BREAKING THE CYCLE OF IMF SUPPORT: ADDRESSING GOVERNANCE INEFFICIENCIES AND DRIVERS OF PUBLIC DEBT IN GHANA

- BENJAMIN BOAKYE
- GODFRED A. BOKPIN
- CHARLES GYAMFI OFORI

APRIL 2023

ACEP Africa Centre for Energy Policy

IMANI Center for Policy & Education

BREAKING THE CYCLE OF IMF SUPPORT: ADDRESSING GOVERNANCE INEFFICIENCIES AND DRIVERS OF PUBLIC DEBT IN GHANA

APRIL 2023

BENJAMIN BOAKYE

GODFRED A. BOKPIN

CHARLES GYAMFI OFORI

Table of content

List of tables

List of figures

Abbreviations

Abbreviation	Meaning
ACEP	Africa Centre for Energy Policy
AfDB	African Development Bank
CAPEX	Capital Expenditure
CEO	Chief Executive Officer
CWM	Cash Waterfall Mechanism
DFID	Department for International Development
ECG	Electricity Company of Ghana
EDRL	Energy Debt Recovery Levy
ESLA	Energy Sector Levies Act
ESRP	Energy Sector Recovery Program
FCDO	Foreign Commonwealth Development Office
FPSO	Floating Production Storage and Offloading
GDP	Gross Domestic Product
GETFUND	Ghana Education Trust Find
GH	Ghana
GHS	Ghana Cedis
GIADEC	Ghana Integrated Aluminium Development Corporation
GIIF	Ghana Infrastructure Investment Fund
GISDEC	Ghana Integrated Steel Development Corporation
GIZ	German Agency for International Cooperation
GNGC	Ghana National Gas Company
GNMC	Ghana National Manganese Corporation
GNPC	Ghana National Petroleum Authority
HFO	Heavy Fuel Oil
IFC	International Finance Corporation
IMF	International Monetary Fund
IPP	Independent Power Producer
JOHL	Jubilee Oil Holdings Limited
LC	Letters of Credit
LNG	Liquified Natural Gas
LPG	Liquified Petroleum Gas
MDA	Ministries, Departments and Agencies
MIIF	Mineral Income Investment Fund
MMBTU	Miillion British Thermal Units
MMDA	Metropolitan, Municipal and District Assemblies
NDC	National Democratic Congress
NGC	National Gas Clearinghouse
NPP	New Patriotic Party
OCTP	Offshore Cape Three Points
PAYE	Pay-as-you-earn
PBCOSI	Public Boards, Corporations and other Statutory Institutions

Abbreviation	Meaning
PDS	Power Distribution Services
PHDC	Petroleum Hub Development Corporation
PHF	Petroleum Holding Fund
PIAC	Public Interest and Accountability Committee
PPA	Public Procurement Authority
PRMA	Petroleum Revenue Management Act
PSP	Private Sector Participation
SGMC	State Gold Mining Corporation
SOE	State Owned Enterprise
TEN	Twebebia Enyerra Ntomme
USAID	United States Agency for International Development
VAT	Value Added Tax
VRA	Volta River Authority

Executive summary

In recent years, Ghana's public debt has been steadily rising, and as of November 2022, it amounted to GHS 575 billion, with GHS 382.7 billion being external debt and GH¢193.1 billion domestic debt. The COVID-19 pandemic-induced spending has contributed to widening the gap between revenues and expenditure, about 79% in 2020. The government secured approximately $1.5 billion from various development partners, including the IMF, World Bank and the African Development Bank (AfDB), to fund pandemic-related expenses in 2020, further increasing the country's debt burden.

Despite requesting IMF assistance for the 17th time to achieve fiscal consolidation and debt sustainability, an analysis of Ghana's governance structure suggests that the measures taken will only provide short to medium-term fiscal consolidation and balance of payments. Even after concluding the 16th IMF program in 2019, the Fund expressed concerns about Ghana's fiscal vulnerabilities, and the country remained on this path. The government has identified revenue-generating measures through additional taxes, but these have not significantly contributed to the worsening debt distress and economic challenges.

The leading causes of Ghana's public debt have been identified in this paper as stemming from inefficiencies in governance, which have been revealed in weak procurement practices, poor contingency planning and excessive spending over revenues, inadequate state institutions, and insufficient loan monitoring mechanisms. These must be addressed through long-term solutions to avoid a recurring cycle of seeking IMF support.

The discussion highlights that resolving Ghana's debt requires more than just IMF programs. The governance structure needs significant changes to ensure accountability, efficiency, and effective policy implementation. Therefore, this report proposes the following recommendations for the government to consider

1. There is a need for a national dialogue on the most effective procurement system that aligns with the Ghanaian context and delivers value to citizens.

2. Ghana should align its expenditures with its revenue to reduce deficit spending. Merely relying on GDP as a benchmark is insufficient, particularly when the disparity between expenditure and revenue is widening from 21% in 2018 to 52% in 2021.

3. There is an urgent need for a performance audit of all state agencies to establish optimal numbers of staff and administrative budgets for their operations.

4. The government must establish mechanisms to assess the effectiveness of expenditure and the capacity of projects to deliver value that facilitates loan repayments.

5. It is imperative that the private sector participates in the power sector with effective regulation by the state to ensure their delivery of value. Tier-two pension investments could be an option to mobilise domestic revenue for power sector investments. It is

unacceptable for the government to spend billions of dollars to meet payment obligations resulting from poor management and procurement-driven investments.

6. The government should enforce laws transparently to encourage investments and assure investors of fair treatment in the energy and extractive sectors.

7. There is a need for active citizenship and frequent conversations on how governance addresses the country's fiscal challenges. This requires the participation of the private sector, media and Civil Society on the broad governance challenges that could lead to debt unsustainability.

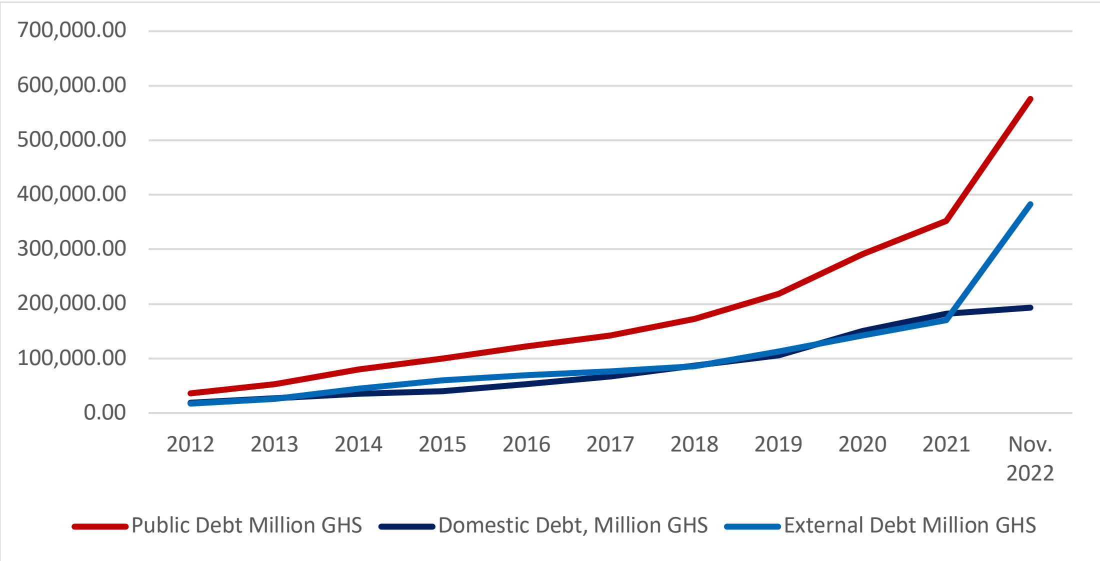
Chapter One: Introduction

Governments and public institutions need adequate funds to cover the expenses of their operations. These expenses include compensating employees, financing public services, and developing infrastructure. Borrowing enables governments to secure funds for operations when domestic revenues are not enough to meet their countries' development needs. Governments borrow from the financial markets, regional development banks, and multilateral organisations such as the World Bank and the International Monetary Fund (IMF).

However, governments must ensure that borrowings can be repaid by carefully examining its revenue potential and economic growth. [1] Several factors, including sound macroeconomic policies, adequate revenue generation, and efficient debt management, can maintain sustainable debt levels. Countries become debt-distressed when they cannot meet their debt obligations and have a higher risk of default. These countries undertake debt servicing obligations at the expense of investments in critical infrastructure.

Over the past few years, Ghana's public debt has been increasing. As of November 2022, Ghana's total public debt stock was GHS 575 billion, consisting of GHS 382.7 billion in external debt and GH¢193.1 billion in domestic debt (See Figure 1).

Figure 1: Ghana's public debt stock from 2012 to November 2022 (GHS million)



Source: Authors' construction based on the Annual Debt Reports and the Summary of Economic and Financial Data.

[1] Hakura, D. (2020). What is debt sustainability. International Monetary Fund. Retrieved September 16, 2022, from https://www.imf.org/en/Publications/fandd/issues/2020/09/what-is-debt-sustainability-basics#:~:text=A%20country's%20public%20debt%20is,ass istance%20or%20going%20into%20default.

The rising public debt has led to significant interest payments, consuming much of the country's domestic revenues. As of September 2022, interest payments accounted for approximately 49% of the total domestic revenue, up from 34% in 2017. This situation, coupled with employee compensation, amounts to 94%, making it challenging for the country to use its domestic revenue to finance development projects or amortise its debt. Consequently, the government cannot afford to undertake key development projects with domestic revenue.

Ghana adds to its debt load each year by borrowing from domestic and international creditors to meet its planned expenditure. To illustrate, from 2016 to 2021, the government raised about $11.7 billion via the Eurobond market.[2] The consequent escalation of debt servicing expenses has strained the government's finances. Therefore, Ghana's debt has reached an unsustainable level, requiring robust steps to overcome the adverse effects.

Ghana's approach towards fiscal consolidation

Prudent debt management practices have become a significant challenge for many developing countries whose debt crises result from high levels of public debt, low economic growth, and increasing deficits.[3] These are worsened by the inability of governments to strengthen their economies through policies that promote growth, export diversification, and fiscal discipline while ensuring that their debt levels are sustainable. In the case of Ghana, previous debt sustainability analyses conducted by the World Bank and IMF (December 2019,[4] April 2020,[5] and September 2021[6]) showed that the country showed a high risk of debt distress. As a result, Ghana was advised to undertake rigorous fiscal consolidation measures to minimise its risk of debt distress.

To combat liquidity and solvency issues, the government of Ghana has implemented various policies to stimulate economic growth, including revenue generating and austerity measures. In 2021, about four new levies were introduced to recover Covid 19 expenditure and meet energy sector payment obligations. Additional levies were also introduced to support the financial sector reform. The government also abolished the road tolls and introduced the electronic transfer levy in 2022 with the hope of broadening the tax base. Despite the public uproar and concerns about its potential negative impacts, Parliament passed the e-levy, which has been in operation since May 2022.

---

[2] Annual Public Debt Reports from 2016 to 2021

[3] Pérez Caldentey, E. (2023). Financial openness, financial fragility and policies for economic stability: a comparative analysis across regions of the developing world.

[4] Ghana - Joint World Bank-IMF Debt Sustainability Analysis : 2019 Update (English). Washington, D.C. : World Bank Group. Available at http://documents.worldbank.org/curated/en/107291558383900674/Ghana-Joint-World-Bank-IMF-Debt-Sustainability-Analysis-2019-Update

[5] Ghana - Joint World Bank-IMF Debt Sustainability Analysis : 2020 Update (English). Washington, D.C. : World Bank Group. Available at https://documents1.worldbank.org/curated/en/707381592860938004/pdf/Ghana-Joint-World-Bank-IMF-Debt-Sustainability-Analysis.pdf

[6] Ghana - Joint World Bank-IMF Debt Sustainability Analysis : 2020 Update (English). Washington, D.C. : World Bank Group. Available at https://documents1.worldbank.org/curated/en/973971632340489819/pdf/Ghana-Joint-World-Bank-IMF-Debt-Sustainability-Analysis.pdf

In 2023, the government announced new revenue-generating measures across various sectors. These measures include increasing the VAT rate, amendments to the income tax and excise duty law, and the introduction of the Growth and Sustainability Levy, which repeals the National Fiscal Stabilisation Levy Act. The details of the various proposed revenue measures are provided in Table 1.

Table 1: New revenue-generating measures introduced by the Government of Ghana from 2021 to 2023

New levies	Purpose	Rates
2021		
Covid 19 Health Levy	Support Covid-19 expenditures and provide for related matters	1% on the value of the taxable supply of goods or services or the value of imports.
Energy Sector Recovery Levy	To support the payment of energy sector bills, capacity charges and feedstock.	GHp 20 per litre on petrol and diesel and GHp 18 per kg on LPG
Sanitation and Pollution Levy	To improve air quality in urban areas and combat pollution and construction of infrastructure for solid and liquid waste disposal, among others.	GHp 10 per litre on petrol and diesel.
Financial sector recovery levy	To support financial sector reforms and provide for related matters	5% on the profit before tax of a bank
2022		
Electronic transfer levy	Enhance revenue mobilisation by broadening the tax base	1.5% on electronic transfer of money
2023		
Reintroduction of road tolls	Road tolls were abolished in 2021 after the government announced its introduction of the e-levy. However, the government plans to reintroduce the road tolls in 2023	An average of about GHp 50 in road tolls
Increase in VAT rates	Enhance revenue mobilisation	VAT increased from 12.5% to 15%
Income tax amendment	Amendments are made to the existing income tax to support the growing economy leading to a revenue yield of about GHS 1.29 billion	a. Introduction of an additional income tax bracket with a tax rate of 35% b. New taxes on betting and lotteries c. Review of upper limits for motor vehicle benefits d. Introduction of other withholding taxes.
Excise duty and excise tax amendment	Amendments are made to the existing excise duty tax to increase the excise duty regarding cigarettes and tobacco products, wine, malt drinks and spirits and other sweetened beverages.	a. 20% of ex-factory price mineral water, aerated water, non-alcoholic beer, energy drinks and other non-alcoholic drinks b. 50% of the ex-factory price on cigarettes and cigars plus a specific duty of GH28p per stick. c. Other taxes on beers, malt drinks etc.
Growth and sustainability levy	Raise money for growth and sustainability and provide for related matters. It repeals the National Fiscal Stabilisation Levy Act.	a. 5% of profit before tax on Category A companies (banks, insurance companies, telcos, shipping lines etc.) b. 1% of gross production on outputs from extractive sector companies (Category B) c. 2.5% of profit before tax on any company not classified as category A or B.

Data Source: Ministry of Finance, Parliament of Ghana

In 2022, the Minister of Finance presented measures to ensure the country recovers from the economic challenges. The government introduced expenditure-cutting measures, which included a 30% salary cut for ministers and heads of State-Owned Enterprises (SOE). The government also promised to plug revenue leakages and improve the monitoring of the quarry and other extractive activities to increase revenue mobilisation.[7]

These efforts were meant to ensure fiscal consolidation, improve the country's financial stability, and reduce its exposure to debt distress and unsustainability. However, these measures failed to ensure economic sustainability and keep the popular resolve of the government not to go to IMF for the 17th time.

Eventually, Ghana requested assistance from IMF restore macroeconomic stability and debt sustainability. However, the fact that Ghana has approached the IMF an average of every four years raises concerns about whether the country will make an 18th request in the next three to four years. Moreover, if the need arises for another request, it raises the question of whether IMF interventions alone will be sufficient without addressing the fiscal and governance issues that underpin the recurrent return to the IMF. Thus, it is crucial to identify and understand the debt drivers to create a sustainable path to prevent the accumulation of further debt in the future, especially where some of the fiscal and governance drivers of Ghana's debt are not up for discussion either with IMF or the public.

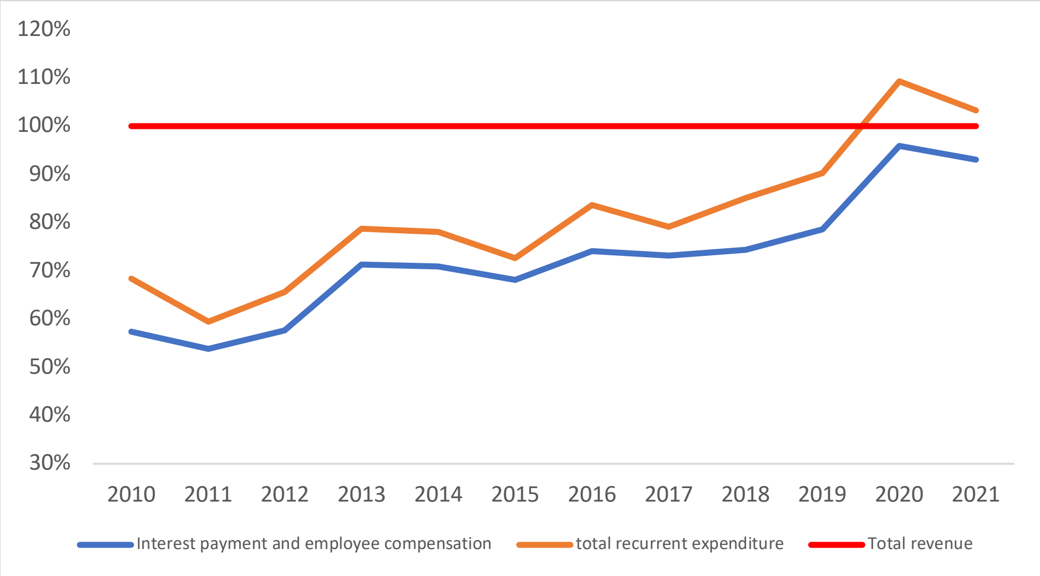
This report highlights some fiscal and governance constraints undermining effective fiscal governance and debt sustainability. It also proposes an approach for broader conversation on the specific governance challenges to kick-start a broader national conversation on how these challenges can be addressed.

[7] Ministry of Finance. (2022). Press statement on the economy. Available at https://mofep.gov.gh/sites/default/files/news/MoF-Press-Statement-on-Economy.pdf

Chapter Two: Ghana's debt sustainability trajectory

For the last ten years, Ghana's revenue has been directed towards debt servicing, employee compensation, and other recurrent expenses. These recurring expenditures constituted an average of 81% of the country's total revenues between 2010 and 2021 and surpassed total revenues by 9% and 3% in 2020 and 2021, respectively. Furthermore, compensation and interest payments accounted for roughly 96% in 2020 and 93% in 2021 (see Figure 2).

Figure 2: Ghana's recurrent expenditure as a percentage of total revenue (2010-2021)



Source: Ministry of Finance

This leaves the government with little financial flexibility to undertake significant capital projects, which are essential for economic development and improving the living conditions of Ghanaians. Therefore, the government has increasingly relied on debt financing as a critical funding source for such initiatives. While this strategy allows the government to continue investing in vital infrastructure projects, it increases the need for those investments to generate returns in the short to medium term to enable debt repayment.

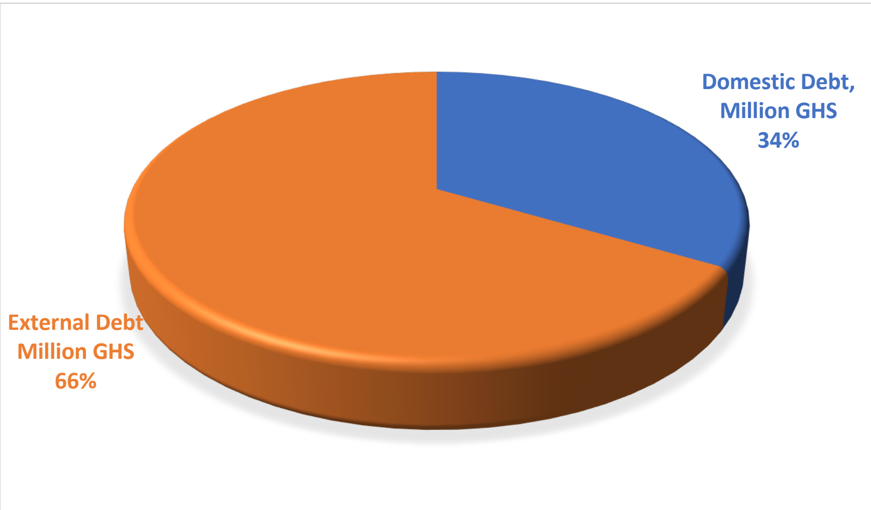
Managing public debts

Managing public debt is a critical challenge for many developing countries. Governments face the challenge of balancing debt repayment and the need to fund development projects, promote economic growth, and respond to external shocks. However, excessive borrowing and unsustainable debt accumulation can undermine economic stability and growth and jeopardise a country's ability to service its debt obligations. Therefore, undertaking rigorous and periodic debt sustainability analyses is essential to track and manage debt exposures and risks of debt distress.

Before Ghana exited the 16th IMF Supported Program in April 2019, debt sustainability was still a threat as it preserved its status as a high-risk debt distress country from 2018.[8] This was worsened by the government's approach to isolate contingent liabilities by SOEs, debt collateralisation schemes that ring-fences cashflows that otherwise would have gone into the Consolidated Fund such as the Ghana Education Trust Fund (GETFUND) and the Energy Sector Levies Act (ESLA). As a result, the assessment of Ghana's exact debt stock varied depending on one's political affiliation or expert opinion and created a contest of Ghana's actual debt. For example, in January 2022, the Ministry of Finance questioned Bloomberg's assessment of Ghana's debt to GDP at 81.5%.[9] According to the ministry, Ghana's debt as of November 2021 was 78.5% of GDP and indicated that it was unlikely for the country's debt to exceed 80% by December 2021.

Irrespective of the debate over the assessment of Ghana's debt stock, government data shows that the country's debt stock has experienced a significant increase. From 2012 to November 2022, the country's total public debts ballooned from GHS 35 billion to approximately GHS 575 billion, indicating an upward trend that has been a concern for many stakeholders. By the end of November 2022, external debts constituted about 66% of the public debts (see Figure 3).

Figure 3: The constituents of Ghana's public debts



Data Source: Ministry of Finance[10]; Bank of Ghana[11]

[8] International Monetary Fund. (2018). Ghana - Fifth and sixth reviews under the extended credit facility, request for waivers for nonobservance of performance criteria, and request for modification of performance criteria—Debt sustainability analysis. Available at https://www.imf.org/external/pubs/ft/dsa/pdf/2018/dsacr18113.pdf; IMF & World Bank (2019). Ghana - Joint World Bank-IMF Debt Sustainability Analysis : 2019 Update (English). Washington, D.C. : World Bank Group. Available at https://documents1.worldbank.org/curated/en/107291558383900674/pdf/Ghana-Joint-World-Bank-IMF-Debt-Sustainability-Analysis-2019-Updat e.pdf

[9] Ministry of Finance (2022). Response to Bloomberg's article on Ghana's debt. https://mofep.gov.gh/press-release/2022-01-16/response-to-bloomberg%E2%80%99s-article-on-ghana%E2%80%99s-debt

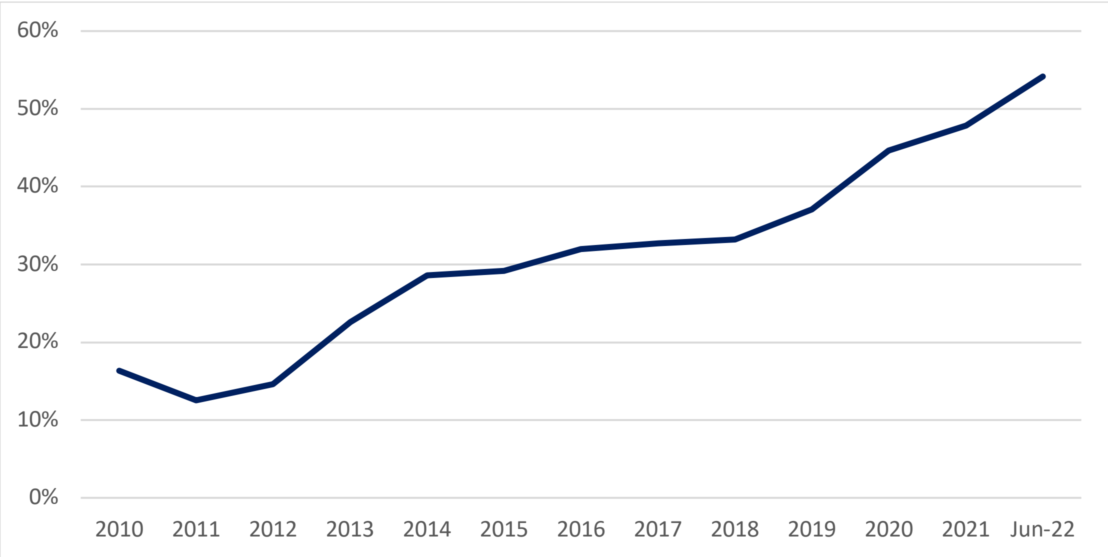
[10] Ministry of Fiancne. Annual public debt reports from 2016 to 2021

[11] Bank of Ghana. (2023). Summary of Economic and Financial Data

Interest payments on debts

Ghana spends a significant amount of its revenue on interest payments. Interest payments increased from 16% to 54% of total revenue between 2010 and June 2022 (see Figure 4). As indicated above, interest payments and other recurrent expenditures (employee compensation and goods and services) have been more than 100% of government revenue since 2021. As a result, Ghana's interest rates on both domestic and foreign loans have been high. The domestic interest rate worsened in 2022 in the heat of Ghana's fiscal challenges. For example, average treasury bill rates increased from 14.2% in January 2022 to 35.9% in December 2022.

Figure 4: Ghana's recurrent expenditure as a percentage of total revenue (2010-2021)



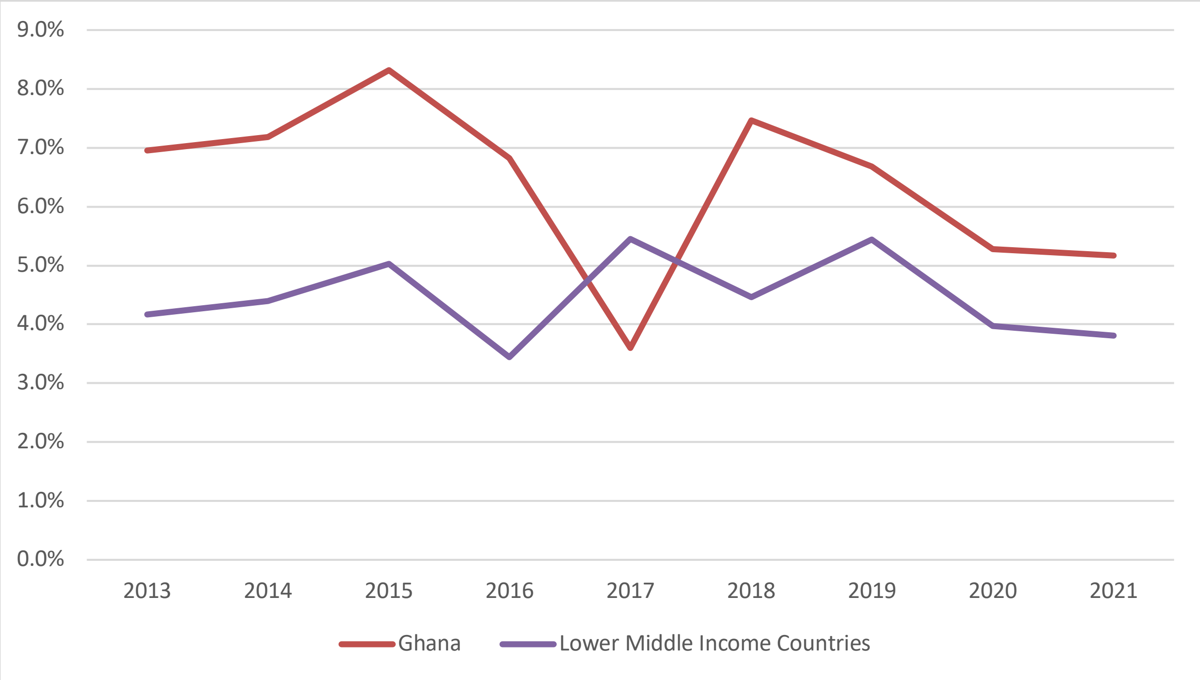
Source: Ministry of Finance *(Ghana Fiscal Data)*

From 2013 to 2021, Ghana's external debt consistently maintained higher average interest rates than the average rate for Lower-Middle-Income countries because of non-concessional loans procured over the period. However, when Ghana did not participate in the Eurobond market in 2017, the average interest rate was lower than the average for Lower-Middle-Income Countries by about 185 basis points.

Between 2013 and 2016, Ghana's average interest rate exceeded the average of Lower Middle-Income Countries by about 300 basis points. Within this period, Ghana borrowed about $3.75 billion from the Eurobond market. Again, Ghana's rate exceeded Lower-Middle-Income countries by about 173 basis points between 2018 and 2021 (see Figure 5). The government borrowed about $11 billion from the Eurobond market within this period.[12]

[12] Annual public debt reports from 2016 to 2021

Figure 5: Average external debt interest rates for Ghana and Lower-Middle-Income-Countries (2013-2021)



Source: World Bank

Borrowing at higher interest rates may not be a problem if the investments to which the loans are applied can generate returns that can at least pay the interest and amortisation of the principal. Thus, investments must yield return in the short to medium term to forestall excessive interest payments, raising two fundamental questions;

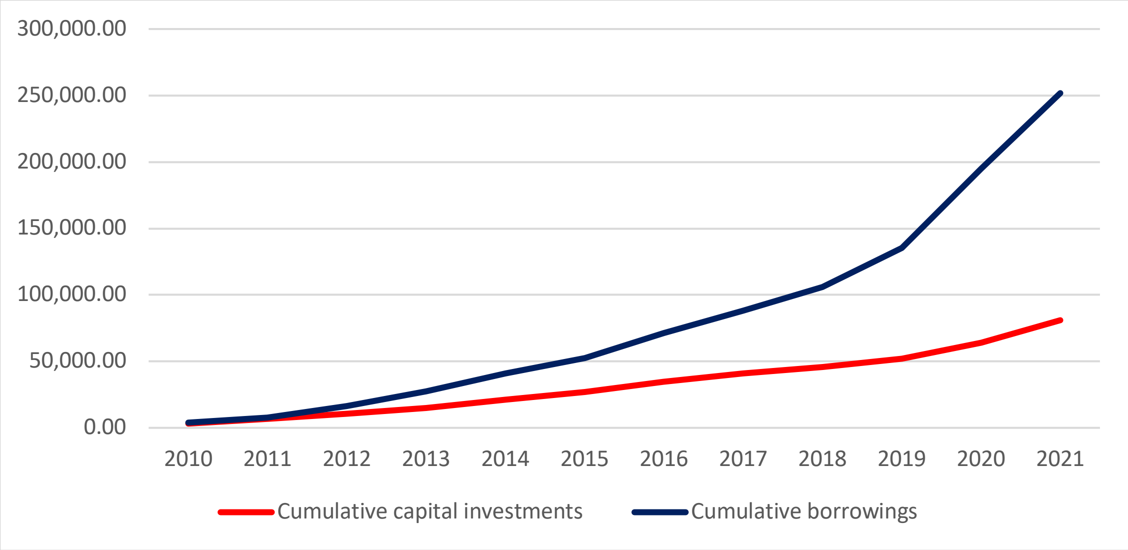
1. What investments are the borrowed funds aligned to?
2. What robust measures are instituted to ensure the efficiency of government operations to reduce exposure to debt?

What investments are the borrowed funds aligned to?

Investing in Ghana's productive assets can yield significant long-term economic benefits. Properly channelled public investments can complement private investments to promote economic growth and generate social and commercial returns. In addition, Ghana's productive sectors offer opportunities for growth and development through capital investments. For instance, efficient agricultural infrastructure and industry investments can enhance import substitution and engineer broader economic growth.

Despite Ghana's substantial borrowings, it has not invested much in infrastructure or capital projects. Figure 6 shows a growing disparity between accumulated capital investments and accumulated debt. Total borrowings between 2010 and 2021 accumulated from GHS 7.1 billion to about GHS 250 billion, compared with total capital expenditure, which accumulated from GHS 3.1 billion to GHS 80 billion

Figure 6: Gaps between Ghana's cumulative capital investments and cumulative borrowings (2010-2021)



Source: Ministry of Finance

Figure 6 suggests that Ghana has been borrowing more money than it has been investing in infrastructure and capital projects which can have severe implications for its economic development and long-term sustainability. This is because infrastructure and capital investments are typically long-term assets that generate returns over many years. By contrast, borrowing money to finance current expenditures or short-term projects can create a debt burden that must be repaid in the future. This explains the difficulty for government to repay its debts and the dwindling capital investments.

What robust measures are instituted to ensure the efficiency of government operations to reduce exposure to debt?

Borrowing at high interest rates requires optimising the institutional arrangements for government operations to generate the needed returns. Managers of state institutions, politicians and technocrats must appreciate the risk of high interest rates and optimise the expenditures and operations with repayment in mind. These effective institutional arrangements must ensure the following;

a. **Efficient procurement practices**: Procurement systems must be strong enough to prevent corruption and waste of resources. Competitive procurement must be the default mechanism, and sole-sourced and restrictive contracts must have the appropriate justifications and be transparent.
b. **Efficient state institutions and government**: The oversight and accountability measures of state institutions must be strong to promote financial discipline and good governance. Additionally, State Owned Enterprises must be allowed to operate as viable businesses and make them profitable. These institutions and technocrats must ensure efficient project management to deliver quality project outputs.

c. **Managing income and minimising excessive expenditure**: Governments must track the relationship between expenditure and its capacity to pay to reduce budget deficits and manage debts. Again, there must be robust mechanisms for contingency spending to maintain budget discipline during emergencies.
d. **Transparency in borrowing and tracking the impact of borrowed funds**: A more transparent process ensures that borrowed funds are used effectively. This must be linked with effective tracking and reporting systems to properly evaluate the outcomes of borrowed funds and their impact on development at the project level.

Ghana's inability to adhere to the above measures underscores its current state of debt distress. Chapters three and four provide the empirical bases that explain Ghana's debt situation. In addition, chapter four specifically focuses on the energy sector issues that undermine debt sustainability.

Chapter Three: Drivers of public debts - Inefficiencies in government operations

An assessment of the drivers of public debt show that government operation has been inefficient. These inefficiencies have taken many forms, including weak procurement systems, poor contingency planning and excessive expenditure over revenues, inefficient state institutions, and gaps in loan monitoring mechanisms. Consequently, the problems can result in the misallocation of resources, poor service delivery, and weakened public institutions.

Patronising procurement systems

A preponderance of evidence shows that Ghana's procurement system requires significant retooling to ensure the efficient delivery of public services. A review of the Auditor General's reports from 2011 to 2020 shows substantial losses due to procurement irregularities by Ministries, Departments, and Agencies (MDAs) and Public Boards, Corporations, and other Statutory Institutions (PBCOSI). Specifically, the total inflation-adjusted value of procurement irregularities among MDAs and PBCOSIs increased from GHS3.91 million in 2011 to GHS363.23 million in 2020, primarily attributed to in PBCOSIs (see Table 2). [13] The growth in irregularities shows the continuous weaknesses in procurement systems.

Table 2: Procurement irregularities among MDAs and PBCOSIs between 2011 and 2020 (GHS million)

Year	PBCOSI	MDAs	Total
2011	2.53	1.38	3.91
2012	77.76	1.33	79.10
2014	4.09	1.91	6.00
2015	0.40	14.67	15.07
2016	56.32	22.12	78.44
2017	3.58	23.17	26.75
2018	7.61	3.43	11.04
2019	17.31	9.55	26.87
2020	358.71	4.52	363.23

Source: Auditor General's Reports

[13] The figures have been adjusted to account for inflation using 2013 as base year. See https://data.worldbank.org/indicator/NY.GDP.DEFL.ZS?end=2021&locations=GH&start=2010 for the deflators used for the adjustment.

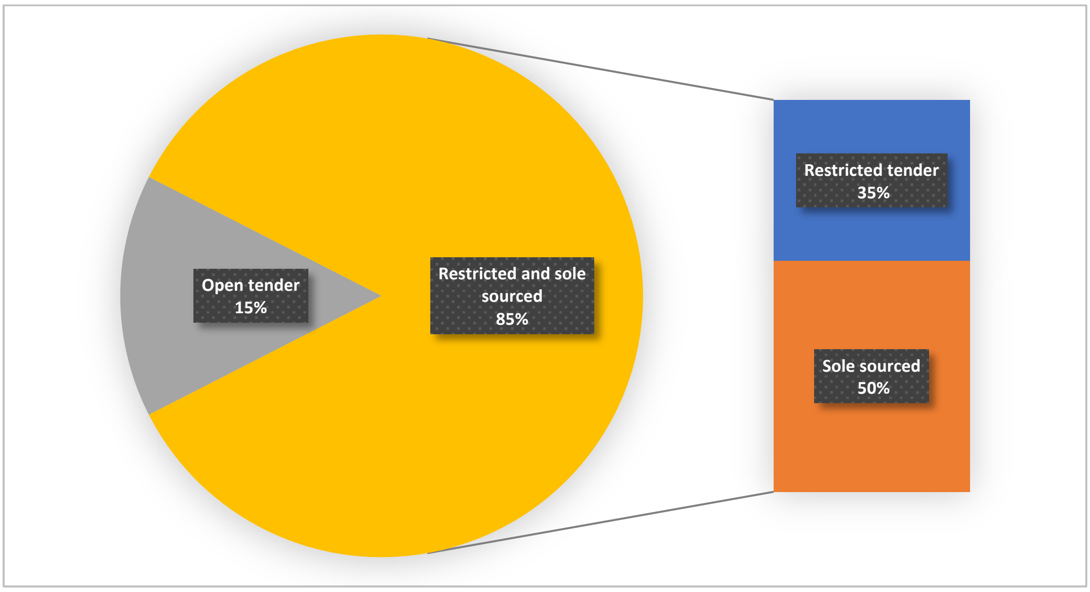
Preferred method of procurement: Restricted tenders and sole-sourcing

The increase in procurement losses and irregularities is due to disregard for and non-compliance with the Public Procurement Act. Competitive tendering is the preferred procurement method, while sole sourcing and restrictive tenders require adequate justification.

> ***"If the procurement entity uses the method of procurement other than competitive tendering, it shall include in the record required a statement of the grounds and circumstances on which it relied to justify the use of that method." (Section 35 (3) of the*** **Public Procurement Act, as Amended)**

A review of 1143 transactions by PBCOSIs and MDAs, published on the website of the Public Procurement Authority, between 2012 and 2021 shows a significant preference for restricted tenders and sole-sourced procurement methods. Out of a contract value of GHS 23.9 billion, the cumulative value of restricted tenders and sole-sourced procurement methods was about GHS 20.3 billion, representing 85% of the contract value. On the other hand, open tenders had a contract value of GHS 3.6 billion, forming the remaining 15% of the contract value (see Figure 7).

Figure 7: Open tender, restricted tender and sole-sourced procurement methods among MDAs and PBCOSIs



Source: Authors' construct based on data from the PPA

Additionally, a significant portion of sole-sourced procurements by MDAs and PBCOSIs was without any justification. For example, restricted and single-sourced contracts by PBCOSIs constituted 78% of about GHS 15 billion worth of contracts between 2012 and 2021. Notably, single-sourced contracts were granted without justification to the value of approximately GHS 1.4 billion, accounting for roughly 42% of all single-sourced transactions from PBCOSIs.

In the same period, restricted and single-sourced contracts by MDAs constituted 97% (GHS 8.62 billion) of contracts. On the other hand, sole-sourced contracts that were approved without justification amounted to GHS 8.3 billion, accounting for around 84% of all single-sourced contracts (see Table 3).

Table 3: Open tender, restricted and sole-sourced contracts among PBCOSIs and MDAs between 2011 and 2021 (GHS million)

	Open tender	Restricted tender	Single sourced
PBCOSIs			
Justification		8,280.52	1,938.69
No justification		8.11	1,446.40
Total for PBCOSIs	***3,344.99***	***8,288.62***	***3,385.09***
MDAs			
Justification		51.24	525.63
No justification		13.26	8,388.86
Total for MDAs	***257.66***	***64.50***	***8,618.78***

Source: Auditor General's Reports

Unjustified sole-sourced and restricted tenders are in breach of the Public Procurement Act, with a higher propensity for corruption. The above results show the increased prevalence of central government agencies engaging in procurement for their affiliated agencies, prioritising sole sourcing and restrictive tender processes that raise questions about the cost and quality of outputs. The procurement practices often lack transparency, accountability, and fair competition, questioning their justifications and giving rise to the suspicion of favouritism, corruption, and inefficiency. Box 1 details a case of such rampant procurements in the governance architecture.

Box 1: The revelations from an investigative report published by Kroll and Associates on the purchase of prepaid meters

The government of Ghana in July 2015 began processes to procure an US$80 million loan facility to purchase prepaid meters for ECG from the Deutsche Bank. The Bank offered indicative terms to arrange export-oriented financing from the China Export & Credit Insurance Corporation, also known as Sinosure, for up to 85% of the US$80 million (at an interest rate of 2.95% plus Libor), with the remaining 15 percent to be financed directly by Deutsche Bank (at a rate of 5.95% plus Libor).

The government entered into an agreement with ECG to allocate US$30 million for the procurement of meters from Ghanaian manufacturers and the remaining US$50 million (later revised to $40 million) to procurement from L&R Investment and Trading Co. Limited (L&R), a British Virgin Islands incorporated company with a principal business address in Hong Kong. However, L&R failed to satisfy the conditions of the export-oriented facility because it was not a Chinese Manufacturer. The Finance ministry therefore sought for alternative financing arrangements for the purchase of the prepaid meters.

L&R received US$12 million as advance payment from the ECG Meter Escrow Account at Capital Bank, leaving a balance of US$28 million. ECG further requested Capital Bank to raise a US$24 Letter of Credit (LC), to be drawn down by L&R as the 60 percent of the contract sum once the necessary preconditions were satisfied.

The preconditions included
1. a due diligence visit by ECG to L&R,
2. an approval of technical submittals from L&R covering details of meters,
3. the completion of a pilot study to test sampled meters,
4. a Factory Acceptance Test (FAT) conducted in the presence of ECG representatives.

The investigative report indicates that Capital Bank varied the terms and conditions set by the LC and allowed L&R to draw down on LC although ECG had completed and satisfied only conditions (1) and (2) above. L&R proceeded to undertake a mass production of the prepaid meters the remaining conditions were not satisfied and was able to drawdown $22.5 million of the LC by August 2017. The attempt of the finance ministry under the new government to cancel the LC was unsuccessful since Capital Bank insisted it did not have the mandate to cancel the LC and reimburse the funds. Ultimately, L&R received a total of US$34.5 million for supplying untested meters to ECG. News from the press indicates that ECG refused to accept the meters because L&R did not follow the required process.

The issue has since been forwarded to the Economic and Organised Crime Office (EOCO) for investigations. However, after several years, there has not been any concrete information on its current state.

The case of L&R and the ECG presents another government led procurement practice which has led to losses and the delivery of untested products into the country. What is intriguing is the decision of the finance ministry to stick with L&R despite several indications that proved otherwise.

a. The selection of L&R was not based on any competitive tender process which raised questions as to whether it was the only company that could supply the prepaid meters to ECG.
b. The government sought for an alternative financing arrangement at a higher cost (interest rate of 7.95% +Libor) even when L&R failed to satisfy the conditions under the credit facility agreement between Deutsche Bank and the Government of Ghana
c. The government took $40 million from its Eurobond Proceeds account to an ECG Meter Escrow Account to be drawn down by L&R when the alternative financing seemed impossible.

Given that public procurement is a strategic vehicle for government expenditure, the demonstrated breaches of the country's procurement laws leave a big hole in the public purse, thus raising the cost of public procurement and contributing to the current public debt situation. Unfortunately, as described in Box 2, there have been irregularities and breaches in procurement laws by officials of the Public Procurement Authority, which is ironically responsible for promoting sound procurement practices among public institutions.

Box 2: Procurement irregularities - A case of the Public Procurement Authority

In 2019, an investigative report uncovered violations of Ghana's procurement laws and contract sales by certain officials of the Public Procurement Authority. The report revealed that Talent Discovery Limited (TDL), a company owned partially by the then CEO of the PPA, Mr A. B. Adjei, won multiple contracts through restricted tenders and sold them to other companies. The report also exposed how Mr Adjei and his team created a complex network of companies, some of which they owned or had close connections with, to secure government contracts.
Additionally, some companies were established just a few months before winning multi-million dollar contracts.

The President suspended Mr Adjei from his position following the expose, and the case was referred to the Commission on Human Rights and Administrative Justice (CHRAJ) and the Office of the Special Prosecutor (OSP) to investigate allegations of corruption and conflict of interest, respectively.

CHRAJ's investigation found that TDL was granted contracts for different projects through restricted tenders by GPHA, Ministry of Works and Housing, Ministry of Special Development Initiatives, and Ministry of Inner Cities and Zongo Development, worth millions of Ghana Cedis. These institutions obtained PPA's approval to use restrictive tenders under the Public Procurement Act. Furthermore, the commission found that Mr Adjei had used his position to alter the board's decisions to favor TDL and had received large cash transfers into his personal accounts without satisfactory justification. The commission concluded that he had placed himself in a position where his personal interest conflicted with his role as CEO of the PPA.

Following the findings from CHRAJ, the President terminated the appointment of Mr Adjei as the CEO of the Public Procurement Authority (PPA). The case of Mr Adjei is a single example of many other infractions which has breached the country's procurement laws. The only difference is that the perpetrators of these infractions have not been exposed.

These findings underscore the importance of improving transparency and accountability in public procurement processes to ensure that public resources are used most effectively and efficiently as possible. This may require reforms to the procurement process, including greater competition, more stringent oversight, and increased transparency and accountability measures, to ensure that public funds are being used in the best interests of the Ghanaian people.

Poor contingency planning and excessive spending over revenues

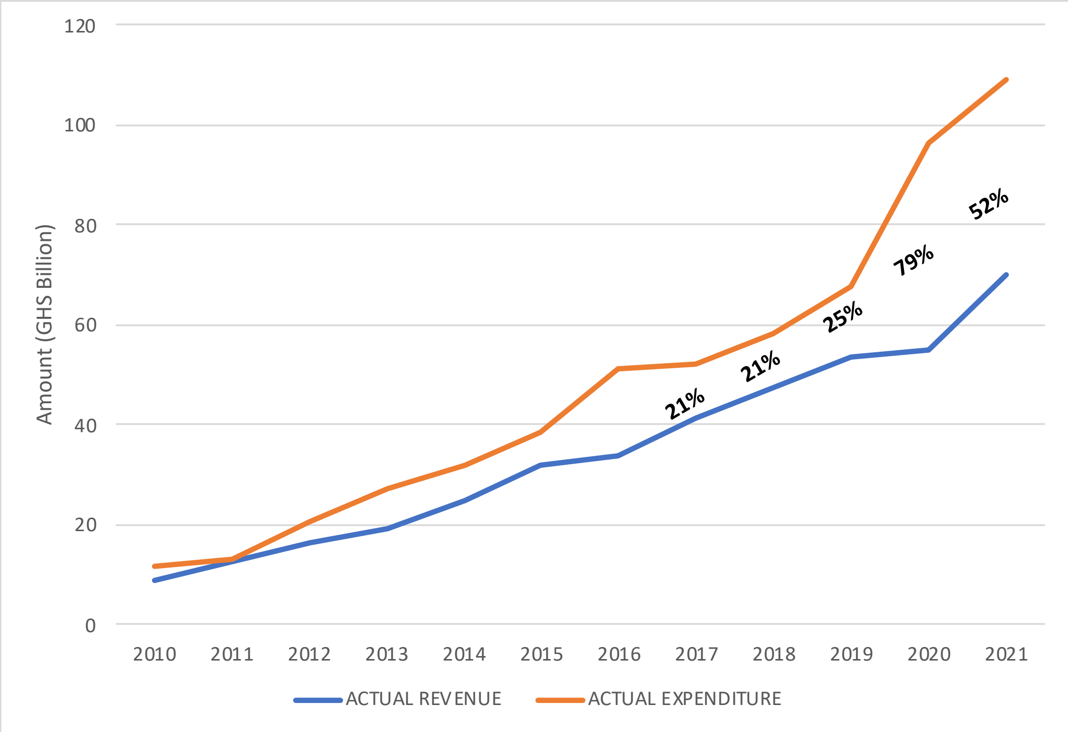
Analysis of Ghana's budgets show that the country spends far more than it earns, and does not adequately plan for contingencies. While spending during emergencies may be necessary, its cure is not to overrun the budget but to plan for contingencies. There Contingency Fund and the Consolidated Fund are the two main public funds established by the Constitution under Article 175. The Constitution, under article 177, further details the power structure around the Fund. In Clause 1 of Article 177, the Constitution provides that the Finance Committee in Parliament authorises advances from the consolidated fund;

"There shall be paid into the Contingency Fund moneys voted for the purpose by Parliament; and advances may be made from that Fund which are authorised by the committee responsible for financial measures in Parliament whenever that committee is satisfied that there has arisen an urgent or unforeseen need for expenditure for which no other provision exists to meet the need".

The government of Ghana has historically failed to build buffers for contingency spending to account for national emergencies, as prescribed by the Constitution. It took a pandemic for the Ministry of Finance to allocate GHS 1.2 billion from the Ghana Stabilisation Fund and other sources to the Contingency Fund, which was instantly made available for Covid spending in the same year.

In addition to the lack of buffers, the government continues to live above its means. Analysis of fiscal data shows that since 2011, the gap between actual revenue and government expenditure has been widening, as indicated in Figure 8. This is because the government prefers to use GDP as a proxy for assessing its deficit spending on the assumption that the country's GDP can generate the required tax revenues. Whiles government spending can influence GDP growth, inefficiencies in revenue collection, mismanagement of public funds, and procurement inefficiencies undermine the impact of government spending on growth and revenue generation.

Figure 8: Gap between actual revenue and actual expenditure (2010-2021)



Source: Author's construction based on the Ghana Fiscal Data (Ministry of Finance)

Inefficient state institutions and government

Borrowing at higher interest rates requires that institutions of the state are efficient in guaranteeing a return on investment and debt repayment. However, the evidence suggests that across government operations, inefficiencies manifest in an expansionary government, project delays and poor project delivery.

Expansionary government

Recently, a significant focus has been on the number of government ministers and appointees. Although the number of ministers has been reduced from 129 in 2017 to approximately 82 in 2021, the number of government institutions and agencies continues to grow, along with their employees. Moreover, some agencies have expanded two to three times without demonstrating increased productivity. For instance, the Ghana National Petroleum Corporation (GNPC) has grown from 250 to roughly 700 employees and is still growing. Similarly, the Petroleum Commission has increased its staff from 90 to over 350 without significant productivity improvements in their respective fields. In addition, the government is creating complex and expensive organograms, which require increased funding. Many institutions now have two to three deputy CEOs with supporting staff, adding to the expenses.

The creation of many institutions has resulted in duplication of function in some instances. Notable among these institutions is the Minerals Income Investment Fund (MIIF), Ghana

Infrastructure Investment Fund (GIIF), Ghana Integrated Aluminium Development Corporation (GIADEC) and Ghana Integrated Iron and Steel Development Corporation (GIISDEC) and the Petroleum Hub Development Corporation (PHDC). For example, the business mandate of PHDC could be managed by GNPC as envisaged in the Gas Master Plan for the Corporation to anchor the oil and gas industry with subsidiaries along the value chain.

Additionally, MIIF and GIIF are separate entities. However, they are into investments that could be aligned or consolidated. The two entities have acquired stakes in the extractive sector. For example, while MIIF has bought shares in Asante Gold Corp, GIIF has also provided debt financing to Cardinal Resources of about $35 million. Thus, MIIF and GIIF could have been merged to reduce the duplication of functions among the institutions.

Again, these new entities draw substantial resources from the budget. In 2023, five SOEs indicated in Table 5 will spend about GHS 101 million on operational expenditure. Besides the government's allocation of GHS 3.24 million in the budget, GNPC allocates $5 million annually to PHDC.[14]

Table 4: Operational expenditure allocations for new agencies

SOE	Operational expenditure (GHS million)
PHDC	3.24
GIADEC	2.83
GIISDEC	8.51
MIIF	61.13
GIIF	25.6*
Total	**101.31**

***Estimated from the average of 3-year operational expenditure from audited accounts**

GIADEC and GIISDEC are two corporations set up to manage marginal deposits of bauxite and iron ore, respectively. MIIF is also set up to invest in mineral royalties at the expense of social and economic investments in the country. Somehow, the government believes that the best way to optimise its interests in the mining sector is to participate directly in the sector. However, this significantly ignores the history of state participation in the mining sector, characterised by rent-seeking behaviour, which undermines the state interest.

The government established many state-owned mining companies, such as the State Gold Mining Corporation (SGMC) and Ghana National Manganese Corporation (GNMC). It acquired significant stakes in Ashanti Goldfields, Ghana Bauxite Company and Ghana Consolidated Diamonds Company. However, in the 1980s, the government had to reverse these interventions since they failed to actualise the country's aspirations. The World Bank

[14] GNPC work programmes for 2020, 2021 and 2022

identified illegal panning and smuggling, lower work discipline and high absenteeism as some factors that contributed to the failure of the industries. The current performance of state-owned enterprises shows that the trend in the performance of state enterprises in the energy sector is no different from what pertained post-independence.

Project delays and abandonments

The reports of the Auditor General regarding MDAs, PBCOIs, and MMDAs point out numerous cases of stalled or abandoned projects. For instance, an audit of the use of the District Assemblies Common Fund revealed that 94 MMDAs suffered losses of approximately GHS 57.6 million in 2021 due to project delays and abandonment.[15] Such abandoned and delayed projects lead to squandering of financial and material resources, undermining economic growth.[16]

Empirical research has shown that regime change significantly contributes to project delays and abandonment.[17] For example, Ghana's fourth republic has experienced three transfers of power between the two primary political parties, the National Democratic Congress (NDC) and the New Patriotic Party (NPP). During these transitions, various projects have been abandoned due to priorities of a new government, contract audits on suspicions of corruption and contract transfers to contractors aligned to the new government. An example of such a project is the Saglemi Housing Project which has experienced significant delays and cost overruns (see Box 3).

15 Ghana Audit Service (2022). Report of the Auditor-General on the management and utilisation of the District Assemblies Common Fund (DACF) and other statutory funds for the year ended 31 December 2021.

16 Damoah, I. S., Mouzughi, Y., & Kumi, D. K. (2020). The effects of government construction projects abandonment: stakeholders' perspective. *International Journal of Construction Management,* 20(5), 462-479.

17 Akwei, C., Damoah, I. S., & Amankwah-Amoah, J. (2020). The effects of politics on the implementation of government programs/projects: insights from a developing economy. Politics & Policy, 48(6), 1161-1201; Kissi, E., Adjei-Kumi, T., Twum-Ampofo, S., & Debrah, C. (2020). Identifying the latent shortcomings in achieving value for money within the Ghanaian construction industry. *Journal of Public Procurement*, 20(3), 313-330.

Box 3: Project delays and abandonment - The case of the Saglemi Housing Project

The Saglemi Housing Project was initiated in 2015 with the aim of reducing Ghana's housing deficit and providing affordable housing to citizens. The project was to be financed by a $200 million loan obtained from Credit Suisse International. The first phase of the project which comprised about 1502 housing units was due for completion by the end of 2016. A transition of political power occurred in 2017, and the new government promised to create an enabling environment for private sector participation. The government indicated in the 2019 budget statement that it expects to complete about 4314 housing units by the end of 2019.

Unfortunately, the project stalled after the completion of the first phase amidst suspicions of funds misappropriation and altering of contracts by the erstwhile government, leading to imminent financial loss to the state. Consequently, the government decided to undertake a value for money audit on the project.

In the 2020 budget statement, the government announced that the project would be continued after the audit was concluded. By the end of 2021, the audit process was completed, and the government indicated its readiness to engage the relevant constituents of the project.

However, in November 2022, the government announced its intention to sell the Saglemi estate project to the private sector for completion. This decision has been widely criticized by a large section of the populace who believe that such a move defeats the initial intention of providing affordable housing units for citizens.

The $200 million investment was supposed to be a revolving fund, thus having the potential to build more affordable housing units. However, the revolving fund has been frozen since the first phase of the project consisting of 1502 housing units remain unoccupied and deteriorating. Yet the government continues to settle the debts.

Poor project deliveries and contract variation

Significant leakages exist in Ghana's budget execution through poorly delivered projects and contract variations. For example, many projects suffer from rapid deterioration, creating the need for additional financing for reconstruction. Between 2012 and 2018, the government invested about GHS 8.24 billion in road construction and upgrades, with a significant portion of funding raised through domestic and external debts.[18] Additionally, the Auditor General has raised concerns about the quality of some road projects and their impact on Ghana's finances.

"Ghana as a country is unable to finance road construction solely from internally generated funds and has to resort to borrowing with interest payments from international financial institutions such as World Bank, African Development Bank, European Union, Japan bank for International Cooperation etc. It becomes a double agony when a road constructed from a loan starts deteriorating when the loan is yet to be settled. The public has expressed similar sentiments and concerns about extended construction time of roads in Ghana. In some instances, a road project scheduled to be completed within 24 calendar months sometimes takes 60 months or more to complete." **(Ghana Audit Service, 2019)**

[18] Ghana Audit Service. (2019). Performance audit report of the auditor-general on selected road works in Ghana

In addition to road construction projects, many other projects experience poor delivery, as highlighted in the report. For example, poor streetlight delivery issues were discovered through interactions with citizens who have benefited from new streetlight projects. The feedback from stakeholders suggests that the recent LED streetlights the government provided tend to flicker, dim, and ultimately fail within a short period (see Box 4).

Box 4: Poor project delivery: Turnkey Implementation of the PV Based Streetlighting Programme

In 2017, Parliament approved a loan of €7.5 million for a street lighting program known as the "Enhancement of Road Safety (Phase 2)-Turnkey Implementation of the Photovoltaic Based Street Lighting Programme". The project was aimed at erecting Solar PV based streetlights in selected communities in the country. The loan has a maturity of 21.5 years (grace period of 7.5 years and repayment period of 14 years) at a rate of 0.9%. Subsequently, Parliament approved waivers to the tune of €2.03 million for taxes and goods procured for the project's implementation.

The project was implemented between 2019 and 2020. However, an assessment of the project reveals that about 40% of the streetlights were non-operational. To address the problem, extra streetlights have been installed in certain communities to substitute for the malfunctioning ones. Interactions with community members revealed that some of the streetlights stopped functioning within a year of being erected.

It is intriguing to note that repayment of this facility is supposed to begin in 2024 (i.e. after the 7.5 year grace period) although a substantial portion of the lights are already non-functional.

Adjustments or variations to the project scope may be deemed necessary and appropriate and can impact the contract's price, the scope of work, or duration. Ghana's procurement laws outline guidelines for contract variation, including a requirement under the PPA law for procurement entities to notify the appropriate tender review committee if the contract variation exceeds 10% of the original price and provide justifications for the change. Unfortunately, some Ministries, Departments, and Agencies (MDAs) in Ghana have been using contract variation to circumvent proper procurement processes by adding new projects to existing ones rather than undertaking a separate procurement process.

According to the Auditor General, this approach creates difficulties in monitoring, tracking, and reporting on projects, leading to delays and cost overruns. Beyond the concerns of the Auditor General, such processes undermine the procurement law and create opportunities for procurement rigging. Box 5 shows a road construction project with significant contract variations.

Box 5: Contract variations: Tetteh Quashie-Madina Road project

In 2006, the Tetteh Quarshie-Madina road contract was awarded and anticipated to be completed within 2.5 years. Nonetheless, the project delayed for a decade, incurring cost overruns of roughly GHS 147 million and $33 million. Contract variations formed a considerable portion of the cost overruns constituting 24% of the cost overrun for the cedi component of the cost and 59% of cost overrun for the US dollar component.

A major contributor to the variations was the just an adjustment to the quantities and not the scope of work. Particularly, the construction of one of the interchanges on the project had over a 100% increase in its price. The situation questions of the initial assessment of project costs which informed the bid.

Additionally, unrelated projects were added to the project as variation, costing about GHS 11.6 million and $6.2 million. These projects included road construction (including roads at Spintex and Tema Comm. 18), drainage, bridges and toll booths (Kasoa Toll Plaza) which were outside the location of the original project. The Ministry used urgency and capacity of the contractor to justify such procurements. However, these practices, as noted by the auditor general complicates project monitoring and tracking. It further raises more questions whether urgency and capacity of the existing contractor alone could be used to justify a project a multi-million-dollar project without appropriate procurement processes.

Gaps in loan monitoring mechanisms

A major malfunction of budget execution is the inefficient monitoring mechanisms on the expenditure of government funds, either borrowed or tax revenue. The 1992 Constitution of Ghana clothes Parliament the powers to approve loans raised by the government on behalf of itself or any other public institution or authority.

"(3) No loan shall be raised by the government on behalf of itself or any other public institution or authority otherwise than by or under the authority of an Act of Parliament.

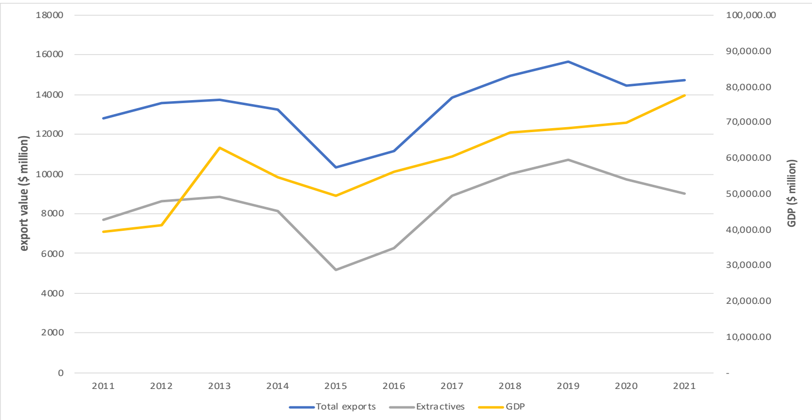
(4) An Act of Parliament enacted in accordance with clause (3) of this article shall provide - (a) that the terms and conditions of a loan shall be laid before Parliament and shall not come into operation unless they have been approved by a resolution of Parliament…" (Article 181, clauses 3 and 4 of the 1992 Constitution of Ghana)

While there are constitutional mechanisms for approving loans and auditing accounts, many loan-funded projects are not monitored in practice. The audit service occasionally conducts performance audits of projects, including those funded with public debts. However, these audits are usually conducted long after the projects are delivered, raising questions about project delivery concerns such as independent monitoring of variations, project quality and delays to ensure value for money.

Chapter Four: Drivers of Public Debt – A spotlight on the energy and extractive sector

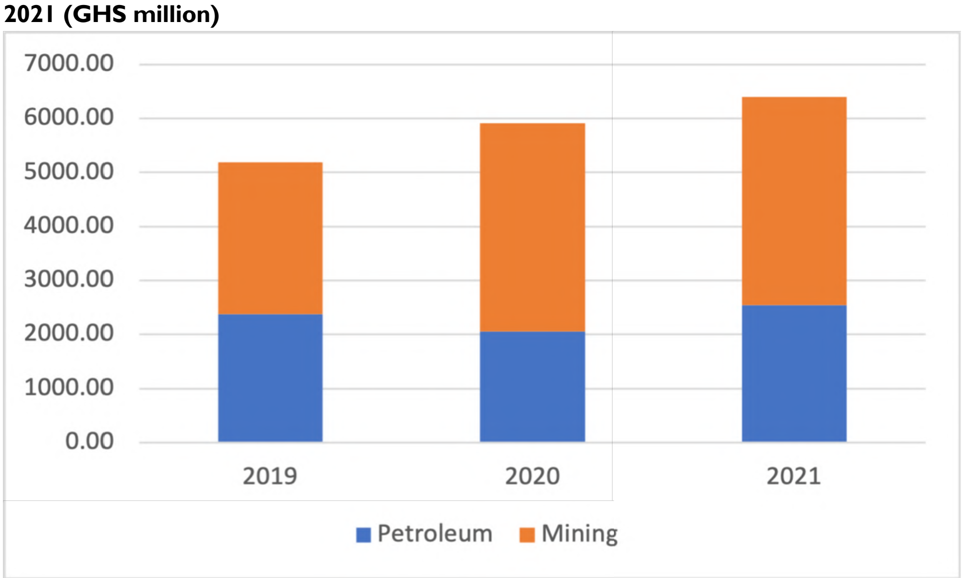
The extractive sector, particularly the oil and gas and mining sectors, is critical for Ghana's economic growth. Ghana's balance of trade is mainly dependent on crude oil and gold. Between 2011 and 2021, these two commodities contributed about 62% to Ghana's export value (See Figure 9). Between 2019 and 2021, direct revenue to the state was about GHS 17.5 billion from corporate income taxes and royalties (See Figure 10). In addition, other benefits from local manufacturing, employment, employee income taxes (PAYE), and industrial linkages extend the sector's benefits to the country. On the gas side, demand for power and industrial application depend significantly on domestic sources, reducing the country's reliance on imported fuels.

Figure 9: Contribution of the extractive sector to total exports and GDP



Source: Bank of Ghana

Figure 10: Royalties and corporate income taxes from the petroleum and mining sectors between 2019 and 2021 (GHS million)



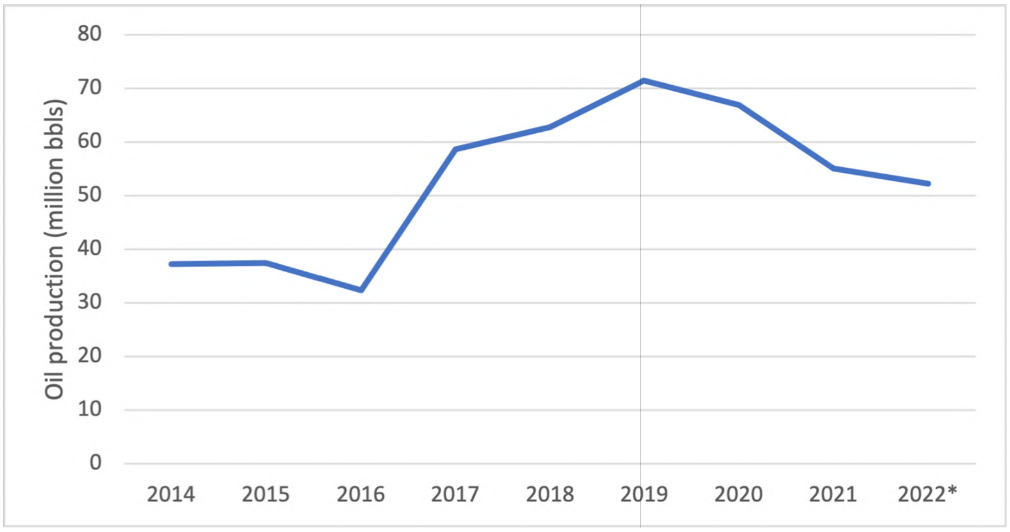
Sources: Ghana Extractive Industry Transparency Initiative (GHEITI); Ghana Chamber of Mines; Ministry of Finance

The importance of the extractive sector requires that policy actions are optimised to harness the opportunities to sustain its contribution to economic growth. However, government decisions in recent times have been costly and undermined the sector's growth.

Decisions around oil production

The oil sector could generate more revenue if the government of Ghana took more specific actions for managing the sector. However, the government's indecisions have contributed to production declines. Between 2019 and 2022, oil production declined from 71 million barrels to about 52 million barrels (see Figure 11).

Figure 11: Oil production from 2014 to 2022



***2022 production is estimated based on production values for the first three quarters**
Sources: Ministry of Finance; Public Interest and Accountability Committee (PIAC)

While production declines are expected for maturing fields, increased exploration and production activities have the potential to replace depleting reserves. Ghana has fields that could have come on stream on time to replace lost production. However, poor planning, enforcement, patronage, and lack of strategic engagements with industry players have contributed to delays in developing these new fields.

1. **Failed Bid and Licencing round:** Since 2018, the government has been unable to grant any petroleum blocks. That year, the government initially attempted to award blocks through a competitive tender process. However, this inaugural Bid and Licensing Round was undermined by parallel direct negotiations and the inability to finalise negotiations with the companies that won the bid. More recently, the government has opted not to continue negotiations with the companies and, instead, has requested that they engage in direct negotiations.
2. **Delayed Pecan Field development:** The Pecan Field, initially operated by Hess, was appraised in 2014. However, the field's development encountered delays due to the border dispute between Ghana and Ivory Coast, which was resolved in 2017. The dispute

resolution paved the way for the project's commencement. Aker acquired the field in 2018 and has since been unable to submit an acceptable Plan of Development (PoD) despite many concessions granted to the company, including the amendment of laws and several extensions. In June 2022, the Ministry of Energy responded to Aker's request for an extension for the eighth time. The company has subsequently received two additional extensions by the end of 2022. Currently, Aker has until April 2023 to submit an acceptable PoD.

3. **Eni Block 4 appraisal:** Eni discovered commercial volumes in Block 4 in 2019 and submitted a Plan of Development for a quick tie-in with the FPSO J.A. Kufour. However, the company has accused the Minister of Energy of delaying the process of providing approval for appraisal.

> ***"…In accordance with comments made by the MoE on multiple occasions, the agreement of aPetroleum Agreement on WB Block 3 and the approval of an appraisal programme for the new discoveries by Eni and an affiliate of Vitol in CPT Block 4 appear to be delayed by Ghana for reasons linked to the unitisation dispute in OCTP…"***[19]

Oil production could have commenced in 2023 if the proposed fast-track development by Eni had been approved to provide the much-needed revenue to coincide with the recent economic situation. In 2022, the government approved the appraisal program for the block. Regrettably, this coincided with rig scarcity on the back of increasing oil prices, further delaying the process.

Decisions must be quick and efficient to sustain oil production. Unfortunately, the government's decisions have instead been slow. Moreover, the general mood among existing investors suggests that the government is not cooperative.

Optimising domestic gas production

Natural gas has become the primary fuel source for Ghana's thermal power plants. Over time, domestic gas production has facilitated power plants switching from expensive liquid fuels to natural gas, which is cheaper and cleaner. In 2022, domestic gas supplies from Jubilee, TEN and Sankofa Gye Nyame comprised about 85% of gas for power generation.[20] However, delays in providing the necessary infrastructure to optimise Ghana's gas have contributed to avoidable forgone revenues and debt accumulation.

Delays in critical infrastructure to offtake OCTP gas

Ghana signed a $7 billion investment agreement for gas production in the Offshore Cape Three Points (OCTP) block in 2015. The country opted for the OCTP partners to export the gas produced to the domestic market for power generation.

[19] Statement of claim by Eni in the matter of the arbitration on the unitization tussle between Eni and Springfield.
[20] Energy Commission. (2022). 2022 Energy Outlook for Ghana.

Ghana was, therefore, required to offset the investment costs under the OCTP project from the gas sales. Subsequently, the World Bank provided significant guarantees of up to $700 million to ensure bankability and reduce the project's risk.[21] Another incentive for the OCTP partners was for Ghana to commit to a contract volume of about 171mmscf per day of gas on a take-or-pay basis. At an initial gas price of $9.8/MMBTU, the monthly take-or-pay volume amounted to about $52 million. [22]

Ghana was required to provide the necessary infrastructure to offtake the gas to reduce its exposure to the risk of paying for unutilised gas. Two events were critical for OCTP gas utilisation – first, the siting of new power plants near the western enclave where the gas is produced. Second, the construction of a reverse-flow infrastructure to reverse excess gas from the western enclave to the eastern enclave, where several gas-fired plants are located.

However, the completion of the OCTP project did not coincide with the requisite events. Consequently, Ghana had to bear the monthly cost of paying for unutilised gas of about $17.36 million at the start of the project.[23] Concurrently, Ghana was buying Heavy Fuel Oil (HFO) to fuel thermal plants in the eastern enclave, an additional cost to the government. Between August 2018 and December 2019, Ghana utilised about 2.4 million barrels of HFO to fuel the Karpowership barge (about 659 thousand barrels between August and December 2018 and 1.73 million barrels in 2019[24]), which cost over $140 million,[25] even though OCTP gas was available under a take-or-pay contract.

The Karpowership barge's relocation and the reverse-flow infrastructure construction were completed within the second half of 2019. Currently, Ghana does not incur the liability of paying for take-or-pay gas. However, the previous payments for unutilised gas and additional costs of substituting gas with expensive HFO could have been used to support other critical sectors of the economy.

Wasted gas resources

Much of Ghana's gas produced on the Jubilee and TEN fields is flared or reinjected. Between 2019 and 2022, about 320 bcf of gas was flared or reinjected. The flared volume of about 67 bcf could account for a daily production of about 46 mmscf if an expanded gas processing infrastructure existed. In addition, gas delivered from the expanded processing plant for power and non-power utilisation could be another revenue-generating source. The total flared volume accounts for a forgone gross revenue of about $395 million without

[21] Boakye, B. (2022). Utilising Ghana's Natural Gas Resources: Implications for Industrial Development and Inclusive Growth. In Petroleum Resource Management in Africa: Lessons from Ten Years of Oil and Gas Production in Ghana (pp. 315-346). Cham: Springer International Publishing.

[22] Africa Centre for Energy Policy (2019). ACEP's comments on the OCTP gas utilization challenges

[23] Africa Centre for Energy Policy (2019). ACEP's comments on the OCTP gas utilization challenges

[24] Energy Commission (2020). 2020 Energy Supply Outlook for Ghana; Energy Commission's Wholesale Electricity Market Reports

[25] Assumed HFO price of $60 per barrel

accounting for allied benefits such as income taxes and employment, opportunities for local businesses and import substitution of LPG.

The reinjected volumes could provide additional resources for Ghana, with estimated additional daily volumes of 174 mmscf per day between 2019 and 2022. With a good investment climate, Ghana could have exported the additional gas with modular LNG technologies. If proper planning had activated the needed investment, Ghana could have benefited from the current high price regime on the LNG market. The forgone revenues from gas flaring and reinjection are due to Ghana's inability to provide an additional facility for gas processing or liquefaction infrastructure to liquify gas for domestic consumption and exports.

Rather than addressing the gas processing challenges to optimise investment, the government of Ghana is focused on developing regasification infrastructure for imported LNG. ACEP has consistently cautioned that additional gas from LNG imports is unnecessary. However, the government maintains that it needed the LNG to meet its assumed domestic shortfalls, which never materialised.

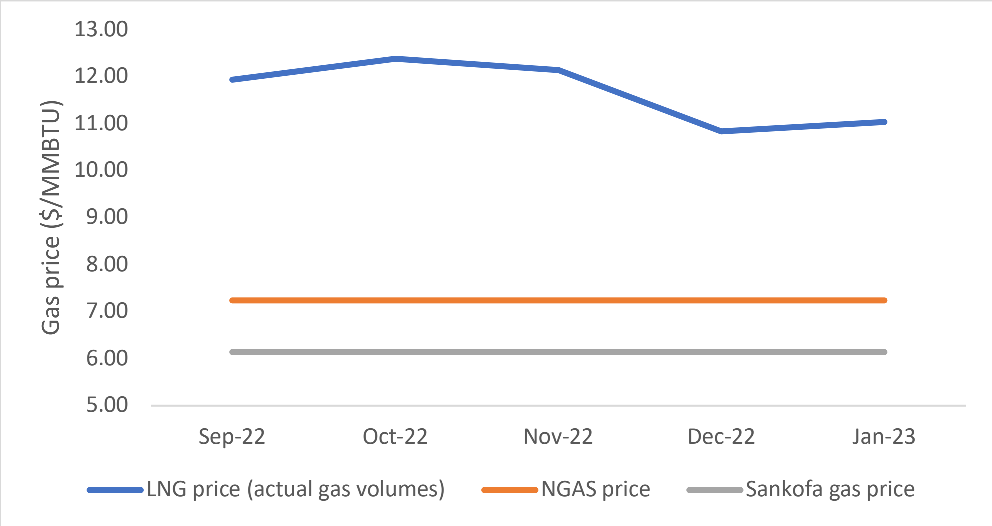
The gas sales agreement between GNPC and the LNG supplier shows that the gas price is benchmarked against the price of Brent crude oil. The crude oil price injects significant volatility into LNG prices which is unfavourable for the power sector, which requires a stable price to ensure robustness in a weak regulatory environment. The existing gas sources provide a stable pricing environment for decisions on tariff regulation in the power sector.

The current market prices of Brent crude oil show that the cost of LNG under the gas sales agreement would be higher than gas from Nigeria[26] and domestic sources. At the crude oil price of about $83 per barrel,[26] delivered LNG would cost about $11/MMBtu, approximately $4 above the gas price from Nigeria and $5 above that of the OCTP partners (see Figure 12). LNG benchmarked against fluctuating Brent crude oil prices could result in government subsidies, particularly towards the 2024 election.

---

[26] Ghana imports gas from Nigeria through the West Africa Gas Pipeline. It supplies about 15% of its current gas need. [26] Brent Crude Oil price as of February 2023.

Figure 12: Estimated LNG prices compared with gas price from Nigeria and OCTP partners (Sankofa)



Sources: Energy Commission

Power sector debts and under-recoveries

The power sector is a significant driver of the financial challenges in the energy and extractive sector, which creates a ripple effect in the gas sector since it is the biggest off-taker of domestic and imported gas. As of January 2019, legacy debts in the power sector amounted to about $2.31 billion, projected to increase to about $12 billion by 2023 if strict measures are not taken to pull the brakes on the accumulating debts.[27] As part of ESRP's implementation, the Government of Ghana instituted the cash waterfall mechanism to instil fairness in the distribution of power sector revenues through the following actions;

a. equitable allocation of tariff revenue collected by the Electricity Company of Ghana (ECG) to all parties (Generation companies, fuel suppliers, transmission company, distribution company and regulators)
b. equitable allocation of gas revenue collected from all sources to all parties under the Natural Gas Clearinghouse (NGC): GNPC (Commodity and Services), VRA/Ngas, and GNGC (Processing and Transmission)

However, CWM's effectiveness largely depends on ECG's ability to raise the required revenues for the value chain. Under-recoveries in the sector make it difficult to generate the needed revenues. Consequently, the mechanism could settle about 50% of the power sector value chain payment requirements in 2021, which caused the government to pay about $1.25 billion to settle Independent Power Producers (IPPs) and gas purchases. By the end of December 2022, the power sector owed IPPs about $1.3 billion.

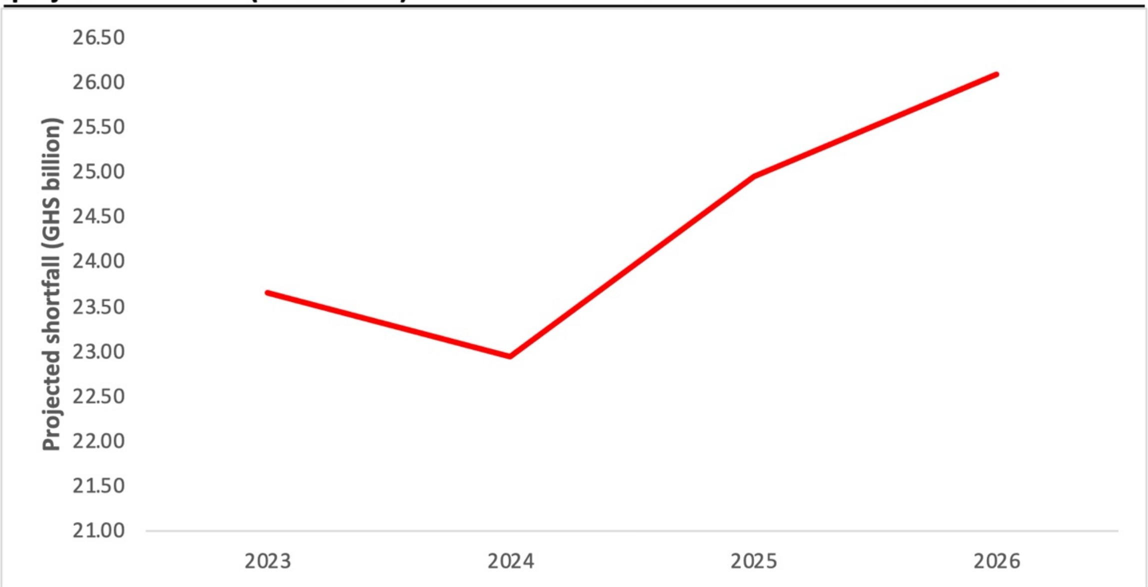
The government has historically made payments in the energy sector without accounting for same in the budget. However, under the IMF program, the government is compelled to

[27] Ministry of Energy (2019). Energy Sector Recovery Program.

show its commitments in the budget. Consequently, the government projects to spend up to GHS 97 billion to cover power sector shortfalls between 2023 and 2026 (See Figure 13). The 2023 budget is unclear about the government's strategy to reform the power sector. However, the projections reflect a business-as-usual case; inefficient power sector institutions creating significant debts.

Figure 13: Expected energy sector shortfall payments from 2023 to 2026

Year	**2023**	**2024**	**2025**	**2026**	**Total**
projected shortfall (GHS billion)	23.65	22.94	24.94	26.09	**97.62**



Source: 2023 Budget statement of Ghana

The annual commitments from the government to offset the shortfalls are significant to meet the financial requirements of other important sectors of the economy. For example, in 2023, the government plans to spend about GHS7.5 billion on capital expenditure in agriculture, fisheries, roads, education, gender and social protection, and health sectors. The government's planned expenditure for these critical sectors in 2023 is about 32% of the amount earmarked to offset the energy sector shortfalls. In the medium term, the government plans to spend about GHS48 million in the critical sectors, whereas about GHS 97 billion is spent on offsetting energy sector shortfalls (see Table 5). Thus, the government could triple its investments in these critical sectors if it was not directly responsible for the waste in the energy sector.

Table 5: Government of Ghana's capital expenditure in critical sectors from 2023 to 2026 (GHS million)

Sector	2023	2024	2025	2026
Agriculture	532.63	568.50	626.89	697.08
Fisheries and aquaculture	31.48	33.02	36.54	41.28
Roads	2,639.47	2,964.67	4,189.94	5,967.12
Education (incl GETFund)	4,212.22	6,835.68	8,420.72	10,009.01
Gender and social protection	1.08	0.86	1.02	1.46
Health	134.50	144.13	158.81	175.94
Total CAPEX	**7,551.38**	**10,546.87**	**13,433.92**	**16,891.90**
Capex % of shortfalls	32%	46%	54%	65%
Multiplier	3.13	2.17	1.86	1.54

Source: 2023 Budget Statement of Ghana

Outstanding energy sector debts

By the end of 2022, the portfolio of energy sector debts included IPP debts, gas debts from Standard Chartered PLC and ESLA bond principal repayments. The debts held by Standard Chartered PLC are Letters of Credit (LC) drawdowns by Eni for payment defaults of gas used for power generation.

Table 6: Energy sector debts by the end of 2022

Source of debt	Amount
IPPs	$1.3 billion
Gas debts from Standard Chartered PLC	$346 million
ESLA Bond principal	GHS 8.3 billion

Sources: ESLA PLC annual reports, Authors' data collection

The ESLA bonds were raised to amortise legacy debts in the energy sector, which was about $2.78 billion in 2018. The Energy Debt Recovery Levy (EDRL) is a component of ESLA, meant to offset the outstanding energy sector debts and support infrastructure development in the power sector. Currently, the EDRL proceeds are used to settle coupon payments under the ESLA bonds.

The Ministry of Finance has included ESLA bonds in its domestic debt exchange program. As of the end of 2022, the bonds outstanding amounted to GHS8.3 billion. Out of the outstanding amount, GHS 3.6 billion has been included in the debt exchange program,[28] substantially reducing annual coupon payments by about GHS 390 million. This reduction frees up additional capital to amortise outstanding debts when they mature. However, ESLA may not focus on amortising the outstanding bond principals because of the recurring energy sector problems and may stray into using EDRL receivables to offset recurring debts

[28] Ministry of Finance (2023). The government announces successful results of its domestic debt exchange with approximately 85% participation rate and a new settlement date.

as it has done in the past. Therefore, the best option for the government is to ensure the efficiency of power sector institutions to offset their recurring debts.

Drivers of the energy and extractive sector debts

The drivers of the energy and extractive sector debts emanate from the inefficiencies of the institutions responsible for the sector's management. As a result, their decisions on key energy policy issues could strengthen or worsen the sectors' financial performance. For example, the distribution utilities of Ghana's power sector are supposed to generate revenue from the sale of power to pay the entire value chain. However, they are known to be the weakest link in the value chain. For more than a decade, the government of Ghana, through a due diligence assessment of the power sector conducted by the International Finance Corporation (IFC), identified the challenges as managerial, financial, and technical.

The due diligence assessment recommended the option of Private Sector Participation (PSP) in power distribution. [29] The government subsequently initiated a PSP process for a concessionaire to manage ECG, and Power Distribution Services (PDS) was eventually responsible for managing ECG's assets. However, the politics around the concessionaire's selection derailed the agreement's implementation.[30]

The Request for Proposal (RfP) required the concessionaire to invest at least $100 million annually for five years. This investment was intended to reduce the technical and commercial losses over the period.

Since the PSP was curtailed, ECG reports investing about $667 million in the distribution infrastructure. However, the investments have not yielded the needed results to reduce losses. Instead, technical and commercial losses have increased from 24% in 2018 to 30% in 2021.

It is intriguing to note the increasing technical and commercial losses despite ECG's investment in the sector, further proving that the main challenge with ECG is managerial. The World Bank traces the inefficiencies to political interference.

"Political appointments of board members and senior management of all energy sector SOEs, including utilities, results in lack of transparency and accountability for performance as well as strategic and investment decisions." [31]

[29] International Finance Corporation (2014). Due diligence and private sector participation options study in Ghana's distribution sector. Volume I

[30] Boakye B., Ofori, C. G., Zuanah, S. (2020). An assessment of the implementation challenges of the Power Compact. Available at https://storage.googleapis.com/stateless-acep-africa/2020/07/d4f305fb-an-assessment-of-the-implementation-challenges-of-the-power-contract.pdf

[31] World Bank (2021). Program Information Document. GH Energy Sector Recovery PforR (P173258)

The inefficiencies resulting from poor management of the utilities provide evidence that the government's financial interventions will not yield the necessary results if it does not address the political interference in the sector's management.

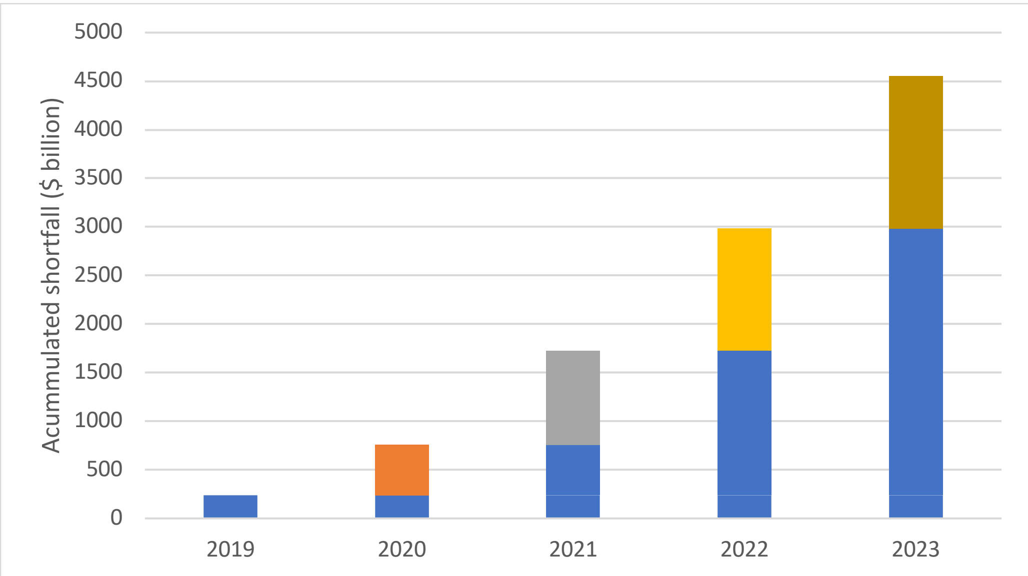
Poor policy implementation

The government has consistently failed to implement policies designed for the energy sector. Most of these policies were developed with funding from development partners such as USAID, World Bank, FCDO (formerly DFID), GIZ and other international philanthropic organisations. ESRP was one key policy to ensure the financial stability of the power sector and provided a three-phased approach to dealing with the power sector challenges.

The recommendations from ESRP were clear on what the government needed to do to ensure the financial stability of the power sector. However, recurrent decisions from the government have undermined the implementation of the ESRP. For example, the ESRP cautioned that the government's LNG take-or-pay obligations would contribute to accumulated gas shortfalls (under-recoveries from the power sector) of about $4.5 billion by 2023 (see Figure 14) and recommended a least-cost fuel procurement strategy.

However, the caution was not a deterrent as the government is still fixated on procuring expensive LNG under a long-term contract. At the same time, significant domestic gas volumes are flared or reinjected. Fortunately, Ghana has been saved from the liability through recurrent project delays and, recently, by the high gas demand from Europe, which has shifted the supplier's focus.

Figure 14: Projected gas sector shortfall from 2019 to 2023



Source: Energy Sector Recovery Program

After the failed arrangement in the concession agreement between ECG and PDS, the government was still committed to private sector participation in the distribution sector. The 2020 budget highlighted the government's resolve to undertake a more transparent process in selecting companies with the requisite track record.

*"**Regardless, Government is fully committed to private sector participation in ECG and is focused on moving forward with urgency to find a suitable replacement for the PDS arrangements.** Moreover, we are prepared to review the transaction structure and indeed, recognise the need to improve significantly the management of ECG, by bringing in world-class private sector expertise and attracting adequate private capital."*

"Mr. Speaker, considering ECG's current distribution systems losses of 24% – comprising 13% commercial and 11% technical losses – Government is truly motivated by the urgent need to reduce these losses and improve service quality through the effective deployment of modern technology and world-class technical expertise, with a view to creating a financially viable power distribution sector that is sufficiently equipped to meet the current and future needs of Ghanaian households and businesses."

*"Against this backdrop, Mr. Speaker, I am pleased to announce that government intends to initiate an accelerated tender process to select a new private partner for ECG in the coming months. **It is indeed government's intention to make relevant adjustments to enhance the existing bid documents and tailor the process to optimise the selection from companies having a track record of managing and operating a comparable utility, so as to achieve a fair, transparent and expeditious closure of the transaction"*** (2020 Budget Statement of Ghana)

However, the government has not acted on its promise to undertake another PSP arrangement in the distribution sector. The delay has resulted in continuous under-recoveries whose settlement has become the government's responsibility. For example, the government's settlement for power sector under-recoveries in 2020 and 2021 was about GHS 14 billion. The lack of policy action would encourage the under-recoveries and losses to persist, evident in the government's commitment to settle energy sector shortfalls estimated at GHS 96 billion between 2023 and 2026.

Diversion of revenue streams into secret jurisdictions

The recent practice of moving the jurisdictional control of Ghana's share of extractive resources to tax havens is becoming fashionable with the government of Ghana. In 2020, the government attempted to divert mineral royalty inflows outside the direct control of the laws of Ghana through the Agyapa investment model. The transaction has been on ice since 2020 through public advocacy on the negative implications of the investment model.[32] However, the government has successfully diverted 7% of Ghana's interest in the Jubilee and TEN fields to the Cayman Islands.

GNPC acquired a 7% interest in Jubilee and TEN oil fields from Occidental (Oxy), which was positive to shore up Ghana's direct participation in the operations of the two fields. However, GNPC chose to acquire the asset using a company registered in the Cayman Islands (Jubilee Oil Holdings Limited – JOHL), which was also in breach of the Constitution

[32] Boakye, B., Ofori, C. G. (2021). A legal and fiscal analysis of the Agyapa investment model.

and the Petroleum Revenue Management Act (PRMA) to ensure that the prescribed transparency mechanisms do not apply to the acquisition. Civil Society's concerns about revenue tracking from the 7% have proved to be valid, as monitoring has become a challenge. Over $200 million in revenues and liftings were not deposited into the Petroleum Holding Fund as mandated. The government’s argument suggests that JOHL is not obligated to pay its revenue into the PHF. Assuming, without admitting, that this is accurate, JOHL did not pay tax in 2022.

Given the severe economic challenges and debt distress, it is intriguing to note that the Ministry of Finance would endorse ringfencing the 7% interest (which amounts to approximately GHS2.2 billion) from the budget. Similarly, Parliament's failure to ensure that tax revenues are appropriated before expenditure creates a substantial risk for public financial management.

Chapter Five: Conclusions and recommendations

For the 17th time, Ghana's government has requested assistance from the IMF to achieve fiscal consolidation and debt sustainability. Although the IMF is likely to provide support during these challenging times, an analysis of Ghana's governance structure suggests that the measures taken will only lead to short to medium-term fiscal consolidation and balance of payment. Even after the conclusion of the 16th IMF program in 2019, the Fund expressed concerns about the country's fiscal vulnerabilities. Unfortunately, Ghana remained on this path of vulnerability.

The Covid 19 pandemic necessitated the acquisition of concessionary funding from various development partners, including the IMF, World Bank, AfDB, and the European Union. In 2020, the government secured approximately $1.5 billion from the IMF, World Bank, and AfDB, and about €84 million from the European Union to fund expenses related to the pandemic, adding to the country's debt burden.

The government has identified various revenue-generating measures through additional taxes to ensure fiscal consolidation. However, these measures have not significantly contributed to the worsening debt distress and economic challenges. Therefore, the government must identify long-term solutions to its economic challenges to avoid the cyclical approach to the IMF for support. This paper has identified the main drivers of Ghana's public debt from governance inefficiencies revealed in weak procurement practices, poor contingency spending and excessive spending over revenue, inefficient state institutions, and inadequate mechanisms to monitor loans.

a. **Patronising procurement systems:** The procurement process is designed to meet politicians' preferences regarding public funds utilisation. Instead of being an exception, sole-sourcing and restricted tenders have become standard practice, accounting for approximately 85% of contract values identified between 2013 and 2021. Furthermore, in many instances, sole-sourcing occurred without sufficient justification.
b. **Poor contingency planning and excessive spending over revenue:** The government's spending plan is plagued by excessive spending and budget shortfalls. Historically, the government has spent beyond its revenue, and the gap between income and expenditure keeps widening. In 2021, the government spent about 52% in excess of its total revenue.
c. **Inefficient state institutions and government:** The country is run by a large government across its establishments (e.g. MDAs and SOEs). Despite the government's inefficiencies, more state institutions are still being created to duplicate functions and spend more public funds. These institutions supervise inefficiencies in project implementation with flimsy excuses for contract variations, delays and abandonment, resulting in substantial budget and time overruns.
d. **Gaps in loan monitoring:** Although the Audit Service undertakes occasional performance audits on specific projects, they are typically conducted retrospectively, with

no repercussions for violations and misconduct. The Ministry of Finance and Parliament also lack the means to monitor loan performance following expenditure.

e. **Policy deficiency in planning the energy sector:** Government policy has so far been unable to stimulate growth in the oil and gas sector, caused by poor decisions around the sector's management. Additionally, the power sector has accrued substantial debt, which the government has had to intervene to settle. Between 2020 and 2021, the government paid about GHS14 billion to clear outstanding debts. However, as of 2022, there is still an outstanding balance of $1.3 billion owed to IPPs and $346 million for gas purchases.

The above discussion indicates that resolving the debt issue goes beyond the scope of the IMF program. However, the governance structure needs to undergo significant changes to ensure accountability, efficiency, and effective policy implementation. To this end, the following recommendations are proposed for the government to consider:

1. There is a need for a national dialogue on the most effective procurement system that aligns with the Ghanaian context and delivers value to citizens.

2. Ghana should align its expenditures with its revenue to reduce deficit spending. Merely relying on GDP as a benchmark is insufficient, particularly when the disparity between expenditure and revenue is widening from 21% in 2018 to 52% in 2021.

3. There is an urgent need for a performance audit of all state agencies to establish optimal numbers of staff and administrative budgets for their operations.

4. The government must establish mechanisms to assess the effectiveness of expenditure and the capacity of projects to deliver value that facilitates loan repayments.

5. It is imperative that the private sector participates in the power sector with effective regulation by the state to ensure their delivery of value. Tier-two pension investments could be an option to mobilise domestic revenue for power sector investments. It is unacceptable for the government to spend billions of dollars to meet payment obligations resulting from poor management and procurement-driven investments.

6. The government should enforce laws transparently to encourage investments and assure investors of fair treatment in the energy and extractive sectors.

7. There is a need for active citizenship and frequent conversations on how governance addresses the country's fiscal challenges. This requires the participation of the private sector, media and Civil Society on the broad governance challenges that could lead to debt unsustainability.

Africa
Centre for
Energy Policy

Phone: +233 (0) 302 900 730
Email: info@acep.africa
Website: www.acep.africa
No. 26 Lemming St. | North Legon
Digital Address: Gm-058-1968

IMANI
Center for Policy & Education

Phone: +233 (0) 554309966
Email: info@imanighana.org
Website: www.imaniafrica.org
PPV3+32G, Koans Estate, Amasaman