EFFECTIVE UTILISATION OF OIL REVENUE: LOCAL CONTENT, TRANSPARENCY AND ACCOUNTABILITY

BY

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AT

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Good morning, it is a great pleasure and honor to be given this very important platform to share my views on the emerging oil and gas industry in Ghana. Let me acknowledge our managing Director Mr. Ibrahim Awal for his leadership and foresight and also the privilege of being on the platform of the second Graphic Round Table Conference with Prince Amoabeng, our most respected CEO and entrepreneur par excellence.

When it was announced in 2007 that Ghana had struck oil in commercial quantities the news was received with both jubilation and trepidation. How can we make sure that this oil find does not become a curse but rather a blessing to the country and its 24 million people? Ghana's gusher age has arrived. But, will it translate into a period of dramatic change and economic growth? If so, how are we laying the building blocks for such an outcome?Norwegians may be justified in trusting their politicians on the use of their country's vast oil revenues, but can we say the same for ourselves? How do we avoid oil revenues becoming just another source of income for regular budgetary expenditures? How do we avoid the Dutch Disease such that we do not experience de-industrialization and economic stagnation, not to talk about potential dislocation of our social order?

The questions and concerns are very valid. Locally, Ghanaians are not convinced that the country and its people have had any significant benefits from a centenary of gold mining. They only have to point to the contrasting tales of two

mining towns of early twentieth century to illustrate the point: the significant transformation of Johannesburg and relative stagnation of Obuasi today.

There is enough evidence in Ghana and other African nations to show that natural resource wealth can produce negative results on a country's economy. Researchers have found a negative correlation between natural resource abundance and economic growth. One such study shows that for the 30 years to 1990, growth rates in resource rich countries were 2 to 3 times slower than that of non-resource rich countries. Even more disturbing is the Collier/Hoeffter model that when primary commodity exports make up 33% of a country's GDP, the likelihood of conflict increases to 22% compared to 1% for a country with no such export

But, there have been many success stories across the globe and my question is: why not Ghana? Australia, Chile, Botswana, Indonesia, U.S.A, and Norway which all possess abundant natural resources have used the blessings of oil responsibly.

Today, the Gulf of Guinea is being described as the New Gulf as the rate of discovery of new oil reserves in Africa has been the fastest in the world in the past decade, particularly in the Western coast of the continent. The US's National Intelligence Council (NIC) estimates that by 2015, 25 per cent of American oil imports will come from West Africa, compared to 16 per cent today – an estimate even considered too conservative in some quarters. Already West Africa supplies as much oil to the US as Saudi Arabia. Furthermore, our oil is light and sweet, making it easier and cheaper to refine than Persian oil. Plus its offshore location reduces transportation costs and minimizes risk of political violence and terrorist attacks.

At an estimated 120,000 barrels per day (bpd), Ghana's proven oil reserves may be significant but not that huge. In comparison, Nigeria's crude oil production averages around 2.2 million barrels per day (bpd). The United States Energy Information Administration (EIA) estimates Nigeria's proven oil reserves at

between 16 and 22 billion barrels, and as high as 32 billion whilst generous estimates put Ghana's reserves below 2 billion barrels. Though modest, it has the capacity to transform this country for good or set-up social change that will destroy the fabric of our society. This makes Nigeria the tenth most petroleum-rich nation in the world. We may never compete with Nigeria on reserves but we can create a very competitive niche in our region as the service centre for the industry and beyond. The challenge is what must we do to position ourselves competitively?

Ghana stands right at the centre of this new era of great expectations, which the New Gulf represents and presents. This shift in global energy patterns to the Gulf of Guinea must lead to a significant re-evaluation of our own priorities. Can we become the Dubai of the New Gulf? If so how do we get there? Thus, it is my submission that how we see the prospects and challenges; how we utilize the oil revenues, how we shape the local content, how transparent and accountablye we manage the revenues from this new-found wealth must be informed by about how we wish to position our state geo-economically in the New Gulf.

According to the Newsweek, Ghana is the 86th best country to live in out of 100 countries worldwide. Now, that is when you are seeing the glass as half-empty. The same report places Ghana at 7th best in Africa and the third best Sub-Saharan African country to live in terms of education, health, quality of life, economic competitiveness, and political environment. Only Tunisia, Morocco, Egypt, Botswana, South Africa and Algeria are ranked higher than Ghana in Africa.

We scored 87th in economic dynamism, 92nd in education and magnificently 44th in political environment. Thus, Ghana's political environment is ranked the best among low-income countries, including India, Nigeria, and all the oil-producing countries outside of the developed world put together.

With Ghana now becoming an oil-rich economy, I see a great opportunity for our country to be the service centre of our region's economic development; the service centre for Africa's fast-growing oil industry. The financial infrastructure is somewhat already in place here in Ghana; oursocial and physical infrastructures are passably relatively developed; our crime rate is competitive on the lower side of the insecurity scale and our human resource level is globally very competitive at least in Africa. We are already blessed. The issue is how well are we willing, ready and prepared to utilize these blessings from God for the good of our fellow citizens,people, our children and their children, Africans and the world? Is our society righteous enough to eschew political capture of oil rent and its windfall revenues?

Let me draw possible lessons for Cape Three Points from far away Texas, USA. The story of oil-rich Texas started in 1901 with the oil strike at Spindletop Hill. This was around the same time that gold was making the headlines. Texas was then predominantly rural with no large cities. The new well at Spindletop Hill produced approximately 100,000 barrels of oil per day,similar, similar to what Phase One of Jubilee Field is expected to produce soon. The next four decades transformed Texas. By the end of World War II, the state was heavily industrialized. What must we do so that by 2030 Ghana will be heavily industrialized, modernized and globally competitive?

Can Takoradi not experience what happened to the city of Houston by becoming home to the largest concentration of refineries and petrochemical plants in Africa just as Brazil also did?Will? Will Accra, like Dallas, become the financial center for the oil industry in Africa? Can the Western Region and, by extension, the whole of Ghana, not be made to undergo a similar transformation like what Texas saw in the previous century and become a significant centre of economic magnetism for the African continent and its post-Independence dream of economic integration and renaissance? What are the major pillars of growth that must be constructed now and who will build a consensus of all the potential forces? How would the content of the Petroleum Revenues Management Bill take care of this?

At the moment it is difficult to point out any specific pillars of growth from the current structure of the Bill. The Bill states in clause 22 that "[a]ll] petroleum revenues, its their uses and expenditure items shall be part of the national budget and shall be is subject to the same budgetary processes that are necessary to ensure the efficient allocation and monitoring of any such uses."

It adds, "The allocation of the Annual Budget Funding Amount shall be to ensure a fair distribution of the national wealth, equality among citizens, and shall be in line with a long-term national development plan, and the Government's overall development strategy as approved by Parliament."

But, in the absence of a national development plan, as it is the situation today, thetoday, the spending allocation within the budget should give priority to the ff:

(a) **agriculture and agro-business**
(b) **human resource development in education and health**
(c) **physical infrastructure and service delivery in education and health**
(d) **water and sanitation**
(e) **road, and rail and port infrastructure**
(f) **rural development**
(g) **the strengthening of the State's institutions al of government concerned with capacity in governance and the, maintaining of law and order**
(h) **public safety and security**
(i) **alternative energy sources,**
(j) **Environmental protection, forest management and the protection of water bodies.**
(k) **Provision of social welfare and the protection of the physically and mentally challenged and disadvantaged citizen**

This is not different from the regular areas of budgetary allocations before oil. I am afraid that if we are not careful the oil will come and go and Ghana's economy would not have moved significantly forward. Thus, we should first

identify where we want to place Ghana strategically in the geo-economic scheme of things things, and identify growth pillars accordingly in order and thereby to prioritise prioritize investmentour investment accordingly.

At the start of the 20th century, agriculture, timber, and ranching were the leading economic engines of Texas. Midway through the century, the Gusher Agehad brought about rapid industrialization. Oil-related growth attracted several industries, including, cement plants, chemical plants, steel factories, automobile manufacturing and many others.

Yet, Texas did not suffer from the so-called Dutch Disease –- the collapse of other sectors of the economy –at the discovery of oil. Lumber production thrived as demand climbed for construction of railroads, refineries, and oil derricks.The construction industry boomed as new homes, schools and buildings had to be built to accommodate growing cities. Agriculture and ranching were not neglected and grew stronger as the rapidly expanding population created more demand for their produce. Agriculture as we are all aware has immense social return for our society and it must be prioritized.

Whatever we need to do to make sure that Ghana's oil production is profitable for the companies involved in it we must do. This is because the more profit there are the more tax revenues can be accrued to the state. For instance, the spill-offs from the oil boom led to Dallas diversifying into aircraft manufacturing and electronics technology, among other things.Texans who became wealthy from the oil boom used their money to modernize American society, by building new communities, which became a model for community planning in America.

There was, however, a significant difference. Unlike, what is happening in Ghana now, the Texan oil boom was financed, led and driven by American citizens. The men who led this Texan boom were – locals, I mean Americans. H. Roy Cullen, H. L. Hunt, Sid W. Richardson, and Clint Murchison were the four most influential businessmen during this era. These men became among the wealthiest and most politically powerful in the state and the nation. As an aside, can we not create 10 such entrepreneurs in each region?

However, the nature of the oil industry today and for a country like Ghana requires the heavy involvement of international oil companies (IOCs) and foreign direct investment (FDI). The industry is characterized by large-scale, capital intensive, high risk investments, requiring high amounts of skill and sophisticated technology.

There may be limited opportunities in the form of backward and forward linkages for the domestic economy to benefit from the extractive activity directly and the export oriented nature of an industry that would be situated on and FPSO offshore offers limited absorptive capacity for under-resourced domestic firms to benefit from its potential spillovers. But, we can change this by being innovative and bold. Our offshore find creates an enclave economy which directly may have very little impact on employment. In Norway only 1% of the population is employed by the oil sector. However, the services to support the sector and the potential use of the Gas find should have significant impact in our drive to transform our economy.

FIRST, SO HOW MUCH?

Government share of petroleum revenues from the Jubilee Field is put at about half of the total revenue. But, this is quiet misleading because of the varying income source from which revenues accrued to the State are derived. It includes 35% income after all costs have been deducted by oil companies; 10% carried interest after deduction of royalty and operating costs; and 5% royalty rate of gross production.

All in all, petroleum revenues will be derived from gross revenue, royalties, additional oil entitlements, initial carried interest, revenues from government participation in petroleum operations, corporate income taxes from upstream and downstream petroleum companies, returns on investments of petroleum funds and capital gain tax from sale of ownership of any petroleum rights.

As to how much is expected from the oil production at least five separate estimates are making the rounds. These are from the Ghana National Petroleum

Corporation (GNPC), the World Bank (WB), the International Monetary Fund (IMF), the German Development Corporation (GTZ), and the Imani Centre.

The Bretton Woods institutions anticipate an annual average revenue of about US$1 billion. The GNPC on its part forecasts annual oil revenue to be between US$836 million and US$1.6 billion; the Ministry of Energy has decided to strike an average by placing the expected annual earnings at US$1 billion; while the GTZ estimates potential annual oil revenue to be as low as US$200 million and as high US$1 billion. The Imani Centre estimates net revenue to Government for the first 15 years to be around US$400m a year.

GNPC's prediction of between US$836 million and US$1.6 billion assumes a daily production rate of 100,000 bpd and crude oil price of US$60 per barrel in the wrost case scenario and production rate of 200,000 bpd in the best case scenario.

Both WB and IMF estimates are based on the assumption that total reserves at the Jubilee Field amount to 500 million barrels with output capacity rising to 120,000 bpd at a crude oil price of $75 bpd.

For instance, the IMF puts annual production cost at US$200 million and the World Bank a capital cost of US$4 billion. The IMF estimates revenue from the Jubilee Field to be US$752 million in 2011 (the World Bank expects US$900 million by 2011) -- a figure I am sure has either been or would soon be revised downwards. The IMF predicts revenue to peak at US$1.55 billion in 2019, declining to US$247 million by 2029. The Bank puts the peak at 2016 with revenue of US$1.8 billion, declining to US$492 million by 2029.

Both the IMF and the World Bank predicts that annual revenues from the petroleum sector could stand around US$1 billion and would continue for the next 20 years from the Jubilee field phase 1 production. This will be a very significant inflow by Ghana's standards considering that all the loans and grants received by the country in 2007 stood at US$1.3 billion.

GHANA PETROLEUM FUNDS

~~**The Ghana Petroleum Management Draft Bill provides for the setting up of the Ghana Petroleum Reserves Accounts – in which all oil revenues accruing to Government will be first transferred. There is a residual account -- the Ghana Petroleum Funds which will contain the Ghana Stabilization Fund and the Ghana Heritage Fund.**~~

Now to the heart of the matter. What does Ghana Petroleum Revenue Management Bill hope to achieve? It is sensible, it is modeled after the Norwegian model so what could go wrong? After all, Norway's Government Pension Fund –Global, now has over US$ 400 Billion in its coffers for a country with a population under 5 million! The fund is under the control of the Ministry of Finance, the Central Bank manages the fund and Parliament and Civil Society have oversight and accountability locus.

The Ghana Petroleum Revenue Management Bill provides for the setting up of the Petroleum Account at the Bank of Ghana in which all oil revenue accruing to Government will first be transferred to. This will constitute the benchmark revenue of which 50% - 75% will be allocated to the Annual Budget funding Amount. The residual amount will be transferred to Ghana Petroleum Fund which will be made up of

- **The Ghana Stabilization fund**
- **The Budget stabilization account, the object of which is to 'sustain public expenditure capacity during periods of unanticipated revenue shortfall', and**
- **The Ghana Heritage fund which is 'to provide an endowment to support the welfare of future generations after the underground petroleum has been depleted'.**

These two funds therefore constitute the programmed savings from our oil revenue with a minimum of 30% going into the Heritage Fund and the balance to the Stabilization Fund.

It is nearly a cut-and-paste version of This is not dissimilar to the Heritage and Stabilization Fund established in the Republic of Trinidad and Tobago in March 2007, from an earlier fund established seven years before. The primary objectives of the fund are to save and invest surplus petroleum production revenues in order to support and sustain public expenditures during periods of revenue downturn (Stabilization Fund), and to provide a heritage for future generations of the nation (Heritage Fund). As of September 30, 2009, the Trinidadian fund had net assets of $2.96 billion.

Similar funds exist elsewhere, such as the Petroleum Fund of Norway (now the Government Pension Fund -- Global), Venezuela's Macroeconomic Stabilization Fund, Kuwait's Reserve Fund for Future Generations and UAE Abu Dhabi Fund for Development.

The danger is that the structure of the Petroleum Funds in the proposed Bill can offer governments a false sense of funding security and stifle fiscal innovativeness. When there is a shortfall in national revenues of 10% or more, the Minister of Finance is allowed to transfer funds from the Petroleum Funds – up to 75% of the estimated amount of the shortfall of petroleum revenues or 25% of balance standing to the credit of the Stabilization Fund at the beginning of the year. My question to us as a people is what has been the history of the executive's use of windfall revenue? The utilization of the privatization proceeds of Ashanti Gold in 1994 and in Ashanti Gold 2 in 2004, and the Eurobond proceeds in 2007? Should a Minister of Finance have so much leeway in the bill, given these experiences?

Again, a substantial portion of the debate in Ghana today is between growth and stability and how best to secure the interest of future generations – should we invest in infrastructures today for their future benefit or put money aside for them to decide how best to use such funds? But, that argument is, I dare respectfully say, misplaced – because investing in equity funds today translates into greater liquidity for today's businesses, which can at the same time create intergenerational equity funds wealth. The balance must also be struck on how much is invested locally to avoid the overheating of the domestic stock market and general price levels.

LOCAL CONTENT

After half a century since the discovery of oil in commercial quantities in the Niger Delta, it was not until Thursday, April 22, 2010 that the then Acting President of the Federal Republic of Nigeria, Jonathan Goodluck assented to the country's local content bill. Industry experts estimate that Nigerian content in the oil and gas sector is around 40%, indicating that most white-collar jobs, engineering, materials and maintenance work are provided by foreign workers and overseas suppliers.

But, brave Ghana wants to achieve more than double of this within its first decade of oil production. According to the Local Content and Local Participation in Petroleum Activities - Policy Framework, the vision of Government is to achieve "full local participation in all aspects of the oil and gas value chain of at least 90% by 2020." An objective of the policy is to increase capabilities and international competitiveness of domestic business and industrial sectors.

But, as to how this would be achieved in practical terms, one may have to go beyond the policy framework for possible clues. But, there is a lot that can be done to prevent the oil industry from becoming an enclave economy by creating linkages to the wider domestic economy. The policy can require upstream oil companies operating in Ghana to place a percentage of the annual profit in Ghanaian banks. As we have seen with the insurance of the FPSO, they can be encouraged to contract all insurable risks to be provided byGhanaian insurance companies and only services of Ghanaian lawyers and law firms must be retained. As stated earlier, a more strategic look at the uses and benefits of Gas may have greater job creation and industry supporting impact.

The challenge is to achieve a convenient balance between the need for the IOCs to make good returns and for local capacity to be built. We must ensure that substantial prorportion of human capital,capital; engineering parts, goods and services utilized by the petroleum industry are generated locally.

But, in order for local content to focus on value addition and to promote technology transfer I would propose the setting up of a special fund for this ppuirpose. We should back local content with capital. I would like to call this the 'Ghana Opportunity Development Fund' (The GOD Fund). The object of the GOD fund would be to provide access to capital to support entrepreneurs in the SME space and resources to support Ghanaians to participate in our local content objective.

~~**ENTREPRENEURSHIP FUND**~~

~~**Xxxxxxxxx do the write up on what it should contain xxxxxxxxxx**~~

A country such as Norway has the luxury of creating an international fund into which the surplus wealth produced by its petroleum income is deposited. As of 30 June 2010 its total value was NOK 2.792 trillion (Norwegian Kroner) equivalent to US$449 billion. It is the largest pension fund in Europe and the fourth largest in the world.

Our priority is to be able to grow our economy, diversify it and create wealth. The South African gold industry helped South Africa to develop because South African entrepreneurs led it. American oil industry was created by Americans and benefited American entrepreneurs.

It may be desirable for an advanced economy like Norway to invest a greater proportion of its petroleum funds in international pensions funds but to cut and paste such a formula proportionately in Ghana may However we should be more sanguine in Ghana so as not to defeat our development imperatives. Even in Norway the debate is still on as to whether the state should invest more of the petroleum revenues in the domestic economy instead of saving the funds abroad for the future and also what degree of increased government spending will increase inflation. The debate therefore in Ghana should not be over.

IDENTIFYING AND BUILDING PILLARS OF GROWTH

Ghana's proven natural resources include gold, timber, industrial diamonds, bauxite, manganese, fish, rubber, hydropower, petroleum, silver, salt, limestone. Apart from gold and timber, very little has been done in recent years to leverage the revenue potentials that the other resources hold for this country. For example, it is estimated that there is more than 500 million metric tonnes of bauxite in Ghana (Kyebi and Nyinahin) which combined can generate up to US$200 billion of revenue. Must we not be looking at how the revenue from oil can be used to build the kind of infrastructure that can spark bauxite mining and other pillars of growth in a way that Ghana has always dreamed of but never dared realized?

~~A major challenge to the local economy is the volatility of oil revenue.Avoiding the phenomenon known as the 'Dutch Disease' -- the crowding out of sectors of the economy by one sector – could mean using the significant revenues from that one sector to grow the other sectors.~~

Back to the Texas model, the arrival of railroad transportation in the last two decades of the 19th century made sweeping changes in the lives of many of Texas' mostly rural, mostly agrarian citizens, forever altering the face of the state. Settlements were formed around temporary railroad-workers' camps; speculators created brand-new towns out of virgin prairie beside the gleaming rails.

The arrival of railroad transportation across the length and breadth of Ghana will expand farmers markets by providing faster and cheaper form of transport of products. It would bring Ghanaian communities closer and Ghana's neighbours closer. It would enhance Ghana's role as the service centre of the region. Railroads can serve as one of the major pillars of progress, prosperity and regional integration.

Needless to say a massive program in the North to transform it from the current neglect and quite modest intervention programmed for SADA will be required.

To transform the North to become the nexus of the Sahel with modern infrastructure, agriculture and services will have tremendous impact in our economic development.

I would recommend that not more than 50% of the Petroleum Account be used for the Annual Budget funding Account while the Ghana Petroleum funds should constitute the Stabilization fund, the Heritage Fund, the Ghana Opportunity Development Fund and a clearly defined Infrastructure Program in the Annual Budget.

The Bill establishes a robust transparency and accountability model and more than meets all EITI (Extractive Industry Transparency Initiative) requirements. It includes an investment advisory committee, bank of Ghana's management mandate, parliamentary approval mechanisms, and a public interest and accountability committee. Records are also published quarterly and audited, gazette and in at least two daily newspapers. The current Freedom of Information Act should further consolidate the accountability and transparency needs of our emerging oil and gas society.

I am confident that we as a nation with this type of debate led by graphic, media and civil society should be able to achieve a political consensus that will protect our country into posterity. The private sector seems to have fallen behind in this debate and we need to wake up to this daunting reality. We cannot afford to allow ourselves to fall prey to political capture or the proverbial resource curse but rather to make oil a blessing of national ownership and pride. Let us join the ranks of Texas, Norway, Brazil, Botswana, to name a few. If any country can do it in Africa, we can. For our God did not give us a spirit of timidity but of courage, of love and self discipline.

Thank you and may God continue to Bless our Country.