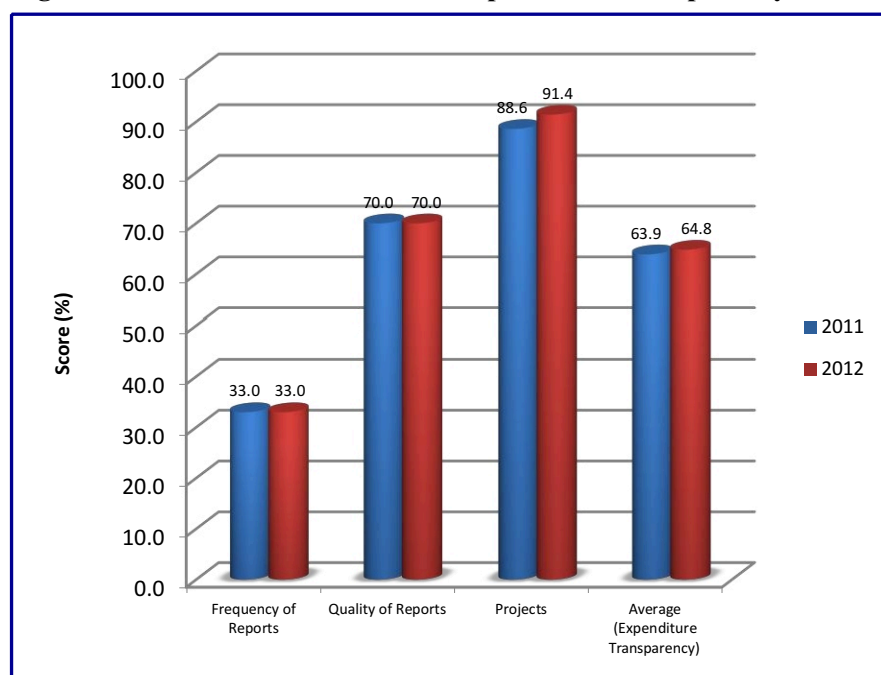
*...the IEA is of the view that more frequent reporting (e.g. half yearly) would be necessary to enhance transparency and accountability*

The score for the frequency of reports therefore remains unchanged at 1 out of a possible 3, or 33% (Figure 4).

#### 4.2.2 Quality of Reports

Assessment of the quality of the reports is based on the amount of information presented and the extent to which that information can be understood by the average citizen. As was the case in the last report, we found that that section of the Budget pertaining to the oil and gas sector was fairly comprehensible. With regard to the amount of information presented, we were of the view that more could have been provided. We are mindful of the fact that there is a limit to how much information could be provided in a single document such as the Budget. In fact that is the very reason why we strongly believe that a separate document detailing how oil revenues have been expended is something that MoFEP should seriously consider as a means of further improving transparency and accountability. The average score for the Quality of Reports therefore remains unchanged at 3.5 out of a possible 5, resulting in a score of 70% (Figure 4)

**Figure 4: P-TRAC Index Score for Expenditure Transparency**



#### 4.2.3 Projects

The aim of this component of Expenditure Transparency is to assess the types and number of projects receiving funding under the ABFA. In particular, we assess whether the projects are in the priority areas as specified in the PRMA (ss 21, 1-3). We also wanted to determine whether the projects were equitably distributed across the country and whether there was a significant number in the Western Region where the oil and gas resources are located.

*The 2013 Budget Statement indicates that the ABFA was expended on the four priority areas as specified in the PRMA.*



*Overall, the total score for Expenditure Transparency in this assessment comes to 64.8%, which represents a marginal improvement over the score of 63.9 percent recorded in 2011.*

The 2013 Budget Statement indicates that the ABFA was expended on the four priority areas as specified in the PRMA: expenditure and amortization of loans for oil and gas infrastructure (GHc100 million); roads and other infrastructure (GHc232 million), agricultural modernization (GHc72.5 million) and capacity building, including oil and gas (GHc112 million). The expenditure on agricultural modernization included funding for a Youth in Agriculture Programme and a fish processing plant at Elmina.

Our assessment is that the bulk of the expenditure is in the priority areas identified under the Act. However, there were also some unexpected expenditure on items such as the Ghana Traditional Festivals and Music, the National Peace Council, the National Labour Commission, Road Transport Services and the Ghana Library Authority. While, these areas may be indirectly related to development, we believe they are lower down the order in terms of meeting Ghana's huge infrastructure deficit. In accordance with Section 21(6) of the PRMA, the four priority areas are due for review for the 2014 fiscal year. The IEA would like to advocate that that is an excellent opportunity to consider specific areas and projects to be funded in the next few years.

The remaining components of the assessment of Projects dealt with issues such as whether Parliament ratifies expenditures on the ABFA, whether CSOs and industry groups participate in the development and oversight of the ABFA and whether there are specific oil-related and development expenditures in the Western region. The maximum score was given for the first question as the Minister seeks approval from Parliament every year for the Budget for the coming year. However, we believe that the passage of the Budget Act will enhance Parliament's capacity to scrutinize the budget rather than the current tendency to rubber stamp it. On the second question, there is a process by which the Minister of Finance meets key stakeholders every year to discuss the forthcoming budget. What we are proposing here is for either this meeting or a separate one to deal specifically with projects under the ABFA. Therefore a score of 4 out of 5, or 80% was allocated. On the final issue, we note that there are significant ongoing and planned projects in the oil and gas sector in the Western Region and as such our assessment remains unchanged from the last report with a score of 4 out of 5 or 80%.

The average score for Projects therefore comes to 4.5 out of 5 (91.4%), which shows a slight improvement over the score of 88.6% recorded in 2011. Overall, the total score for Expenditure Transparency in this assessment comes to 64.8%, which represents a marginal improvement over the score of 63.9 percent recorded in 2011 (Figure 4).

### 4.3 Contract Transparency

Assessment of Contract Transparency involved a series of questions dealing with the extent of transparency in the award of contracts in the oil and gas sector (including public disclosure of contracts); legislation or

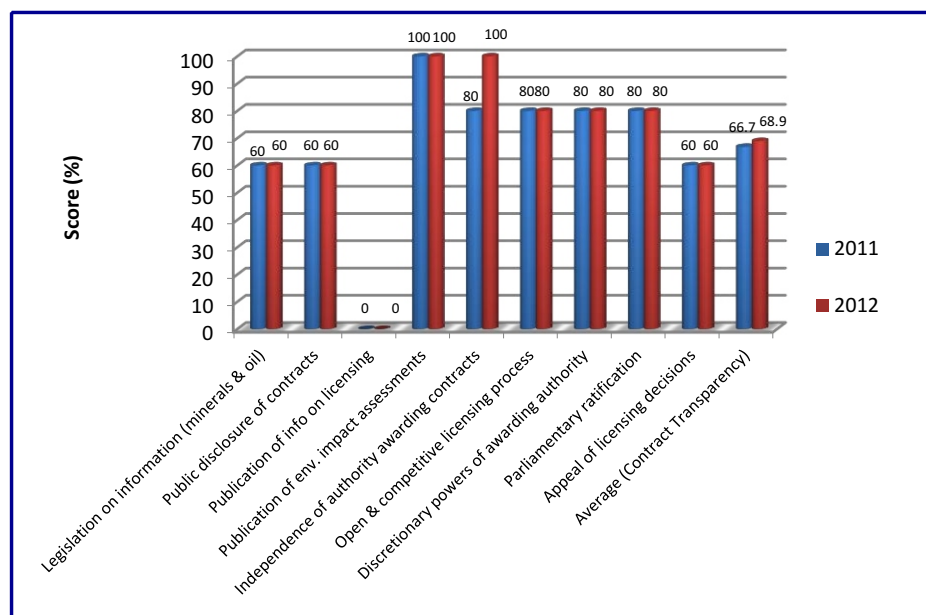
rules for disclosure of information in the oil, gas and mineral sectors; disclosure of contracts to the public; disclosure of environmental impact assessments and processes involved in the awarding of licenses and contracts.

The first question enquires whether Ghana has adopted a rule or legislation that provides for disclosure of information in the oil, gas and mineral sectors. At the moment, there is no such law. However, the passage of the RTI Bill, as well as the GHEITI Bill would compel the Government and the extractive industries to reveal all relevant information to the public. As such our assessment of this question remains unchanged at 3 out of 5 or 60% (Figure 5).

On whether contracts, agreements for oil and gas production and exploration are disclosed to the public; again there are currently no laws compelling the Government to do so. However, it is instructive to note that MoEP and GNPC have put up information on Petroleum Agreements (PAs) on their websites. The former has free downloads of five PAs, while the latter has summaries of 12 PAs but not the details of those agreements. This is clearly another aspect of the oil and gas industry where transparency could be enhanced with the passage of the Bills mentioned above. Given that the situation has not changed since the last report, our score remains unchanged at 3 out of 5 or 60% (Figure 5).

*...the passage of the RTI Bill, as well as the GHEITI Bill would compel the Government and the extractive industries to reveal all relevant information to the public.*

**Figure 5: P-TRAC Index Scores for Contract Transparency**



The third question on Contract Transparency enquires whether the Government publishes information during the licensing process. The situation here remains unchanged as the Government does not publish and is not mandated to publish such information. The score therefore remains at zero as was the case last year. The next question is on whether the reports

*On the issue of licensing in the oil and gas industry, the government currently negotiates in private with interested parties and does not disclose information about the process.*

of environmental and social impacts assessment are published by the oil and gas companies. This is the only area of public disclosure of information where the maximum score of 5 or 100% was awarded last year and the situation remains unchanged in 2012. In this case, both the Environmental Protection Agency and the Jubilee Partners have published the results of the Environmental Impact Assessments on their respective websites.

Question Five on Contract Transparency deals with whether the authority in charge of awarding licenses or contracts for oil and gas production is independent of the National Oil Company, in this case the GNPC. Under the current arrangement decisions on the award of contracts and licenses are made by the Minister of Energy and Petroleum under advice from the PC. In the previous report, we did not assign the full score since we were not convinced of the capacity of the PC given that it had just been established and was even housed in the MoEP. However, based on what we have observed since that time there is nothing to suggest that the PC is not independent. As such we assigned the maximum score or 100% to this question (Figure 5).

The final series of four questions on Contract Transparency deals with the licensing process. The first assesses the issue of whether the licensing process is open and competitive; this is followed by asking whether the licensing process or legislation imposes limits on the authority in charge of awarding licenses and contracts; and the next question is whether Parliament has the authority to ratify oil and gas contracts. The final question enquires whether there is a process to appeal licensing decisions. On the issue of licensing in the oil and gas industry, the government currently negotiates in private with interested parties and does not disclose information about the process. This approach has to do with the high risks of exploration associated with unproven fields which can best be addressed through negotiations. However, given that the West Cape Three Points and Deepwater Tano Blocks are now thought to have proven reserves, the country could maximize benefits by implementing a competitive bidding system. Our score on this question remains unchanged at 4(80%), which reflects our view that there is room for improvement in increasing transparency about the licensing process.

On the issue of discretionary powers of the licensing authorities (i.e., MoEP and the Petroleum Commission), Article 268(1) of the Constitution states that a Petroleum Agreement only becomes effective after approval by Cabinet and ratification by Parliament. This requirement, to some extent, limits the discretionary powers of the awarding authorities. However, they still continue to have significant influence on the entire process before an agreement is submitted to Cabinet and therefore our assessment of this question remains unchanged at 4 (80%).

As indicated above, Parliamentary ratification of exploration or production contracts in Ghana is required for any natural resource before it

becomes effective. However, we are strongly of the view that Parliament does not have adequate financial and human resource capacity to effectively carry out this mandate, particularly in the specific area of assessing oil and gas contracts. For the situation to improve, the research capacity of Parliament needs to be substantially increased. Therefore, we again leave our score unchanged from the previous score of 4 (80%). On the final question of whether parties can appeal a licensing decision, there is currently provision in the Petroleum Commission Act (section 20) for aggrieved parties to do so. Under the Act, the Minister has 30 days to respond to an appeal lodged against the Commission. Aggrieved parties also have the option of taking the matter to a court of law if they are dissatisfied with the Minister's ruling. In spite of these provisions, we are of the view that there is a need to adopt a more transparent process of assessing licensing applications based on a proper and fair points system. We therefore left the score for this item unchanged at 3 out of 5 (60%).

Taken together, the scores for Contract Transparency result in an average score of 68.9% (Figure 5). Compared with the score of 66.7% for 2011, this represents a small improvement in the process of awarding contracts and licenses.

#### 4.4 The Ghana Petroleum Funds

The final component of the P-TRAC Index assesses transparency and accountability in the management of the GPFs, namely the Ghana Heritage Fund and the Ghana Stabilisation Fund. Here, there are five questions enquiring about the rules governing the funds, public availability of information about the activities and performance of the funds, how the funds are utilised, whether the funds are audited and whether the audit reports are publicly available.

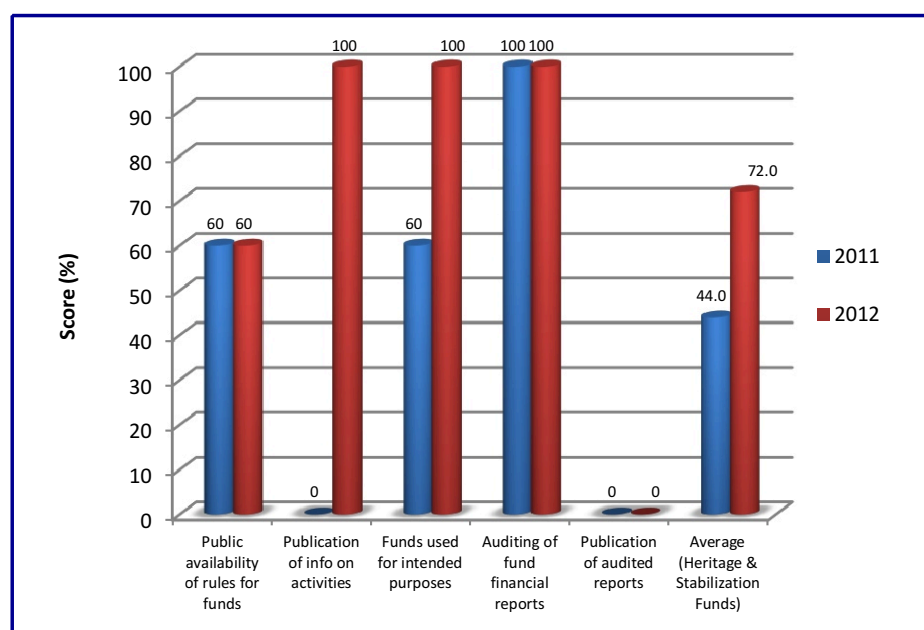
The rules governing how the GPFs should be managed and the requirements for providing information about them are broadly stated in the PRMA. Notwithstanding that, we are firmly of the view that there is a need to provide more detailed information about the performance of the funds. Our score on this question therefore remains unchanged at 4 (80%). The authority in charge of the funds is BoG, which is required under Sub-Section 28(2) of the PRMA to publish semi-annual reports of the funds in two state-owned national dailies and on the bank's website. In the period under review the BoG has duly published the semi-annual reports as expected by the law and as such the maximum score of 5(100%) was assigned. This is in contrast to the previous period when no such information was provided. The third question enquires whether the funds are used for the intended purposes as proposed by the Investment Advisory Committee (IAC). Under Sub-Section 30(1) of the Act, the IAC is required to propose investment policies for the management of the funds to be approved by Parliament. At the time of the last assessment, although

*Taken together, the scores for Contract Transparency result in an average score of 68.9%. Compared with the score of 66.7% for 2011, this represents a small improvement in the process of awarding contracts and licenses.*

*The average index for the GPFs comes to 72%, which is a significant improvement over the score of 44% in the last report.*

the BoG had invested the funds as required, the IAC was yet to be fully functional and we therefore assigned a score of 3 (60%). In this assessment we have assigned the maximum score of 100% because we are satisfied that the IAC is fully functional and we have verified that the funds are being properly managed.

**Figure 6: P-TRAC Index Scores for the Ghana Petroleum Funds**



*The overall score for 2012 is 68.9%, which is a 9.2% increase over the score of 59.7% recorded for 2011. From this we conclude that there have been improvements in all the four components of the P-TRAC Index.*

Question four enquires whether the financial reports are audited, while the fifth and final question asks whether these reports are published. There are extensive provisions for auditing of the GPFs, which includes the 1992 Constitution and the Audit Service Act 2000 for all public accounts and under the PRMA (Section 44) specifically for the oil and gas sector. However, to date, the audited reports on the GPFs are not publicly available. Therefore a score of 5 (100%) is given to Question 4 and a score of zero is given to Question 5.

The average index for the GPFs comes to 72%, which is a significant improvement over the score of 44% in the last report (Figure 6). This is the component of the P-TRAC index that has shown the greatest improvement since the last report.

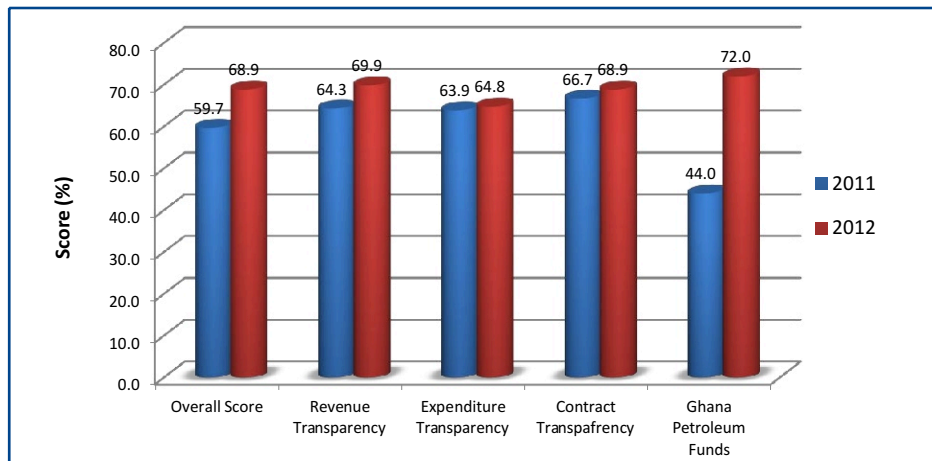
#### 4.5 Combined Results

The final stage in compiling the P-TRAC Index is to combine the average scores for the four components to produce an overall average score which



provides a measure of the level of transparency and accountability in the management of Ghana's oil and gas revenues. The overall score for 2012 is 68.9%, which is a 9.2% increase over the score of 59.7% recorded for 2011 (Figure 7). From this we conclude that there have been improvements in all the four components of the P-TRAC Index.

**Figure 7: Overall P-TRAC Score for 2012**



*As the PRMA will soon be up for review, we are of the view that there is a need to revisit the issue of the priority areas and to spell out more specific projects for funding following consultations with all stakeholders.*

## 5. Summary and Policy Recommendations

The P-TRAC Index project is an initiative of the Institute of Economic Affairs to monitor transparency and accountability in the management of Ghana's oil and gas resources. The Index focuses on four key aspects of the management of oil and gas revenues - Revenue Transparency, Expenditure Transparency, Contract Transparency and the GPFs. Transparency in each of these areas is assessed on the basis of a series of questions. With the benefit of last year's P-TRAC index scores, this year's report allows us to assess how much progress has been made in transparency and accountability over the previous year. The conclusions from this year's assessment can be summarised as follows.

### 5.1 Revenue Transparency

Some progress has been made in improving revenue transparency over the previous year. Improvements were made in the areas of the frequency and availability of reports, as well as some aspects of the institutional environment. In order to make further improvements in this area there is the need for Parliament to pass the important pieces of legislation that are currently before it or are in draft form. These include the GHEITI Bill, the RTI Bill, the Petroleum Exploration and Production Bill, the Local Content and Local Participation Bill, and the Marine Pollution Bill.

### 5.2 Expenditure Transparency

In the area of Expenditure Transparency, we observed a slight improvement over the previous year. To enhance transparency, we advocate the provision of more information on how the ABFA is spent besides what is reported in the annual Budget Statement. We are also of the view that there is a need for more stakeholder consultation on projects for ABFA funding. Currently, the Minister has a discretion to identify projects for funding provided they fall within the four priority areas identified in the PRMA. Going forward, we strongly believe that there is room for more inclusion on how such decisions are made. As the PRMA will soon be up for review, we are of the view that there is a need to revisit the issue of the priority areas and to spell out more specific projects for funding, following consultations with all stakeholders.

### 5.3 Contract Transparency

On Contract Transparency, we find that some progress has been made with the establishment of an independent authority to regulate the sector and to advise the government on the award of contracts and licenses. However, there is much room for improvement by establishing a more open and transparent process of awarding contracts and licenses.

## 5.4 The Ghana Petroleum Funds

Transparency in the management of the GPFs is the area where we have observed the most improvement since our last assessment exercise. One major area of concern is the lack of any information whatsoever on audited reports of the GPFs.

Our overall conclusion is that there has been significant progress in enhancing transparency and accountability in the management of Ghana's oil and gas resources over the previous reporting period. However, at the same time, we have identified a number of areas for improvement which form the basis of our recommendations below.

*Our overall conclusion is that there has been significant progress in enhancing transparency and accountability in the management of Ghana's oil and gas resources over the previous reporting period.*

## 5.5 Policy Recommendations

1. To enhance transparency and accountability, not just in the oil and gas sector, but also in other extractive industries, there is a need for speedy passage of the following bills: the Ghana Extractive Industries Transparency Initiative Bill, the Right to Information Bill, the Petroleum Exploration and Production Bill, the Local Content and Local Participation Bill, and the Marine Pollution Bill.
2. We also advocate speedy passage of the Budget Act to enhance Parliament's ability to conduct comprehensive analysis of the Budget.
3. We recommend a more inclusive process of selecting projects for funding under the ABFA. In the medium term, the PRMA should be reviewed to identify more specific projects for funding after consultations with all stakeholders.
4. To enhance transparency in the award of contracts and licenses, we recommend a more open and transparent process of awarding contracts and licenses, with more public disclosure of information on the process. In particular, we advocate a points-based system for assessing licenses.
5. There is a need for the Auditor General to publish the audited reports on the GPFs.
6. Oversight bodies such as Parliamentary Committees (e.g., the PAC and the Select Committee on Minerals and Energy) and the PIAC must be adequately resourced to enable them function more effectively in their respective roles.

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THE INSTITUTE OF ECONOMIC AFFAIRS  
*A Public Policy Institute*  
P. O. Box OS 1936, Osu, Accra, Ghana.  
Tel: +233-302-244716 / 0307010714  
Fax: +233-302-222313. Email: [iea@ieagh.org](mailto:iea@ieagh.org)  
Website: [www.ieagh.org](http://www.ieagh.org)