Improving the Economic Freedom of the People of the Ghana

Economic Freedom Audit - Event Report

Coconut Grove Regency Hotel

16th July 2018
Executive Summary

On 16th July, 2018, Imani Center for Policy and Education held Ghana’s first Economic Freedom audit at the Coconut Grove Regency Hotel. The audit was organised in partnership with the Fraser Institute, a Canadian based global think tank. Economic Freedom, extended to all, has been shown to generate positive social and economic outcomes, including opportunity, diversification of the economy, increased economic growth, enhanced job creation, political stability, and the peaceful development of other freedoms. The audit was based on the 2017 Economic Freedom of the World (EFW) Index developed by the Fraser Institute, with Ghana ranking 103 out of 159 countries in the world. Ghana was the 16th most economically free country in Africa following countries like Mauritius (1st) Rwanda (2nd), Seychelles (3rd), Botswana (4th) and Liberia (9th). Ghana however beat West African neighbours like Nigeria, Cote d’Ivoire and Togo.

The EFW index provides a comprehensive description of an economy, examining five economic policy areas: size of government, legal systems and property rights, sound money, freedom to trade internationally, and regulations. The audit identified key challenges in all the five areas of Economic Freedom and outlined some measures to address these challenges. Some of the factors accounting for the relatively low levels of economic freedom in Ghana include undisciplined large government spending; low involvement of the private sector; bribery and corruption in the judiciary, poor civic and judicial education; fiscal indiscipline; cost and procedural barriers to trade; and high risk of default in the financial sector.

The audit also suggested a number of measures to address the challenges outlined. They include the need for a high level of accountability in government spending; reduction in the size of the government; elimination of duplication of functions in governance; punishing both recipients and givers of bribes and enforcement of proper sanctioning systems. Other recommendations included the need to strengthen monitoring and evaluation of the paperless port system; provide clarity of ownership of the paperless port system to enhance accountability; encourage good corporate governance practices in the private sector; and the need to intensify efforts to formalise the economy in order to broaden the tax base and to reduce the risk of credit default.
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<tr>
<td>CEO</td>
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EVENT REPORT

Background

According to the Fraser Institute, a Canadian-based, global think tank, Economic Freedom (EF) is simply the ability for one to choose and decide “how to use their time and talents to shape their lives”\(^1\). On a national level then, an economically free country is one that is not weighed down by bureaucracy, excessive regulations and restrictions, but rather, one that allows producers and sellers to compete freely and equally and, also allows consumers to choose freely. EF, extended to all, can generate positive social and economic outcomes\(^2\). This has been proven in over 600 fact-based studies in top academic journals, which have specifically shown that economic freedom promotes growth and prosperity. Specific examples include a study by De Haan and Sturm. Taking into account educational level, population growth and investment, this study found that positive (negative) changes in economic freedom lead to positive (negative) changes in economic growth rates.\(^3\) Gwartney and Lawson (2004) also found that economic freedom strongly promotes investment.\(^4\)

To measure the level of EF for each country, the Fraser Institute developed the Economic Freedom of the World (EFW) Index. Ultimately, this index aims to determine “the degree to which the policies and institutions of countries are supportive of economic freedom.”\(^5\) The EFW index examines five policy dimensions which are represented under the five main indicators of EF. These are: Size of Government, Legal Systems and Property Rights, Sound Money, Freedom to Trade Internationally and Regulations. Thus, while each country receives an overall EF score, it is also possible to identify problem-areas based on the individual scores under each of these indicators. Therefore, “for the people of any nation to truly benefit from economic freedom, that nation must score well in all areas.”\(^6\)

Due to the importance of EF and its potential, positive impact on any given economy, the Fraser Institute has been committed to raising awareness about EF. This has involved facilitating discussions on how economic policy can be improved. These discussions, so far, have taken place in the form of Economic Freedom Audit (EFA) programmes that have been held in a number of countries including Sri Lanka, Oman, Panama, Jordan, Egypt, Côte d’Ivoire, Morocco, the Kyrgyz Republic, Tunisia, Malaysia, Lebanon, Greece, Serbia, Uruguay, and

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Nepal. The end goal of these audits is to i) develop and provide important information to the public, government, media, and opinion leaders on policies that create and fast-track growth and prosperity, and ii) develop practical policy reform ideas, create local ownership, and deliver these ideas and recommendations to government and the people of the nation.

On the 16th of July 2018, at the Coconut Grove Regency Hotel, Ghana held its very first EFA programme, organised by IMANI Center for Policy and Education, in partnership with the Fraser Institute. The exclusive event was well attended by a variety of stakeholders who were specially invited based on their connection to the five indicators under the EFW index. For example, lawyers, judges and police officials (only a select few) attended the event in order to provide insight into the Legal Systems and Property Rights indicator. Similarly, renowned bankers, CEO’s of businesses and representatives from the Lands Commission were also in attendance to provide insight into the Regulations indicator. Other stakeholders who were present included professors, lecturers, representatives from embassies, and the media. The event was divided into 3 sessions: a general overview of Economic Freedom, an intensive group session and finally, a plenary session that brought all stakeholders together to discuss the challenges and recommendations.

**Main Event**

**Session One - Introductory session**

The first session of the event commenced with an opening speech by the Founder and President of IMANI, Mr. Franklin Cudjoe. He welcomed the participants to the maiden edition of Economic Freedom Audit in Ghana. In his speech, Mr. Cudjoe highlighted the importance of economic freedom for Ghana and the relevance of the stakeholder consultations to identify practical solutions to the drawbacks of Economic Freedom in Ghana. He mentioned that Fraser Institute, a Canadian based global think tank, was one of the most respected think tanks in the world. He proceeded to introduce the representative of Fraser Institute, Mr. Fred McMahon, to give a brief presentation on Economic Freedom.

Mr. McMahon gave an overview of Economic Freedom, explaining the fundamental concepts and also highlighted the role of economic freedom in development. He explained that the Economic Freedom of the World (EFW) Index uses objective data and independent surveys to rank countries based on five areas of Economic Freedom, according to the extent to which each country permitted their citizens to be economically free. Individuals have economic freedom when property they acquire without the use of force, fraud, or theft is protected from physical

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invasions by others and they are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others.

According to him, globalisation has had the greatest impact on poverty reduction in the world’s history. He mentioned that Chile, after going through a period of free markets, is now one of the richest countries in Latin America. Other countries that have become more economically free include South Korea and Singapore in Asia and Botswana in Africa.

He further highlighted the importance of economic freedom by explaining that economic freedom has a significant impact on per capita incomes. He indicated that the most-free countries of the world have some of the highest per capita income in the world. He showed that in economically free countries, the poorest 10% of the population earn an average annual income of about $11,000.00 which was about four times the average income in Ghana. Economic Freedom has also been proven to have a positive effect on life satisfaction\(^8\).

Session Two - Group session

After the introductory session, all attendees were instructed to breakout into their respective groups. There were five groups in total, with each group representing each of the five indicators of EF - Size of Government, Legal Systems and Property Rights, Sound Money, Freedom to Trade Internationally and Regulation. Each participant was allocated to a single group based on the institution they represented, and their level of knowledge and expertise in any one of the five focal areas. A group leader and a group secretary were then appointed to facilitate the discussion. Each group was also given a set of questions to guide the discussion. Below are some of the emerging highlights from each group:

**Size of Government**

According to the 2017 EFW Report, Ghana ranked 55th out of 159 countries in the Size of Government indicator. Though Ghana performed worse in other indicators, a ranking of 55 indicates that Ghana still faces challenges in certain variables that fall under this indicator, some of which include government spending and taxation. Discussions in this group therefore centred around these two variables. The main concerns that were identified include:

1. *Undisciplined, large government spending:* the consensus of the audit was that government spending in Ghana is highly inefficient, especially given that Ghana aims to go “beyond aid”. Ghana’s government continues to overspend on its budget and has

failed to stay within its budget over the years. It was further highlighted that reckless spending is especially high in elections years. In 2012 and 2016, both election years, government spent about 22% and 16% beyond its budget. One of the sub-reasons that was identified is the fact that there are often duplications of functions in government. This was identified as an unnecessarily strain on the public purse.

2. *Low involvement of the private sector:*
   Ghana has a thriving private sector. Unfortunately, the potential support from this sector is untapped as the government often fails to fully utilise and include this sector in the implementation of programmes and projects.

3. *Tax system not wide or broad enough:*
   Like many other African countries, Ghana has a large informal sector. This means that tax revenue collected is limited to the those in the formal sector. This is a huge tax burden and automatically narrows the tax base.

**Legal Systems and Property Rights**

Discussions within the Legal Systems and Property Rights group were enlightening, especially in light of the huge corruption scandal that marred the reputation of Ghana’s legal system in 2015. Following a 2-year investigation by the investigative journalist, Anas Aremeyaw Anas, in 2015, 7 high court judges and 22 junior court judges were suspended over allegations of corruption. According to the 2017 EFW Report, Ghana ranked 69th out of 159 countries in Legal Systems and Property Rights. Areas that contributed to Ghana’s average performance in this indicator include the lack of the impartial courts, problems with the integrity of the legal system, weak enforcement of contracts and business costs of crime.

The audit commenced with the identification of specific challenges that prevented Ghana’s Legal System from promoting EF. Some of the major challenges identified include:

1. *Bribery and corruption:*
   Bribery and corruption in Ghana’s legal system and police force is one of the main obstacles in Ghana’s journey towards achieving a high level of EF. In 2015, over 30 Supreme Court judges and court officials were caught on camera receiving bribes from clients who wanted them to influence justice in their favour. This exposé rocked not just the Judiciary but the whole nation, as every citizen witnessed how prejudiced the courts were as a result of bribery and corruption. Indeed, the 2015 scandal greatly affected the integrity of Ghana’s legal system.

   Other challenges that were discussed under bribery and corruption include:

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a. Weak accountability: there is weak follow-up to reported corruption incidence.
b. Lack of transparency in terms of appointments, promotions, dismissals etc.
c. The supply of bribes is as high as demand. The tendency to punish the receiver and not the giver increases corruption.
d. Some lawyers, witnesses and jurors also engage in corrupt practices which further weaken the integrity of the system.
e. Poor remuneration and conditions of service in the police.

2. **Time Lag**: It was agreed during the audit that another challenge that the system faces is the increasing number of adjournments. This often causes several delays, which then leads to high backlog of cases, which Ghana’s legal system is infamous for. Lack of resources was one of the challenges identified to contribute to the delays. Unfortunately, these delays create an avenue for bribery and corruption as those looking for faster service would be willing to pay bribes.

3. **Nepotism in recruitment**: Nepotism, especially in recruitment, is a challenge that affects several public institutions in Ghana. This phenomenon is prevalent in Ghana’s Police Force. Hiring people out of favour and not based on expertise and qualifications, often weakens the quality of service provided by public institutions. Furthermore, this practice serves as the underlying challenge to proper sanctioning. Indeed, sanctioning becomes difficult when nepotism prevents one from carrying out the right disciplinary action.

4. This challenge is also strongly linked to the culture of “protocol”. It was established that in Ghana, protocol almost always overrides rules. Phrases like “…don’t you know who I am …” reflect a culture in which respect and power are often used to either gain favour or instigate fear. People, especially those in high positions, are therefore often able to get away with wrongdoing due to this phenomenon.

5. **Poor civic and judicial education/Lack of widespread, quality, and on-going training for police force**: It was identified that, judicial education was low thus a need for an improvement in the provision of sound judicial education. The limited accessibility to practical, real-life cases that can be used to teach, is exemplary in this regard. Similarly, many citizens were identified to be unaware of their rights. This serves as a poor foundation for those who seek legal advice, as there is no accountability, and clients could easily be taken advantage of.

6. The police force is also in need of regular and quality training. While there are training programmes that exist for the police force (such as the one organised at GIMPA), it is not widespread and is often limited to a select few.
7. **Cost:** There are a significant number of Ghanaians who simply cannot afford to enforce contracts or/and seek legal advice/justice when legal matters arise. This is because court fees are high, therefore excluding those who cannot afford it and preventing them from accessing justice.

**Sound Money**

The sound money indicator of the EFW considers money supply growth, inflation, standard deviation of inflation, and the freedom to own foreign currency bank accounts. When inflation is not only high but also volatile, it becomes difficult for individuals to plan for the future and thus effectively utilise economic freedom, which also suppresses investment and job creation. Ghana ranked 137 out of 159 countries on this indicator. It is however noted that Ghana’s inflation has reduced quite significantly in recent times declining from 15.4% in December 2016 to 9.6% in April, 2018\(^\text{10}\). The key challenges identified during the audit are summarised below.

1. **Money Supply growth:** Money supply in Ghana tend to exceed growth in GDP in most cases. For example, in December 2017, growth in money supply measured generally as M2 was more than twice (16.7%) the growth in GDP (8.1\%)\(^\text{11}\). The problem has been largely driven by the general lack of fiscal discipline. Counterfeiting was also identified as a potential factor for oversupply of money but it was noted that Ghana’s case is not as serious as in other West African countries, such as Nigeria. However, the audit notes that, it is still important for the Bank of Ghana to put in measures to reduce its effect.

2. **Inflation:** Even though inflation rate has reduced in the recent months, there is skepticism about the sustainability of the downward trend. The major concern that the fundamental problems that trigger inflation spikes still remain. For instance, Ghana is a net importer of almost all consumables. A proper industrialisation plan to transition the economy from a net importer to a net exporter is lacking. The recent industrialisation policy of the government, the ‘one district one factory’ programme, is yet to produce any substantial results.

Another observation made was the regional disparities in the cost of goods in Ghana. For instance, in 2017, five regions; Greater Accra, Upper West, Brong Ahafo, Ashanti and Western recorded inflation rates higher than the national rate of 12.4%. The high cost of inputs was identified as some of the reasons accounting for the regional disparity.

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\(^{11}\) Ibid
Freedom to Trade Internationally

Just as individuals and businesses in Ghana should be able to buy from and sell to whom they wish in their own nation, they should have the globe as their marketplace. Ghana’s score on the freedom to trade internationally has declined in recent years and in the 2017 Economic Freedom of the World, Ghana ranked 115th. This has created a barrier to prosperity. To become prosperous, Ghana needs to be able to effectively sell to the 7.5 billion people on the planet, not only the 28 million citizens of Ghana. The audit identified two key challenges that inhibit people’s freedom to trade internationally. They are discussed below.

1. **Procedural Barriers**: The audit identified that the number of processes at the port were cumbersome. Though the paperless port project has the potential to streamline activities at the port to enhance efficiency, enforcement of the paperless process was weak because of limited political will among the implementing agencies. There were concerns about the lack of clarity in the ownership of the single window project which could be a reason for the weak enforcement of the paperless port project.

2. **Cost Barriers**: Too many institutions providing registration and certification services increased the cost barriers. Registering a product with each of these institutions were costly and affected cost to import. This is worsened by the fact that various categories of the same product have to be registered differently. For instance, if an importer imports a particular brand of toffee into the country, the toffee must be registered with the Food and Drugs Authority and the Ghana Standard Board among others. In addition, at each of these institutions, the same brand of toffee must be registered not as one product, but differently according to the different flavours of the toffee. This greatly increases cost, which in most cases is passed on to the consumer.

Regulation

The regulations indicator of Economic Freedom studies regulations in three main areas: regulations in credit, regulations in the labour market, and regulations in business. Ghana ranks 90th in the world in red tape, which limits the dynamism of the economy. The audit focused on regulations in the credit market where Ghana ranked 124 out of 159 countries on the EFW. Key challenges, identified during the audit, relating to obtaining credit in Ghana include:

1. **Risk of Default**: In assessing the obstacles to obtaining credit, it was noted that the risk of default is a key obstacle that prevents financial institutions from lending to private sector businesses. This risk is due to information asymmetry and is made all the more severe by the lack of formal identification and property addressing systems. Though a credit
referencing and bureau was introduced to improve access to information, gains made have been minimal as the system is heavily dependent on identification.

2. High Cost of Borrowing: Another obstacle is the high cost of borrowing which proceeds from the high perception of risk. This means that, financial institutions need to ensure that a high rate of return is obtained to compensate for the high level of risk. Therefore, loans are offered to private sector at high, prohibitive interest rates. According to the Bank of Ghana, average lending rate as at June 2018 was 27.5%\textsuperscript{12}.

3. Stability of Overall Economic Environment: The overall economic environment was mentioned as very important in obtaining credit in that, macro and microeconomic fundamentals such as inflation, interest and exchange rates need to be stable to facilitate the process of obtaining credit. In Ghana however, these fundamentals cannot, at any point in time, be fully guaranteed, especially, the exchange rate. As at December 2017, the year-to-date depreciation of the Ghana Cedi against the US dollar, Sterling and Euro was 4.88\%, 12.9\% and 16.2\% respectively\textsuperscript{13}.

4. Excessive borrowing from the government: This was also noted as a key obstacle to obtaining credit. Government borrowing crowds out the private sector since financial institutions prefer to lend to the government given the lower levels of risk of default. According to the Bank of Ghana, as at May 2018, total public debt was about GHC 154.3 billion, of which 72.6\% was domestic debt\textsuperscript{14}.

\begin{footnotesize}

\textsuperscript{13} Ibid

\textsuperscript{14} Ibid
\end{footnotesize}
RECOMMENDATIONS

Each group came up with a number of recommendations to address the challenges that they identified in their assigned indicator. Below is a summary of the recommendations.

Size of Government

1. There is a need to encourage and ensure *targeted and priority spending*. This means that there should be a high level of accountability, driven by Civil Society Organisations (CSOs). Value for money considerations should also be materialised.

2. The actual size of government, that is, the ministers and their deputies should be reduced and the duplication of functions by some agencies must stop. An example: the existence of the NDPC and the Ministry of Planning. The latter is unnecessary.

3. Efforts to broaden the tax net must be intensified in order to reduce the tax burden on the formal sector. In line with this, a review of tax concessions was recommended.

Legal Systems and Property Rights

1. To combat bribery and corruption in this sector, the following reform measures were suggested:
   i. Creation of incentives to discourage corrupt practices in the delivery of public services.
   ii. Promotion of accountability and transparency mechanisms such as encouraging adequate law reporting or televising appointments (as it is done is South Africa) and getting civil society organisations (CSOs) involved in the process.
   iii. Punishing not only the recipient but the giver of the bribe and encouraging a culture of whistleblowing.

2. To improve upon the delays in the system, it was recommended that: i) Adjournments simply be reduced, ii) Quick solutions be adopted for small claims and, iii) Introduction of pre-trial courts.

3. A proper sanctioning system must be enforced and adhered to. While there is no harm in making recommendations and referrals, recruitment must be strictly based on qualifications, and not familial and friendship ties.

4. To improve quality of workforce, the following were suggested:
i. Provision of sound judicial education. This should include easy accessibility to cases that can be used as practical teaching examples. There should also be quality training of judicial personnel

ii. Re-introducing proper civic education in the curriculum so Ghanaians can learn about and be aware their rights

iii. While citizens are encouraged to seek proper legal advice, they should also be able to sue for professional negligence

iv. Training of police force should be open to all and should include a variety of topics, not just the technical aspects such as shooting.

5. To address equal and fair access to justice, i) Fees should be changed to a flat rate and ii) Legal aid, which is currently in a poor state, must be reintroduced and extended to all.

**Sound Money**

1. Government effort to minimise wasteful spending must be intensified.

2. There is the need to reduce corruption and block loopholes that fuel the act. Increasing access to timely information, enforcement of punitive measures, citizen engagement/dialogue must be swiftly pursued.

**Freedom to Trade Internationally**

1. Monitoring and evaluation of the paperless port system must be strengthened. In addition, there should be clear ownership of the paperless port project.

2. Government can introduce a one-off payment for the registration of products entering into Ghana such that all agencies involved in the registration of a product will automatically receive their quota in designated bank accounts. This will save time, increase predictability and reduce avenues for bribery and corruption.

**Regulation**

1. There is a dire need to fast track the formalisation of the economy. This will help to eliminate information asymmetry and reduce risks. There is also the need to strengthen the credit reference bureau.

2. All identification systems need to be integrated to make information easily retrievable for the financial institutions as a comprehensive way to reduce risk
3. To increase deposits and facilitate the move to a cashless society, there is a need for increased financial literacy to encourage a change in mindset and attitude towards savings.

4. Further, there is a need to encourage good and transparent corporate governance practices among private businesses. This will serve to make information available and reduce the perception of risk.

5. To address the issue of reducing administrative requirements, bureaucracy costs and the need for “extra payments”, it is necessary to push for more automated systems of service delivery in the public sector to reduce human interference and eliminate political manipulation.

6. While working to reduce the risk of lending to private sector businesses, it is necessary for the government to also make efforts towards reducing its borrowing to levels that would not crowd out the private sector.

CONCLUSION

Ghana’s very first EFA was very successful. It served as an ideal platform for a variety of stakeholders to convene and critically discuss the challenges Ghana continues to face; challenges that have specifically affected Ghana’s ranking on the Economic Freedom of the World (EFW) Index. These stakeholders were not only willing and eager to participate and contribute to the discussion, but also professionals who possessed expertise and knowledge in their field. This made the output of the discussions enlightening and fruitful. Furthermore, the intimate nature of the event gave all participants the opportunity to share their experiences and to contribute meaningfully to the discussion. Most importantly, it gave them the opportunity to produce a set of recommendations that will improve Ghana’s Economic Freedom.

Due to the relevance and usefulness of the results from the EFA, moving forward, the information compiled at the EFA will be included in a final report that will be presented to the public, government, media, researchers, businesses, and opinion leaders. Imani hopes that this report will guide conversations that will bring about change and a significant improvement in Ghana’s Economic Freedom.
MEDIA REPORT

The event was reported by several media houses, including two state-owned newspapers and over eight online media platforms. IMANI covered the Economic Freedom Audit live on Facebook and Twitter.

Print

Daily Graphic

Ghanaian Times
Online

1. Graphic Online

2. Daily Guide Africa

3. Joy Online
   https://bit.ly/2Lg1Ej3

4. GhanaWeb

5. NewsDog

6. The Press Radio
   https://bit.ly/2mnQwAg

7. Today Ghana News
   https://bit.ly/2L0RRf8

8. Ghana Visions
   https://bit.ly/2L0RRf8
Photo Gallery
Challenges
1. High increase in money supply
2. Inefficiency in spending