Natural Resource Funds

Ghana

Holding, Heritage and Stabilization Funds

Natural Resource Governance Institute

Columbia Center on Sustainable Investment

A joint center of Columbia Law School and the Earth Institute, Columbia University
**Synopsis**

**Market Value**

**Ghana Stabilization Fund**
$54.9 million

**Ghana Heritage Fund**
$14.4 million

**Fund Highlights**

- Ghana's petroleum revenue is first held in an intermediary Petroleum Holding Fund where it is then allocated to the Ghana National Petroleum Corporation, the Annual Budget Funding Amount and Ghana's two sovereign wealth funds, collectively known as the Ghana Petroleum Funds:
  - The Ghana Stabilization Fund
  - The Ghana Heritage Fund

- Both of the Ghana Petroleum Funds are held separately from Ghana’s Consolidated Fund, which is funded by the Annual Budget Funding Amount and serves as the source of the national budget.

- The Funds are overseen by a multi-stakeholder Public Interest and Accountability Committee that promotes compliance with Ghana’s oil revenue management laws.
**Fund Inception**

- The Petroleum Holding Fund, the Ghana Heritage Fund and the Ghana Stabilization Fund were established under the **Petroleum Revenue Management Act of 2011**.¹

- The Act anticipates that when Ghana’s natural resources are eventually depleted, the two sovereign wealth funds will cease to exist and all remaining assets will transfer to a new fund, the Ghana Petroleum Wealth Fund.²

**Fund Objectives**

- The Ghana Stabilization Fund's aim is to mitigate the negative effects of oil revenue volatility on the national budget, and sustain public expenditure capacity in the unanticipated event of a revenue shortfall.³

- The Ghana Heritage Fund's aim is to save oil revenues for future generations of Ghanaians.⁴

- The Petroleum Revenue Management Act ensures that together the funds provide, “for the collection, allocation and management of petroleum revenue in a responsible, transparent, accountable and sustainable manner for the benefit of the citizens of Ghana in accordance with Article 36 of the Constitution.”⁵
Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.

Good Governance Standards Met

13/16
GHANA

Operational Laws, Rules and Policies

**Fund Deposit Rules**

All petroleum revenue is initially collected and deposited in an intermediary Petroleum Holding Fund at the Bank of Ghana. This is defined as:

- Royalties
- Profit oil
- Corporate income tax
- Participating interest
- Transfers from the Ghana National Petroleum Corporation to the government
- Investment income
- Surface rentals

**Fund Withdrawal Rules**

- **Petroleum Holding Fund**
  - The Ghana National Petroleum Company receives a share from the Petroleum Holding Fund that is up to 55% of ‘carried interest,’ the share of profits that go to the state as part-owner of oil production.
  - The Fund allocates an Annual Budget Funding Amount to the government’s Consolidated Fund for annual budget spending. The amount cannot exceed 70% of the Benchmark Revenue for the year and must be approved by Parliament. Benchmark Revenue is a seven-year average of petroleum revenue calculated by the Ministry of Finance. The Annual Budget Funding Amount must be used for development-related expenditures.

- **Ghana Heritage Fund**
  - Withdrawals can only be made once oil reserves are depleted and both Petroleum Funds’ assets are merged into the Ghana Petroleum Wealth Fund. From that point forward, the amount allocated to the Annual Budget Funding Amount shall not exceed the interest on the Ghana Petroleum Wealth Fund’s investments.
  - Through a resolution of Parliament, a portion of the accrued interest may be transferred to a new fund established by or under the Petroleum Revenue Management Act after a period of 15 years from the Ghana Heritage Fund’s inception.

- **Ghana Stabilization Fund**
  - Withdrawals may support the budget if quarterly oil revenues fail to adequately cover 25% of the Annual Budget Funding Amount.
  - While successive quarterly shortfalls are treated differently by the Petroleum Revenue Management Act, one quarter’s shortfall is covered by withdrawing from the Ghana Stabilization Fund an amount equal to the lesser of either 75% of the estimated shortfall for the quarter or 25% of the Fund balance.

Ghana has strong deposit and withdrawal rules that help prevent mismanagement of oil revenues.
Operational Laws, Rules and Policies

Flow of Funds

- Petroleum Revenue
- Petroleum Holding Fund
  - Ghana National Petroleum Company
  - Budget
  - Ghana Stabilization Fund
  - Ghana Heritage Fund

Funds from the Stabilization Fund are used to cover shortfalls in quarterly petroleum revenue.

For fiscal rules, see page 5
Investment Allocation
The Funds can be invested in ‘qualifying instruments’. A qualifying instrument is:

a) debt instrument denominated in internationally convertible currency that bears interest and is issued by an investment grade security or guaranteed by the IMF, World Bank or a sovereign state with investment grade rating.

b) an internationally convertible currency deposit with the Bank for International Settlements, the European Central Bank; the Central Bank of a sovereign State, other than the Republic of Ghana, with a long-term investment grade rating.

c) a derivative based on a debt or deposit as described in a) and b) and whose acquisition reduces the financial exposure to risks associated with those instruments.

Actual Investments
Funds are invested at the Euroclear Bank in AAA-rated, low-risk bonds. Specific investments, the countries where the funds are held and the currency they are held in are, however, unknown.

Asset Allocation
- Euroclear Bonds 100%

Policy on in-country investments:
The Funds may not invest directly in Ghanaian assets.
Parliament drafted the legislation creating the Funds, and is required to approve many of the actions to manage the Funds.

The Minister of Finance is responsible for overall management of the funds, transfers into and out of the fund, and the funds’ investment strategy.

The PIAC assesses compliance with the laws and submits reports to Parliament, the President and the general public via public meetings and online.

Management and internal accountability

The Investment Advisory Committee advises the Ministry on how to invest the funds.

External accountability

The Auditor-General performs an audit and reports to Parliament.
Oversight and Safeguards

Oversight Mechanisms

• An oversight committee, the Public Interest and Accountability Committee, is empowered by law to monitor and “police” Fund activity, ensuring compliance with the regulations governing the Fund. The committee reports must be published and submitted to parliament and the public.

• A periodic review process of investment methodology exists to improve management of investments.

• Finances are subject to regular and comprehensive internal audits.

• Arbitrary withdrawals from the Funds are not allowed; all spending from petroleum revenues must be approved by parliament.

• Funds are managed separately from the country’s international reserves.

• Fund finances are subject to a regular and independent external audit that meets international standards.

Common Oversight Mechanisms or Safeguards Not Present in Ghana

• International oversight institutions, such as the World Bank or the International Monetary Fund, do not routinely monitor Fund management.

• There are no publicly available audits or reports on the flow of funds from the Petroleum Holding Account to the Ghana National Petroleum Company.
## Transparency Laws, Rules and Policies

There is public disclosure of the following:

<table>
<thead>
<tr>
<th>Provision</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>When or how often Fund reports are published and made publicly available</td>
<td>Yes</td>
</tr>
<tr>
<td>Which individuals or organizations are responsible for publishing Fund reports</td>
<td>Yes</td>
</tr>
<tr>
<td>Size of the Fund(s)</td>
<td>Yes</td>
</tr>
<tr>
<td>Deposit and withdrawal amounts</td>
<td>Yes</td>
</tr>
<tr>
<td>Returns on investments</td>
<td>Yes</td>
</tr>
<tr>
<td>Detailed asset allocation – geographic location</td>
<td>No</td>
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<tr>
<td>Detailed asset allocation – asset class</td>
<td>Yes</td>
</tr>
<tr>
<td>Detailed asset allocation – specific assets</td>
<td>No</td>
</tr>
<tr>
<td>Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules</td>
<td>No</td>
</tr>
</tbody>
</table>
Implementation of Laws, Rules and Policies
(as of January 2013)

Ministry of Finance and Economic Planning
- Failed to estimate and certify the Benchmark Revenue using the formula in the schedule.
- Failed to submit an annual report on the Funds to Parliament as part of the yearly presentation of the budget statement and economic policies.
- Failed to publish in at least two state-owned daily newspapers.
- Failed to make regulations for the effective performance of the Petroleum Management Act.
- Failed to develop an investment policy for the investment of the Funds.

Auditor General
- Failed to submit audited report to Parliament.
- Failed to publish the reports on the Funds within 30 days after submission to Parliament.

Bank of Ghana
- Failed to submit a report on the Funds to the Minister and the Investment Advisory Committee Quarterly.
- Failed to publish in newspapers.

Ghana Revenue Authority
- Failed to assess and collect surface revenues.

Parliament
- Fulfilled all of its obligations under the Petroleum Revenue Management Act.

Investment Advisory Committee
- Obligations were not fulfilled because the committee was not formed until January 1, 2012.
- Failed to submit reports on the performance of the Funds to the Minister after receiving quarterly reports from the Bank of Ghana.
- Failed to report to the Minister on the performance and activities of the Ghana Petroleum Funds.

Public Interest and Accountability Committee
- Fulfilled all of its obligations under the Petroleum Revenue Management Act.

Annex:
List of Applicable Laws

Constitution of the Republic of Ghana
http://www.unhcr.org/refworld/country,,NATLEGBODY,GHA,3ae6b5850,0.html

Petroleum Revenue Management Act
Act 815

Bank of Ghana Act
Act 612

Public Procurement Act
Act 63
http://www.ppbghana.org/documents/Public%20Procurement%20Act%202003%20Act%20663.pdf

Ghana Revenue Authority Act
Act 795
Endnotes