IMANI’S REVIEW OF THE 2019 BUDGET AND ECONOMIC STATEMENT
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<tr>
<td>1D1F</td>
<td>One-District One-Factory</td>
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<tr>
<td>ABFA</td>
<td>Annual Budget Funding Amount</td>
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<td>BDC</td>
<td>Bulk Oil Distribution Company</td>
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<tr>
<td>BSTEM</td>
<td>Basic Science, Technology, Engineering and Mathematics</td>
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<td>CAPEX</td>
<td>Capital Expenditure</td>
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<tr>
<td>CAPI</td>
<td>Carried and Participating Interest</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CIF</td>
<td>Cost, Insurance and Freight</td>
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<td>CPSED</td>
<td>Coordinated Programme for Social and Economic Development</td>
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<td>CTN</td>
<td>Cargo Tracking Note</td>
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<td>DC</td>
<td>Direct Current</td>
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<td>DVLA</td>
<td>Drivers and Vehicle Licensing Authority</td>
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<td>ECF</td>
<td>Extended Credit Facility</td>
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<td>ECG</td>
<td>Electricity Company of Ghana</td>
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<td>ESL</td>
<td>Energy Sector Levy</td>
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<td>ESLA</td>
<td>Energy Sector Levy Act</td>
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<td>EXIM Bank</td>
<td>Export-Import Bank</td>
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<td>GCE</td>
<td>Ghana Commodity Exchange</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GETFund</td>
<td>Ghana Education Trust Fund</td>
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<td>GH¢</td>
<td>Ghana Cedi</td>
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<td>GIADEC</td>
<td>Ghana Integrated Aluminum Development Corporation</td>
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<td>GIBADA</td>
<td>Ghana Integrated Bauxite and Aluminium Development Authority</td>
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<td>GIFMIS</td>
<td>Ghana Integrated Financial Management Information System</td>
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<td>GoG</td>
<td>Government of Ghana</td>
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<td>GRIDCo</td>
<td>Ghana Grid Company Limited</td>
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<td>GSS</td>
<td>Ghana Statistical Service</td>
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<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>IGF</td>
<td>Internationally Generated Funds</td>
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<td>Acronym</td>
<td>Full Form</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IPEP</td>
<td>Infrastructure for Poverty Eradication Programme</td>
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<td>IT</td>
<td>Information Technology</td>
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<td>kW</td>
<td>Kilowatt</td>
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<tr>
<td>MDA</td>
<td>Ministries, Departments and Agencies</td>
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<td>MDTIP</td>
<td>Marine Drive Tourism Investment Project</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>MPSA</td>
<td>Master Project Support Agreement</td>
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<td>NABCO</td>
<td>Nation Builders Corps</td>
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<td>NDAS</td>
<td>National Digital Addressing System</td>
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<td>NEIP</td>
<td>National Entrepreneurship and Innovation Plan</td>
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<td>NHIA</td>
<td>National Health Insurance Authority</td>
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<td>NHIL</td>
<td>National Health Insurance Levy</td>
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<td>NHIS</td>
<td>National Health Insurance Scheme</td>
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<td>NIS</td>
<td>National Identification Scheme</td>
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<td>NPP</td>
<td>New Patriotic Party</td>
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<td>PFJ</td>
<td>Planting for Food and Jobs</td>
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<td>PFMA</td>
<td>Public Financial Management Act</td>
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<td>PIAC</td>
<td>Public Interest and Accountability Committee</td>
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<td>PLC</td>
<td>Public Limited Company</td>
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<td>PPP</td>
<td>Public-Private Partnership</td>
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<td>PRMA</td>
<td>Petroleum Revenue Management Act</td>
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<td>RFJ</td>
<td>Rearing for Food and Jobs</td>
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<td>SHS</td>
<td>Senior High School</td>
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<td>SME</td>
<td>Small and Medium Enterprise</td>
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<td>SOE</td>
<td>State-Owned Enterprise</td>
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<tr>
<td>SSNIT</td>
<td>Social Security and National Insurance Trust</td>
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<tr>
<td>STEM</td>
<td>Science, Technology, Engineering and Mathematics</td>
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<tr>
<td>TIN</td>
<td>Tax Identification Number</td>
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<tr>
<td>UNECA</td>
<td>United Nations Economic Commissions for Africa</td>
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Table 1: Summary of Sector Performance: 2016-2018 Page 8
INTRODUCTION

On Thursday, 15th of November, 2018, Ghana’s Minister of Finance, Mr. Ken Ofori-Atta presented the Budget Statement and Economic Policy of Government for the 2019 Financial Year to Parliament. The theme for the budget, “...a stronger economy for jobs and prosperity”, underscores government’s overall objective of creating jobs and shared prosperity through a robust economy.

This is to be anchored on six strategic pillars namely: agricultural modernisation; industrialisation; entrepreneurship; infrastructure; improving efficiency in revenue mobilisation and protecting the public purse; and social intervention. More specifically, government aims at, “...making an unprecedented push in [...expanding infrastructure…]; modernising agriculture, increasing production, and reducing Ghana’s dependence on imports for food; forging ahead with a bold and comprehensive industrialisation plan that adds value to our agriculture and natural resources, and leverages our rising population of educated youth; strengthening our domestic revenue mobilisation and taking strong measures to enforce efficiency in public expenditures and protect the public purse; and building on and strengthening our social interventions in order to ensure that no one is left behind as we transform our economy and march boldly to a Ghana Beyond Aid...”.

As a result, a review of the budget and government’s economic management policy for the foregoing year has to be contextualised within the objectives and focal areas so established by the government. Indeed, this ought to be done giving cognisance to the consistency in the prescription of policy, value for money considerations, as well as the incidence of burden or otherwise that the policy will place on the ordinary Ghanaian. To this end, the five broad sectors will be our focus: economy, energy, social services sector, governance and infrastructure. Analysis of the performance and selected initiatives pertaining to the six pillars would be subsumed under these broad sectors and robust recommendations would be provided, moving forward.

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1 Budget Speech of the Government of Ghana for the 2019 Financial Year
ECONOMY

Economic recovery in 2017 spurred by recovery in crude oil prices, recovery in the non-oil sector and lower inflation seem to be moderating. Real GDP growth for the first half of 2018 was 5.4 percent compared to real GDP growth of 7.8 percent over the same period in 2017. The inflation rate of 9.5 percent (as at end of October, 2018) though higher than projected (8.9 percent) was still within the inflation target of +/- 8 percent. Notable challenges in 2018 include low revenue generation which is of concern especially as the current Extended Credit Facility (ECF) with the International Monetary Fund (IMF) terminates in the forthcoming fiscal year. There are also significant challenges in the banking and financial sector, with implications on other sectors of the economy, which poses reasonable threat to public confidence.

The Real Sector

Agriculture Sector

In line with the government’s coordinated programme of positioning agriculture as a strategic anchor to driving growth and development, modernising the agriculture sector featured as a one of the six pillars of the 2019 budget. Generally, the government intends to boost the growth of the sector, create jobs and attract Ghana’s youthful population into farming and various agriculture-value chain activities.

In the 2018 budget, major initiatives for the sector included the Planting for Food and Jobs (PFJ) programme and the ‘One-Village-One-Dam’ initiative. About 192 small dams and dugouts in 64 districts were identified for development under the latter initiative. In 2019, government aims to continue constructing 570 small dams and dugouts under Infrastructure for Poverty Eradication Programme (IPEP). Government further indicates that about 577,000 farmers have been supplied with subsidised fertilisers and seeds for the 2018 cropping season as compared with a target of 500,000 farmers under the PFJ. However, a recent study revealed that PFJ is fraught with various challenges including a difficult registration process, distant registration and distribution points, late distribution of seeds and fertilizers in some districts, poor quality of seeds and fertilizers and political interference. Table 1 indicates that while growth in the sector increased from 3 percent in 2016 to 6.1 percent in 2017, it has slowed in the first and second quarters of 2018 signaling existing challenges in the sector.

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2 Co-Ordinated Programme Of Economic And Social Development Policies (2017-2024)
Government has introduced initiatives intended to consolidate the purported gains made under PFJ. For instance, the newly introduced Ghana Commodity Exchange (GCE) programme is expected to create about 200,000 skilled jobs including commodity brokers, data analysts, credit officers and others. These are projections made by the government for 2019. Further, expectations include the provision of a market for farmers who produce soya, corn and others by delivering a trading platform linked to warehouses in rural areas.

However, as has been observed in Ethiopia’s case, while a commodity exchange has the potential of increasing sales volumes and profits for farmers, stakeholders would be unsatisfied when information provided on the platform is not accurate or complete; warehouses are inadequate; and communication and transportation challenges are present. Recent reports indicate major challenges with the Volta Lake Transport Company, for instance. Its operations not only involve the transport of petroleum products and cement from Akosombo (in the Eastern Region) to the Buipe Port (in the Northern Region), but also entail the transport of passengers as well as agricultural commodities and inputs on the Akosombo-Yeji route. Unfortunately, major concerns have been expressed about aging equipment. Also, government’s decision to cut off Tema-Akosombo rail line at Mpakaban instead of the Akosombo Port have deterred the company’s operations, with implications for agricultural sector productivity.

Indeed, lessons from Ethiopia indicate that it is crucial for related infrastructure to exist so that the platform can function as intended. Additionally, it is critical that relevant rules exist (to ensure accuracy of information) and are enforced to create trust and confidence in the system. A refund system is also an important feature which would encourage individuals to make use of the system to reduce risk. Moreover, sensitising relevant stakeholders such as farmers in the rural areas not only about the benefits, but also how to use the platform would also maximise its patronage.

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A livestock version of PFJ, known as Rearing for Food and Jobs (RFJ), has been introduced by the 2019 budget to increase the production of livestock, particularly poultry. Given the existing challenges facing PFJ coupled with the similarity of both models, RFJ may not achieve increased poultry production should (potential) problems such as political interference persist.

Government also intends to add value to cocoa through a Ghana-Cote D’Ivoire Cocoa Initiative intended to set a price floor in the global commodity market. Part of the efforts to add value to cocoa production also includes providing incentives to the private sector to set up cocoa processing factories.

Following poor weather conditions, the World Bank’s Commodity Price Outlook has estimated an increase in the world market price for cocoa beans from US$2,025.1 per metric ton in 2017 to about US$2,200 per metric ton in 2018. Given this development, coupled with the fact that Ghana and Cote d'Ivoire produce about 60 percent of the world’s cocoa, a price floor (above an already high market price) is expected to result in a surplus on the world market theoretically. However, empirically, both countries would likely benefit from the initiative because global demand and supply for cocoa are price inelastic in the short- and long-run.\(^7\) Also, if the suggested review of existing tax exemptions favour local business involved in cocoa processing, further value would be added to cocoa production, which would increase the much-needed foreign exchange to stabilise the Ghana Cedi.

Industry Sector

Since independence, industrialisation in Ghana has been through three major periods: the overprotected import substitution industrialisation era of 1965–83, the outward liberalised industrialisation strategy of 1984–2000 and since 2001, the industrialisation agenda has focused on a value-added processing of Ghana’s natural resource endowments through a private sector-led accelerated industrial development strategies.\(^8\) In 2017, the government launched an industrial transformation agenda, a 10 – point reform programme for the industrial sector. The reform policies were the one district one factory programme, the development of strategic anchor industries, the development of industrial parks, reforms to improve the business environment, support to small and medium enterprises (SMEs) and the development of the domestic retail infrastructure. It is important to note that the one district one factory policy has generated the most attention as government has made very ambitious claims for this policy initiative. Also of importance is government’s plans to reform the business environment as the industrialisation drive is expected to be powered by the private sector.

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**One District One Factory**

In August 2017, the government, in line with the 2016 NPP manifesto promise, launched the One District One Factory (1D1F) policy with the intention of building at least one factory in each of the 216 districts to utilise district specific resources and to provide jobs and bolster decentralisation efforts.

Given that the programme is to be led by the private sector with government only facilitating the process, cabinet in 2018 approved a set of incentives under the 1D1F. The incentives include tax holidays, and exemption from duties and taxes on imported machinery, equipment and raw materials. The 1D1F programme has generated a lot of support from several banks, according to the 2019 budget statement, with 55 companies already funded. It is expected that about 79 projects will be approved by the end of 2018. It is however not clear whether these companies are being bankrolled with private capital from banks or by the EXIM bank. This is important as sustainability can only be achieved with substantial investment from private capital to compliment investments made by the EXIM bank. Further, it must be noted that until government provides some guarantees that derisks the businesses and the projects, uptake may be difficult.

Government support for the 1D1F programme, especially incentives in the form of tax holidays and exemptions may have played some role in the progress made so far. To meet programme targets and to continuously attract private investment, from both domestic and foreign sources, the importance of continuous improvement in the business environment cannot be overstated. Again, a notable challenge to Ghana’s industrialisation agenda has always been the issue of sustainability, especially after the effect of stimulus packages wane. A certain and predictable business environment will be imperative in ensuring continuous and sustainable growth in the industrial sector.9

Again, taking into account the fact that a significant portion of the government’s industrialisation drive hinges on the 1D1F programme, the updates provided in the 2019 budget are woefully inadequate, especially in light of the fact that such details are missing on the dedicated 1D1F website. Several questions remain, notably: what types of factories are being built? In which districts are they being built? What natural resources are being utilised, especially since the focus of Ghana’s industrialisation is to add value to natural resources? Are they sufficient to sustain the factory in the short term to long term? What value chains are being created? How do businesses take advantage of the value chain? How many jobs are being created? What linkages are these factories creating in the economy? Are these factories export focused? What effect does this have on the local currency in the medium to long term?

These questions and details are relevant not just to inform the public of the prospects and sustainability of the 1D1F programme and generally Ghana’s current attempt at industrialisation. It will also inform the investment community on which aspects of the value chain they can plug into. This will further enhance development prospects in the areas of job creation, decentralisation and revenue mobilisation.

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Government also intends to support private investors to establish industrial parks by facilitating access to lands and also promoting the use of industrial parks to investors. It is also noted that in 2018, government, in collaboration with participating financial institutions, disbursed GH¢227.2million to 14 companies, under a stimulus package. For sustainability concerns, it will be interesting to know how much of this amount was contributed by the participating financial institutions. This is especially important, in light of the fact that about 95 percent of businesses in Ghana believe that access to credit is a major challenge.¹⁰

Reforms in the Business Environment

A look at the 2018 and 2019 budgets clearly indicates the importance of the private sector in Ghana’s development plan. The government is relying on the private sector to lead growth and development efforts in several sectors of the economy including housing, job creation, industrialisation and agriculture. This has further highlighted the importance of a sound and predictable business environment as the private sector thrives on these elements.

In 2018, gains were made on reforms implemented by the government especially in the area of trade, specifically the paperless ports system. Ghana’s ranking in the World Bank doing business index increased from 120th position to 114th position, indicating that it is easier to do business in Ghana now than it was a year ago. Notable improvements were made in getting electricity, dealing with construction permits and trading across borders indicators, starting a business and paying taxes.

Since 2017, IMANI advocated for reforms in these indicators to facilitate the ease of doing business in Ghana. Though these improvements certainly have the potential to send the right signals to the investment community, there are still several aspects of Ghana’s business environment that need to be continuously reformed to consolidate these gains. It is noted that the 2019 economic management plan of government makes a commitment towards fast tracking the implementation of business reforms. Notable reforms include a web-based business consultations portal, an online electronic registry and the establishment of regulatory impact assessment units in all relevant Ministries, Departments and Agencies. To further underscore the importance of hastening business reforms, government should take note that business growth and profitability in Ghana is critically affected by cost of funding (69 percent), stability of the Ghana Cedi (79 percent) and by infrastructure (49 percent).¹¹

Special focus should be given to reforms in getting credit (where Ghana dropped 18 places), protecting minority interest (where Ghana dropped 3 places) and registering properties (where Ghana dropped 4 places). Attention should also be given to resolving insolvency as Ghana currently ranks 160 out of 190 and to Enforcing Contracts in our courts (where Ghana ranks 116).¹² It is worth noting that, even though globally Somalia is the least friendly country to do business in 2019, as it ranked 190 out of 190 countries, it has a more efficient contract enforcement environment than Ghana. Somalia ranked 114 in enforcing contracts and it takes about 575 days to enforce a contract compared to 710 days in Ghana.

While IMANI strongly encourages the government to make serious and consistent commitment to improving the business environment, it is important to note that the gains made in reforming the business environment can be eroded by unpredictable fiscal developments such as excessive taxation. For instance, over-reliance on import duties and the unpredictability of enforcement of compliance can lead to arbitrary and abrupt policies that affect certainty in doing business at Ghana’s ports. A clear example is the introduction of the Cargo Tracking Note (CTN) policy which caused misunderstanding and uncertainty among stakeholders of the port.¹³

**Service Sector**

**Financial Sector Development**

It is an undeniable fact that the challenges that occurred within the financial sector had negative repercussions on the economy. One of the major promises made by the incumbent government was the desire to establish a financial stability council to regulate the sector. The existence of such an institution is expected to complement the efforts of the Central Bank in their supervisory role as well as enhance overall surveillance within the banking sector. In line with this promise, government has hinted a possible creation of the council which is highly commendable. Unfortunately, the financial stability council was mentioned in the 2017 and 2018 budget statements without implementation. When does government actually intend to finally establish the council? Given the recent financial challenges, it will be prudent for government to do so within the shortest possible time.

Also, given the perceived high level of risk, the information asymmetry and wavering confidence within the sector as a result of the banking sector challenges, the proposed domestic credit rating agency comes in handy. Though there is lack of clarity on the purpose of the said agency, thus whether it will focus on the local banks’ investments (in order to meet the Basel II regulatory requirements) or targeted at potential borrowers, its implementation will help address the existing information asymmetry within the sector. Also, it is likely to offer the potential in building substructures essential for enhancing efficiency within the financial sector.¹⁴ Investors will be in a better situation to enhance their risk-return profiles, better manage their portfolio and have timely information for trading risk and management.¹⁵ A robust credit assessment regime for small and medium scale enterprises may help to enhance access to credit by gradually moving away from collateral-based lending to risk-based lending.¹⁶ Going forward, credit rating system can be extended to other uses as done in other countries such as China to calibrate capital requirement of banks.

Financial inclusion plays a critical role in facilitating economic growth. Microfinance institutions, rural banks and savings and loans companies have contributed immensely to bridging the financial inclusion gap. However, in recent years, Ghana has witnessed a number of these institutions struggling to meet customers’ demand while others have folded up completely. It is therefore refreshing to note that government through the Bank of Ghana is working on a

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¹⁴ Asian Development Bank (2018), Regulatory Framework and Role of Domestic Credit Rating Agencies in Bangladesh. Available at: [Ibid](https://citinewsroom.com/2018/08/27/freight-forwarders-strike-over-ctn/)

¹⁵ Ibid

¹⁶ Ibid
comprehensive plan to clean up and also strengthen the sector to serve the nation as expected. The onus, however lies on the central bank to ensure effective and timely implementation to achieve the desired result.

Tourism

The tourism sector is known to possess a huge potential which can positively impact Ghana’s macroeconomy, particularly in the area of job creation and revenue mobilisation. However, little attention has been paid by successive governments to harness this unique potential. As a result, poor road infrastructure leading to tourist sites, lack of basic amenities, poor signage has predominantly characterised Ghana’s tourism industry. The government, recognising the sector’s dire state increased capital expenditure allocation of the sector for the 2018 fiscal year. The previous year budget also indicated government’s commitment to expanding tourism infrastructure through public private partnerships (PPPs). Given this background, it was expected that government will remain committed to this course by increasing CAPEX in the 2019 budget as well as update on the specific infrastructure projects executed.

Among the list of infrastructure projects implemented in 2018, the 2019 budget reports that the ministry commenced the Marine Drive Tourism Investment Project (MDTIP), a project that covers a land area of 241 acres. Also, as part of efforts to support paragliding activities, two new pavilions and an expanded take-off site.

Also under the “SAY NO TO OPEN DEFECATION”, the Tourism Ministry is reported to have constructed some toilet facilities in five selected areas and have planned to expand to 10 areas in 2019.

Interestingly, the ministry appears to be on the path of marketing and promoting the same “unattractive” tourist sites with the aim of attractive more tourists to the areas. So the most obvious question is what exactly are we marketing? Do these areas have the accessible roads? What happened to the PPP approach government sought to adopt to develop the tourist sites? Is the PPP limited to the supposed “Akwaaba Hotels? Would it not be more prudent to also focus on low hanging fruits?

Surprisingly, CAPEX allocation has significantly reduced from GH¢ 16 million in 2018 to GH¢ 9.5 million in 2019 which marks a decrease of 40.6 percent. from the 2018 figure. This undeniable gives a picture of how infrastructure development will be negatively affected in the coming year. Recently, the ministry received intense backlash after news broke about their intention to spend $10 million out of a $40 million World Bank facility on capacity building. The capacity building component is expected to, among other things, finance the setting up two institutions to train personnel for the tourism sector. The major issue is why will government decide to embark on such projects when there are two universities already executing the same task? The 2019 budget even revealed that government has renovated and reopened the Hotel, Catering and Tourism Training Institute while curricular development is ongoing. It will be prudent for such funds to be geared towards fixing of tourism roads and enhancing tourist sites.
The Fiscal Economy

Revenue Mobilisation

Enhancing revenue mobilisation is a key element of Ghana’s fiscal policy and sustainable development plan especially, post International Monetary Fund (IMF) Extended Credit Facility (ECF).\(^{17}\) Over the past five years, revenue mobilisation in Ghana has been underpinned by revenue collection from crude oil production, trade related activities and taxes from goods and services.\(^{18}\) Saddled with a large informal sector, compliance has been difficult to achieve and the tax burden has fallen heavily on the small formal sector.\(^{19}\) The main ideas to drive revenue generation, as highlighted by the 2016 NPP manifesto and in the 2017 & 2018 budget, included increased tax compliance, efficient and effective revenue administration and widening the tax base to include the informal sector.

According to the 2019 budget statement, revenue targets for the first three quarters of 2017 and 2018 were missed by about 6.4 percent and 9.5 percent respectively. The revenue shortfalls in 2018 were mainly as a result of gaps in non-oil tax revenue and non-tax revenue. Specifically, shortfalls from domestic and external VAT alone constituted about 81 percent of the total shortfall in tax revenue, predominantly driven by low non-oil import CIF (Cost, Insurance and Freight) and large import exemptions.

Generally, efforts to formalise the economy through the National Identification Scheme (NIS) and the National Digital Addressing System (NDAS) has been slow. In 2018, just about 56,359 staff of 100 public sector institutions were registered. Although mass registration has been rolled out, progress has been affected by limited knowledge of the NDAS. Rather, the inability of government to make significant strides towards formalising the economy resulted in the introduction of new taxes such as the luxury vehicle taxes and an additional personal income band of 35 percent for monthly incomes in excess of GH₵ 10,000, all of which contradicts government’s intention to shift economic management from taxation to production.\(^{20}\) It is noted that, in the 2019 budget, the personal income tax rate of 35 percent has been reviewed to apply to monthly incomes in excess of GH₵ 20,000 instead of GH₵ 10,000, to 30 percent. Even though it appears that government has reduced the personal income band in response to public demand, the policy inconsistency potentially undermines predictability of policy formulation which have serious consequences especially within the investment community, making it difficult for government to accurately predict the behaviour of economic agents. It also makes one wonder the type of research and stakeholder engagement that backs government policy formulation.

In 2019, government has projected an increase of 18.9 percent in non-tax revenue and an increase of 8 percent in taxes on domestic goods and services over the 2018 targets, though 2018 revenue targets were significantly missed. It also

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20 2018 Ghana Midterm Budget Review
expects to enhance revenue mobilisation by reforming revenue institutions, intensifying compliance and broadening the tax net. These measures are however not much different from measures proposed in the 2017 and 2018 budgets.

Specifically, government will utilise third party institutions such as SSNIT (Social Security and National Insurance Trust) and DVLA (Drivers and Vehicle Licensing Authority) data for tax administration purposes ahead of the full deployment of the National Identification Scheme (NIS). It is notable that the government intends to utilise a variety of means to rope more people into the tax net. However, using various database may not be very efficient as there is little integration between these databases and there may be possible data protection breaches. Also, about 42.5 percent more revenue has been allocated to the NIS over the 2018 allocation of GH¢ 200 million. It remains to be seen whether the full amount will be disbursed to facilitate the fast tracking of the National Identification Scheme.

Government will also assign 10,000 Nation Builders Corps (NABCO) officers to support the implementation of revenue enhancing measures; complete and submit a draft policy on exemptions to parliament; sanction public institutions that do not comply with the Tax Identification Number (TIN) requirements; passionately appeal to citizens to register for TIN and make TIN a prerequisite to accessing social services such as the Free Senior High School (Free SHS).

Overall, total Revenue and Grants for 2019 is estimated to increase to GH¢ 58,904.9 million, equivalent to 17.1 percent of GDP, up from a projected outturn of GH¢ 46,807.9 million, 15.7 percent of GDP in 2018. Further, domestic revenue is also expected to increase by 25.5 percent above the projected outturn in 2018, with the main drivers being non-oil tax revenue (74.2 percent of domestic revenue) on the back of increased compliance and revenue administration. Just as in 2018, achievement of revenue targets in 2019 are contingent on government’s ability to reach the informal sector and achieve high compliance in revenue administration. Any delays in formalising the economy and optimising compliance, as was the case in 2018, could have serious implications. It could mean further realignment of expenditure items which could stifle growth. Petroleum revenues are also expected to be about 30 percent higher than projected outturn for 2018, and it’s expected to constitute about 9.4 percent of domestic revenue. Petroleum revenues are however highly exposed to external shocks. Case in point is the fact that global oil prices have tumbled in the past month; in just over a month, brent crude has fallen from US$ 86.29 on 3rd October, 2018 to US$ 66.76 per barrel on 16th November, 2018.21

Another crucial issue for compliance is the lack of certainty and clarity in Ghana’s tax regime. According to a 2018 KPMG business survey, about 89 percent of respondents believe that government has not taken adequate measures to provide certainty and clarity on tax liability. Businesses are of the opinion that tax laws in Ghana are quite complex, making it difficult for many taxpayers and even tax authorities to have a clear understanding of the laws and its proper application. Given that understanding precedes compliance, this point cannot be overemphasised.

**Expenditure Management**

Government has committed to spend close to its expenditure targets in line with the IMF Fiscal Consolidation Strategy. In 2018, Total Expenditure was 4.9 percent below its target, according to the 2019 Budget. However, items including Wages and Salaries as well as expenditure on Goods and Services saw overruns. Consequently, government intends to outsource payroll management in 2019 to improve overall efficiency. Indeed, government has stated its desire to ensure that gains made under the IMF programme are not eroded partly through the implementation of expenditure efficiency and rationalisation methods meant to increase efficiency in public spending and create fiscal space for growth-enhancing programmes.22

According to the 2019 Budget, Total Expenditure (including clearance of Arrears) is estimated at GH₵ 73.4 billion, equivalent to 21.3 percent of GDP. About GH₵ 19.4 billion representing about 26.5 percent of Total Expenditure is expected to be spent on Wages and Salaries. Expenditure on Goods and Services is also estimated at GH₵ 6.3 billion, representing 1.8 percent of GDP. Moreover, about GH₵ 18.6 billion has been estimated for Interest Payments of public debt.

Unfortunately, only GH₵8.5 billion, equivalent to 2.5 percent of GDP is the projected allocation for Capital Expenditure (CAPEX) for 2019. Moreover, of this amount only GH₵3.2 billion is expected to be domestically financed with the remaining GH₵5.3 billion financed through a combination of foreign grants and loans. These expenditure items show that Wages and Salaries as well as Interest Payments would take a much larger share of Total Expenditure than CAPEX which is important to stimulating economic growth. Furthermore, given the generally declining trajectory of grants after Ghana attained lower middle income status, the projected allocation for CAPEX and consequently the 7.6 percent real GDP growth target for 2019 may be missed.

The fiscal deficit may exceed expectation in 2019 with Total Expenditure growth of 27 percent above the estimated outturn for 2018. This is likely the case should Total Revenue and Grants persist at 9 percent below target, as occurred in 2017.

In maintaining fiscal discipline, the establishment of the Fiscal Council remains crucial. It was promised in the 2017 Budget, but the 2018 budget was silent on it only for mention to be made of it again in the 2019 budget. Taking relevant actions culminating in its establishment would demonstrate government’s commitment to fiscal discipline and improve macroeconomic stability and investor outlook of Ghana’s economy.

Additionally, strengthening the enforcement of public procurement laws and Public Financial Management Act (PFMA) to ensure value-for-money as well as monitoring and evaluation of the implementation of the Ghana Integrated Financial Management Information System (GIFMIS) utilisation expansion programme would play important roles in improving expenditure management.

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22 Budget Speech of the Government of Ghana for the 2019 Financial Year
Government has also stated that outsourcing payroll management would begin in 2019 with one MDA. There are important questions that ought to be addressed. Which MDA? What are the potential costs and benefits of outsourcing the payroll? What is the nature of the outsourcing, and to whom? Indeed, transparency would assist in managing expectations and ease implementation (should it be found a worthwhile pursuit).

**Debt Sustainability**

At the end of September 2018, nominal public debt stock stood at GH¢170.8 billion. External and domestic debt respectively constituted GH¢86.6 billion and GH¢84.1 billion, according to the Ministry of Finance. The rate of debt accumulation in 2018 is recorded at 19.8 percent. Government has stated that this development has occurred largely as a result of the clean-up of the financial sector as computations reveal that it would have been 11.5 percent.

Public debt (percent of GDP) was 70.7 percent at the end of September 2018 as compared with 69.2 percent in September 2017. Taking into account the rebased series, however, leads to a decrease to 57.4 percent of rebased GDP.

The budget deficit is expected to increase from GH¢11 billion from 2018 (representing 3.7 percent of GDP) to GH¢14.5 billion in 2019 (representing 4.2 percent of GDP). Net Foreign Financing will amount to GH¢9,748.1 million. This includes a planned sovereign bond issuance. Total Domestic Financing from the banking and non-bank sectors, as well as other domestic sources is projected at GH¢4,8 billion. Government intends to issue sovereign bonds to the tune of US$3 billion as well as pursue the US$50 billion century bond.

External developments including the strengthening of the US dollar on account of US Fed policy rate hikes could pose a risk in terms of depreciation of the Ghana Cedi. The US-China trade war could also culminate in further increases in the US Fed policy rate to contain (imported) inflationary pressures resulting from increased tariffs. Given government’s plan to borrow more externally, Ghana’s debt burden would likely increase in the wake of the projected financing plans of the government.

Furthermore, government’s strategy to ensure debt sustainability by maintaining positive primary surplus is appealing to sound macroeconomic theory. However, the 2019 budget gives some indications that government intends to exploit the “space” created by the rebasing to borrow substantial sums. Part of the borrowing projected includes the issuance of medium-term domestic instruments meant to finance the cost associated with the financial sector clean-up since the zero central bank financing of the budget is in effect. This could lead to crowding out of the private sector as government competes with private businesses for funds.

Also, government believes that obtaining long-term financing shows a country with a post-IMF long term plan. However, long-term financing does not necessarily translate into having a long-term plan. There should be a plan to invest strategically in order to benefit from the loans. Otherwise, when the bonds mature, the downward pressure on the Ghana Cedi could take a significant toll on the economy in terms of rising cost of living, for example.
Unemployment and Job Creation

It has been estimated that over 1.2 million individuals from age 15 and above are employed. The World Bank also pegged youth unemployment at a whopping 48 percent. Past studies that have sought to identify the root cause of this forlorn situation have attributed it to unfavourable business environment that stifles the private sector’s capacity to expand and recruit more people, lack of employable skills among the youth among others. The recent developments within the financial sector has aggravated the unemployment situation as some employees of defunct banks have been laid off with a substantial number of employees asked to reapply for their positions within the newly created Consolidated Bank for instance. Similar job losses have also hit other sectors of the economy including the telecom industry, textile, mining, education and in the media.

In light of the above background, it was expected that a clearly defined strategy on job creation, access to decent and sustainable jobs feature in the 2019 budget statement.

The budget highlights some jobs that for instance, through the Nation’s Builder’s Corps (NABCO), the government reports to have employed about 100,000 graduates in various sectors of the economy. Also between 2017 and 2018, the government has indicated that it has given financial clearance to some government agencies to recruit about 88,719. Other job opportunities are also reported to have been created within the agricultural sector. Concurrently, entrepreneurial programmes such as the National Entrepreneurship and Innovation Plan (NEIP) and the presidential pitch aimed at providing sustainable jobs and implemented in 2018 is expected to be expanded. IMANI in our 2018 budget analysis bemoaned the rate at which government was ‘endorsing’ job unsustainability with the implementation of employment modules such as the NABCO. Though government may have a good intention to lessen the unemployment burden, such employment programmes must the implemented with sustainability in the equation. There should be performance indicators to measure value addition to determine whether the programme should be scaled up or not. Similar modules implemented in the past collapsed due to, limited supervision, corruption, and change of government and the current programme is unfortunately anticipated to suffer same if a change of government occur in the next two years.

Also, despite the promise made by the Deputy Minister of Employment, Hon Bright Wireko Brobbey to engage the affected employees in other alternative uses of labour, the 2019 budget statement failed to explain exactly how this will be carried out.

However, initiatives taken by the government to strengthen the financial sector, the commitment shown to improve revenue generation within the textile industry to create and maintain jobs and the support extended to distress companies to support their operations are commendable. If implemented effectively, these will help address some

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23 More than 1.2 million People in Ghana are Unemployed-Report. Available at: https://www.myjoyonline.com/business/2017/March-26th/more-than-12-million-people-in-ghan-a-are-unemployed-report.php
24 http://citifmonline.com/2016/05/12/48-ghanaian-youth-jobless-world-bank/
aspect of the unemployment burden directly and indirectly. Efforts made to expand the entrepreneurial skills through the NEIP and the Presidential Pitch are useful, however, it’s implementation should neither be politicised nor made to mimic the numerous wasteful loan schemes to ensure timely repayment of loans given to beneficiaries and overall sustainability.

GOVERNANCE

Office of The Special Prosecutor

For the past years, many Ghanaians including politicians have expressed their malaise about corruption in the country due to its deleterious and corrosive consequences on governance and socio-economic development. The Office of the Special Prosecutor was established under Special Prosecutor Act 2017, Act 959, as an independent body to investigate and prosecute cases of corruption. Following its establishment, the special prosecutor has expressed his frustrations concerning lack of capital, restricting the office from fulfilling its mandate. While there was no allocation for the office of the special prosecutor in the 2018 budget, government needs to be commended for allocating GHS 180m to the special prosecutor’s office in the 2019 budget. This allocation will enable the office to operate more effectively to achieve its core mandate, at least within the foregoing year.

According to the budget, the Attorney General has been allocated GHS 135 million, out of which GHS 5 million is allocated to Goods and Services. The Office of the Special Prosecutor, on the other hand received an allocation of GHS 180 million cedis, out of which 88 million (48.9 percent) constitutes Goods and Services. This comparatively large amount may be due to the fact that the Office of the Special Prosecutor is now being set up and may require a lot of investments in infrastructure and equipment. It will be interesting to see how the OSP will efficiently play its role and how it will collaborate effectively with Attorney General’s office.

The Office of the Special Prosecutor is allocated GH¢ 31 million in compensation, with a staff ceiling of 12, constituting an amount of GH¢ 2.6 million per staff member. Comparatively, the Attorney General’s Department is allocated GHC 91 million for compensation of employees, with a staff ceiling of 1,314. This gives a per capita compensation per annum of GH¢ 69,254 for the Attorney General’s Department. Considering per capita compensation for both agencies and the allocation to both agencies, the funds allocated to both offices for the compensation of employees can be justified as enough to fight corruption.

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Development Authorities

A worrying trend that was observed in the 2019 budget is the manner in which the newly established development authorities are expected to operate. The authorities (Northern Development Authority, Coastal Development Authority and Middle Development Authority), according to the 2019 budget statement are anticipated to oversee the building of infrastructure across certain sectors of the economy such as education, health and education. Though the infrastructure in itself is not bad, it appears its projected implementation may increase operational cost and contribute to the fiscal rigidity of the state. Why warrant a development authority to oversee the construction of a school when the Ministry of Education, the Ghana Health Service, the GETFund and the various municipal and district assemblies can do same? The currently adopted approach may breed corruption and aggravate wastage. It is important that we allow our decentralised system to work and pursue efficiency instead of encouraging multiplicity of efforts.

SOCIAL SECTOR

Historically, the Social Sector has the biggest allocation in the National Budget. In 2018, 47.9 percent of the budget for Ministries Departments and Agencies (MDAs) were allocated to the Social Sector. In 2019, the Social Sector took up 51.6 percent of the budget for MDAs. The total budget for the Social Sector grew by 38.2 percent in nominal terms, from GH₵ 14.3 billion in 2018 to GH₵ 19.7 billion. Out of the eight ministries in the sector, the largest proportions are allocated to the Ministry of Education, followed by the Ministry of Health.

Education Sector

Ghana’s education sector is the largest component of the Social Sector. The 2019 budget, allocates GH₵ 12.88 billion to the sector, which is an increase of 39 percent from the 2018 allocated budget of GH₵ 9.26 billion. Part of the reason for the increase in the budget was the increase in the number of Senior High School (SHS) students that the government provides for through school uniforms, exercise books, nutrition, fees, etc. There was a 36 percent increase in the number of Free SHS students from 2018 to 2019.

The amount allocated to compensation in the Ministry of Education increased by 28.1 percent from the 2018 Budget figure of GH₵ 7.3 billion to the 2019 Budget amount of GH₵ 9.3 billion. The ceiling of staff increased by over 50,000 from 380,782 to 435,488 staff, as the allocation per staff also increased, from about GH₵ 19,156.56 in 2018 to GH₵ 21,460.31 in 2019. However, the total share of the Ministry of Education’s budget directed towards compensation actually decreased from 78.8 percent to 72.6 percent from 2018 to 2019. Allocations to Goods and Services increased indicating the Government’s commitment to make education more accessible. At the same time, Internally Generated Funds (IGF) increased by 15.6 percent from GH₵ 1.35 billion to GH₵ 1.56 billion from 2018 to 2019. Development Partner Funds increased by 252.4 percent from GH₵ 326 million in 2018 to GH₵ 1.15 billion. CAPEX was one item in the Ministry’s budget allocation that decreased year-on-year, by 14.0 percent from GH₵ 605.8 million in 2018, to GH₵ 520.9 million in 2019. It is curious to note this decrease in CAPEX, given that the double-track SHS system was
introduced as a temporary measure to absorb the influx of students on to Free SHS while the Government works to increase infrastructure, with the view of having adequate infrastructure in the next four years.\(^{29}\)

The piloting of the Basic Science, Technology, Engineering and Mathematics (BSTEM) Programme is commendable. The government have implemented the BSTEM programme by training 200 teachers from 100 Basic Schools in robotics and engineering science and stating the intention to provide STEM educational materials, such as multimedia laboratories in basic school. A recent study by the World Bank on the Human Capital Index 2018, found that although Ghanaian students are expected to achieve 11.6 years of school, when it is adjusted by the years of learning, only 5.7 years of school are attained.\(^{30}\) This contributed to Ghana’s score on the Human Capital Index of 0.44, on a scale of 0 to 1, where the higher the score, the greater the human capital of a country. This led to the rank of 116 out of 157 countries. An improvement in STEM education will build human capital and lead to increased capacity to generate growth, according to the United Nations Economic Commission for Africa (UNECA).\(^{31}\) Government’s plans to implement this programme slowly, in 7,000 out of the 38,715 basic schools in 2019 leaves room to monitor the impact and adjust the initiative accordingly. A large number of basic school students in the rural areas have been at the disadvantaged due to inadequate supply of teachers and lack of electricity to support the practical teaching and learning of ICT, in comparison to students in urban areas.\(^{32}\) Therefore, such a programme much be structured in a manner in which such kids are not sidelined and inequality increased.

**Health Sector**

The Health and Social Work sub-sector is projected to be the fastest growing sector within the Services Industry in 2018, with a real GDP growth rate of 14.6 percent.\(^{33}\) In the 2019 Budget, the allocation to the Ministry of Health increased by 36.5 percent, from GH¢ 4.42 billion in 2018 to GH¢ 6.04 billion in 2019. This increase reflects the government’s intention to provide quality healthcare by ‘investing in infrastructure, equipment and personnel in the health sector’.\(^{34}\)

From 2018 to 2019 the allocation to compensation of employees increased by 35.7 percent from GH¢ 2.6 billion to GH¢ 3.6 billion. Despite the ceiling for staff increasing by just 5.6 percent, from 107,189 in 2018 to 113,469 in 2019, the cost per staff increased by 28.2 percent, from GH¢ 24,640.76 in 2018 to GH¢ 31,594.78 in 2019. There is an incremental in the amount allocated to Goods and Services from GH¢ 1.4 billion in 2018 to GH¢ 1.6 billion in 2019, an increase of 13.2 percent. There is also a relatively large increase in the allocation of CAPEX in the health sector. In 2018, GH¢ 362.4 million was allocated, compared to GH¢ 845.7 million in 2019, a rise of 133.4 percent. This is


\(^{33}\) 2019 Budget Statement Appendix 1

\(^{34}\) 2019 Budget Statement
not surprising given the number of infrastructure projects the Ministry has set out to complete in 2019, such as providing an integrated IT system at Dodowa, Sekondi and other hospitals, as well as the full implementation of a national health medical records programme. The allocations from IGF and Development Partner Funds both increased from 2018 to 2019, by 31.7 percent and 92.5 percent, respectively.

The 2019 National Budget makes mention of Reform Agenda Strategy of the NHIS, with some elements being the abolition of capitation and the introduction of E-receipts. However, very few further details are provided on the other reforms. One suggestion for improved financial sustainability, given by the CEO of the National Health Insurance Authority in July 2018, is to increase the NHIS Levy from 2.5 percent to 3.5 percent. It is not clear whether this, or other financial sustainability plans for the NHIS, will feature in the Strategy. In the event that the Strategy is approved by Cabinet, it would be good to monitor the details of the reforms.

Although the current government paid off the GH₵ 1.2 billion NHIS debt that remained from the previous government, there are questions as to whether every service provider that was owed has indeed been paid, post the review of the arrears by the auditor general. In September 2018, the NHIA introduced a directive that any claims from 2016/2017 that were not submitted within three months would now not be guaranteed payment. In order to not repeat a situation in future where the NHIS is plunged into debt again, serious analysis of sustainability measures need to be undertaken with the involvement of all key stakeholders. For example, there should be encouragement from private sector for companies to provide private health insurance for their employees.

**ENERGY**

**Power Sector**

*Debt restructuring vs debt accumulation*

The announcement in the 2018 budget that the energy sector debt had been reduced to GH₵ 5 billion was received with excitement and gave hope that energy sector debts could be further reduced overtime and eventually eliminated through proceeds from the Energy Sector Levy (ESL) and the energy bonds. Our 2017 and 2018 budget analyses however highlighted the critical need to apply commensurate efforts towards managing debt accumulation as was being accorded debt restructuring, to ensure that net debt accumulation overtime will not remain positive and continue to increase as such eroding the gains of debt restructuring.

The failure of the 2019 budget to provide the amount by which the energy debt stock has been reduced for the 2018 fiscal year, and its proposal that the extraction of governments share of gas resources be postponed to allow the government devise ways of getting VRA to pay its debt to Ghana Gas is indicative, keeping in view that the omission

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36 Ghanaweb (06/09/2018). *National Health Insurance Authority suspends processing of late claims.* Available at: https://www.ghanaweb.com/GhanaHomePage/NewsArchive/National-Health-Insurance-Authority-suspends-processing-of-late-claims-682701
could have been an oversight\textsuperscript{37}, of the possible manifestation of the poorly managed debt accumulation of the power utilities. The fact that factors that cause debt accumulation for the power utilities have not been appropriately dealt with may be jeopardising or eroding gains from debt restructuring. Analysis of GRIDCO’s statement of account indicates that the company is still saddled with debts owed it by ECG and VALCO.\textsuperscript{38}

The 2019 budget reports that, an amount of GHS2.33 billion was collected via the Energy Sector Levy (ESL) out of which GHS2.34 billion was lodged into the established and other ESLA accounts. Of this amount lodged, GHS1.922 billion (82 percent) was utilised. Of the amount utilised, 59 percent was transferred to the ESLA PLC for debt service payments for bonds issued. The road fund also received 27 percent of the total lodged amount while 9.6 percent was disbursed towards subsidies to Bulk Oil Distribution Companies (BDCs) for the supply of premix fuel and Residual Fuel Oil.

These disbursements were done according to provisions in the ESLA Act 899 as amended Act 946. However, it is noted that over the period 2016 to 2019, the allocations from the ESL account into the road fund, energy fund, the national electrification fund and towards payments for the supply of fuel have been incoherent and fluctuate largely (for example disbursement towards the road fund was 75 percent of the amount lodged in the ESL account in 2017 as compared to 27 percent for the 2018 fiscal year). This is because the Act itself does not specify a formula for these allocations that takes due cognisance of impacts of these disbursements on energy debt reduction. Further, payments of levies into the road fund cannot be tracked to ascertain whether the amounts are being adequately utilised in view of road development. In light of this and given the persistent debt burden of the VRA, it is critical to examine these disbursements out of the ESL accounts and to think through ring fencing of the proceeds of ESLA to focus more on debt recovery.

The persistence of the debt burden of VRA also raises question concerning the impact of the reduction of electricity tariffs on debt restructuring efforts, as was raised in our 2017 and 2018 budget analyses. The 2017 budget announced 50 percent reduction of levies on electricity including a reduction of the National Electrification Levy from 5 percent to 3 percent and of the Public Lighting Levy from 5 percent to 2 percent. The ESLA Act 899 was subsequently amended to reflect this. Further the 2018 budget announced reduction in electricity tariffs by 17.5 percent for residential consumers and 30 percent for businesses and industry. Given that 60 percent of the Public Lighting Levy as well as 60 percent of the National Electrification Levy go to support payment of power utility debt, it was clear that reduction in electricity tariffs was going to have an impact on debt restructuring efforts.

The silence of the 2019 budget on the other debt restructuring initiatives outlined by the NPP manifesto, the Coordinated Programme for Social and Economic Development (CPSED) 2017-2024 as well as the 2017 and 2018 budgets is resounding. There is no report on the Cash Waterfall Mechanism, the credit risk assessment framework to guide borrowing of SOE’s in the power sector, the fast tracking of the development and implementation of the Energy

\textsuperscript{37} This will be clarified during Imani’s post-budget engagements with government concerning the budget

\textsuperscript{38} “Dumsor Looms as Debt Situation at GRIDCo Worsens” (September 2018). Available at https://www.ghanaweb.com/GhanaHomePage/NewsArchive/Dumsor-looms-as-debt-situation-at-GRIDCo-worsens-683623
Sector Financial Restructuring and Recovery Plan, the liquidity management mechanism for the power utilities, or the unbundling of VRA. Are these initiatives no longer material to the restructuring of the energy sector debt?

The proposal by government to exclude gas revenues to the tune of US$181.80 million from the projected petroleum revenues for 2019 as well as to postpone the extraction of its share of the gas resource (Royalties, and Carried and Participating Interest (CAPI)), until off takers to consume the gas are secured is very curious and raises critical questions and concerns.

Given that gas production is not going to be halted but minimised, the projected amount of US$181.80m can be realised within the 2019 fiscal year. If the request to exclude gas revenues of US$181.80m from petroleum revenues for the year is granted, this means that the US$181.80m will not enter the Petroleum Holding Fund. In that case the gas revenues will not be subject to the rules of the PRMA meaning its allocation and use can be highly unguided, for example, it may end up in the consolidated fund thus jeopardising the ability to track it. Further, it needs to be clarified if the US$181.80m was or will be included in the framework of already existing debt restructuring efforts for VRA. Of course, there is also the issue of the possibility that, this US$181.80m may be surreptitiously channeled towards payments of liability for the termination of certain Power Purchase Agreements as outlined by the Ministry of Energy.

Other questions that reveal loopholes with government’s proposal are; who are the other off-takers the government refers to given that gas produced in Ghana is solely channeled towards power production and the only gas processing entity is Ghana Gas? What is the strategy to secure the other so-called off-takers? What happens if off-takers are not secured? And over which period of time will VRAs debt service be achieved? These are critical questions the government needs to answer and parliament needs to consider in assessing this proposal put forward by the Ministry of Finance.

**Oil and Gas**

Increased revenues from petroleum activities brings relief especially after the period of downturn (2014-2016). Petroleum receipts increased by 99 percent from US$362.58 million in 2017 to US$723.55 in 2018 (Jan to Sept) given an increased oil and gas production and a favorable global oil price. The most important observation is how petroleum revenues were channeled towards growth and development outcomes in the just ended 2018 fiscal year and are being channeled for the incoming 2019 fiscal year.

The 2019 budget reports that, of the amount approved for ABFA expenditure, only 49 percent had been utilised as at September 2018. This is indicative of a possible repeat of the same violation of the PRMA concerning the disbursement of petroleum revenue that the Public Interest and Accountability Committee (PIAC) had spoken against where a portion of the ABFA allocations for the year 2017 was unspent but could not be accounted for by the Ministry of Finance. It is noteworthy that the budget was silent on the unspent portions of the ABFA both for 2017 and 2018.

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Further, the PRMA mandates that (Section 21(4)), at least 70 percent of the ABFA be spent on capital expenditure. Of the total ABFA amount utilised in 2018, 5.7 percent was spent on Agriculture, 68.7 percent on Education—mainly for the provision of goods and services, 1.86 percent on health and 23.5 percent on Road, rail and other critical infrastructure. For the Free SHS initiative, an allocation of GH¢720, 070, 682 has been made towards provision of goods and services for 2019 but no allocation has been made toward capital expenditure from the ABFA. This undermines the sustainability overtime of the initiative given the dire infrastructure needs posed by the implementation of the initiative.

To undertake the IPEP projects, an amount GH¢ 654, 792,553 has been allocated from the ABFA towards capital expenditure. IPEP projects outlined in budget include provision of 10-seater water closets institutional toilets, community based solar powered water systems, 1,000 metric tonnes prefabricated grains warehouses as well as small dams and dugouts. Standardised guidelines concerning how the projects were selected is still not publicly available. It would be interesting to see what informed the selection of these projects and the intended impact on the communities in question; whether a needs based assessment was carried out prior to selection of these projects and the value for money that these projects will deliver.

**Renewable Energy**

The government promised through its 2016 manifesto and through the Coordinated Programme for Economic and Social Development (CPSED) (2017-2024) that government and public buildings will be made to migrate to solar power in order to increase the adoption of renewable energy as well as reduce the expenditure on power utilities. Though the 2017 and 2018 budgets were not clear about steps taken towards this, the 2019 budget reports that a contract was awarded, through the Solar Rooftop Programme, for the installation of 65kW solar rooftop system at the Ministry of Energy. The programme is expected to be extended to “most” public institutions.

This move is commendable. However, there is a lot to be done to ensure public buildings are “solar-ready”. This basically involves improving the efficiency of energy or power utilisation at all government and public institutions. Without this, the cost of adopting solar may be unnecessarily large therefore undermining the objective of cost savings through reducing expenditure on energy utilities. The government may also consider eliminating costly storage technologies (solar batteries) by opting for direct current (DC) connections such that energy harnessed from the sun via solar panels is immediately converted and used to supply power for use during the day. This is the most prudent option for the short term given that most government and public institutions operate during the day (peak load). There is little need for power storage for use at night. A critical consideration should also be how net metering can be aptly incorporated for the medium to long term to bolster the cost savings.

Further, it will be interesting to see whether value for money has been ensured in the contract that is to deliver the solar rooftop system for the Ministry of Energy.

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40 There is the argument that, the Section 21(4) mandates spending of 70 percent of the ABFA on “public investments” which are not clearly defined to mean capital expenditure in the PRMA
INFRASTRUCTURE

The infrastructure sector accounts massively for economic development and growth, as well as a source of jobs and wealth for a majority of people. The NPP government, made a number of promises about developing infrastructure through the integrated development programme covering roads, ICT, railways, ports and harbours, aviation, water systems and housing to enable emerging economies like Ghana cross the development path to prosperity. It is committed to embarking on an integrated infrastructural development programme across the country that will move goods, food items and people from one place to the other to create jobs prosperity and ensure value for money. It also focused on going digital in public service delivery with the National Digital Addressing System (NDAS), National Identification Scheme (NIS), and the maintenance of existing roads.

Sino-hydro, Bauxite Resources and Infrastructure

The 2019 budget lists a number of road, bridge and interchange projects being negotiated to be financed via the $2bn Sino-hydro bauxite backed deal. The main issues Imani raised in its analysis of the Sino-hydro deal include, the time overlay in finding a strategic partner to develop and mine the bauxite as well as set up the refinery whose products will be sold to make payments to Sino-hydro in lieu of the loan. Given the grace period of 3 years after which repayments to Sino-hydro will commence, a crucial prerequisite for operationalising of the Sino-hydro loan is the development of the bauxite resources.

However, the 2019 budget is not sufficiently clear on the exact approach by which mining of the bauxite is to be fast tracked even though the Master Project Support Agreement (MPSA) accompanying the Sino-Hydro deal has already been approved and infrastructure projects are being negotiated. The budget talks of the Ghana Integrated Bauxite and Aluminum Development Authority (GIBADA) and the Ghana Integrated Aluminium Development Corporation (GIADEC) (there is no clarity as to whether these two are mutually exclusive or otherwise) which is yet to be incorporated after passage of a bill and become fully operational from next year. GIADEC is to focus on rapid, but controlled development of the integrated aluminium industry in Ghana, to boost the industrialisation programme. It is useful to note that the GIBADA has been allocated GH¢ 11.4 million from the Government of Ghana (GoG) to fund capex. This amount declines to GH¢ 9.2 million in 2020 and an amount of GH¢ 13.68 million is allocated to goods and services for the Authority in 2020. In 2021 GH¢ 15 million is allocated to goods and service and GH¢ 10 million to capex and in 2022, GH¢ 13.86 million to goods and services, GH¢ 7.46 million to CAPEX. These allocations are curious given the decline in capex against increases in allocations towards expenditure on goods and services. How is the Authority expected to deliver timely development of the bauxite?

These developments outlined in the 2019 budget begs the question of whether any bauxite resources would be developed in time to finance the Sino-hydro loan and what impact this will have on the earmarked infrastructure projects. An example of the impact of delayed financing on infrastructure projects is the revelation made through the Public Interest and Accountability Committee (PIAC) audit report on ABFA funded infrastructure projects in Ghana.
The audit found that, a main cause for uncompleted government projects was delay in the disbursement of funds to the projects which led to cost overruns and caused projects to be abandoned.

**Railway Infrastructure**

Investment in railway infrastructure will not only improve the ease in the movement of goods and people across the country but can also be an important catalyst for economic growth and development. Rail transport can raise trade levels, link production sites to regional and international markets, promote the national and cross-border integration of regions and facilitate access to the labor market, education and health services. Plans to construct city railways will greatly ease the stress & traffic burden of commuters in Accra, Kumasi and Takoradi as initiated by government on the SkyTrain project.

The railway sub-sector was allocated GH¢ 636.1 million in the 2019 budget, representing a 16.87 percent increase to the 2018 allocated amount of GH¢ 544.3 million. This suggests government's plan to beef up more projects and to complete the existing ones within time frames as promised in the budget. Other railway development plans highlighted in the 2019 budget; the commencement of the rehabilitation of the existing 56km narrow gauge line from Kojokrom to Tarkwa through Nsuta corridor to restore the passenger rail and freight services for the first time since 2007 and to be completed in 2019, the modernisation of the Railway Training Institute at Essikado for workshops to serve the railway, mining, petroleum and agricultural industries also to be finished in 2019, will greatly boost economic activities and improve ease of doing business in the country.

However, juxtaposing some of the projects vis-à-vis the 2018 and 2019 budgets, there is some insufficiency in the clear-cut operations or executions; the construction of the new standard gauge railway line from Kojokrom to Kumasi, the Greenfield Railway Line from Kumasi to Paga, popularly known as the Central Spine feasibility studies in the 2019 budget when infrastructure through the PPP plan stated the same project as part of the others to be initiated in the 2018 budget are some examples.

The ministry of railways development was carved from transport with the intention to focus more attention on revamping the sector to contribute to economic growth. However, restructuring of the railway sector has not be expedited.

Public Private Partnerships (PPP) in railways can bring opportunities for operating efficiency, investment, and clean technology. PPP railway projects providing for shared use of rail tracks may lead to efficiency gains and an increased revenue base to make investment in PPP schemes more attractive for private investors and other agencies. Examples of such the government plans to look at by way of feasibility studies are the Development of Metro / Light Rail Transit Systems in Accra and Kumasi, Trans-ECOWAS line from Aflao through Cape Coast to Elubo, Re-development of the Central Line from Kotoku in the Greater Accra Region to Huni Valley in the Western Region and the development of a rail link on Build, Operate and Transfer (BOT) basis between the Tema Port and Ouagadougou. It is therefore important to note that an agreement between the government and interested private entities in the line with the
suggested projects in the budget, should economically viable. Again, agreements made in light of the economic viability of these projects must essentially ensure value for money.

**Works and Housing**

Investment into infrastructure sectors of the economy such as roads, information technology, sanitation, housing, among others, does not only boost the economy by improving the efficiency but also creates several jobs which is the key target of the 2019 budget.

An allocation of GH¢ 264.1 million was made to the works and housing sub-sector in the 2019 budget, a whopping 188.7 percent increase from the budget allocation of GH¢ 91.48 million in 2018. This suggest that a quantifiable number of projects underway should be completed in 2019 or by 2020 before the elections. However, the projected budget allocation to the railway infrastructure for the 2020 financial year at GH¢ 497.8 million, and the GH¢ 1.38 billion as projected budget allocation for the 2021 financial year are odd. These allocations are curious given the slow paced execution of the already planned projects, and the non-clarity in the completion of the projects, like the Agona Swedru, Sakaman Lot 1 and Tepa being at various stages of completion for both 2018 and 2019 budgets.

On the Human Settlement and Development Programme, it is not too clear how the Saglemi Housing units are being handled. There was no mention or update of the 10,000 housing units to be executed in all regional capitals in the country in the 2019 budget. This is odd especially considering the increase in allocation to the works and housing budget from last year’s (2018) budget.\(^\text{41}\)

\(^{41}\) 2018 Budget. Pp 99 and 2019 Budget. Pp145 (Appendices 4B)
RECOMMENDATIONS

Economy

1. To improve the business environment, reforms outlined by the various working groups set up by the Ministry of Trade and Industry on the World Bank Doing Business indicators should be critically considered for implementation.

2. Updates on the one district one factory project should be detailed enough to adequately inform the public of the prospects and sustainability of the 1D1F programme and generally Ghana’s current attempt at industrialisation. It will also inform the investment community on which aspects of the value chain they can plug into.

3. Fast Track the implementation of the national identification system and the digital addressing system to complement other efforts to formalise the economy.

4. To ensure consistency and coherence in revenue mobilisation policies, government policies must be driven by research and broader stakeholder consultation to ensure relative predictability of policy. Otherwise, direct and indirect costs incurred by industry will lead them to align themselves away from the objective of policies. An example is the introduction of the Cargo Tracking Note system.

5. Information on tax laws should be clear and easy to understand to enhance tax compliance and reduce exploitation by a few.

6. Government should aggressively pursue private partnerships to invest in good roads and other infrastructure to cause the much needed change expected within the tourism sector. Additionally, government should provide reasonable incentives to private businesses who have interest in investing in Ghana’s tourism sector.

7. In the agriculture sector, government is encouraged to proactively address potential Ghana Commodity Exchange challenges. Strictly enforcing the rules of transaction as well as providing relevant (road) infrastructure for instance, is critical to maximising GCE’s benefit.

8. Further, cognisance should also be taken of challenges facing the Planting for Food and Jobs project for relevant redress.

9. Inference could be made from the issues plaguing Planting for Food and Jobs to address the potential challenges in the implementation of Rearing for Food and Jobs.

10. The Ghana-Cote D’Ivoire initiative is encouraged and a review of tax exemptions ought to support local businesses involved in cocoa processing.
11. In terms of expenditure management, it is recommended that government increases the share of CAPEX financed domestically. A larger share of foreign loans and grants could result in a lower than anticipated allocation for CAPEX in 2019 which could adversely affect growth.

12. Strict enforcement of public procurement laws and the PFMA is also encouraged to protect the public funds and ensure value for money.

13. Government is also encouraged to ensure that the establishment of the Fiscal Council, is not just in word, but also in deed.

14. Outsourcing payroll in a fair and transparent manner could improve the efficiency of payroll management and reduce the share of wages and salaries in total expenditure in order to free up resources for increased investment expenditure.

15. Regarding debt sustainability, government is advised to maintain its strategy of generating sufficient primary surplus for debt sustainability. Critical to this strategy, however, would be the discipline to avoid the temptation of borrowing significantly in the light of the rebasing of the GDP.

16. Also, in view of external developments, ensuring exchange rate stability is critical to debt sustainability.

17. It is also important that long-term debt is associated with a long-term plan for relevant strategic investments.

**Governance**

1. Regarding the work of the development authorities, it is important to allow the existing institutions to continue to undertake their legal mandate of supervising related projects instead of pushing it to newly created institutions. For instance, building of dams has always been under the watch of the Ministry of Agriculture, delegating this task to a new entity to work to execute will only encourage multiplicity of efforts and create wastage.

**Social Sector**

1. There have been suggestions of upward revisions to the National Health Insurance Levy. The effect of any possible revision should be considered in the National Health Insurance Scheme Reform Agenda Strategy.

2. There should be encouragement from private sector for companies to provide private health insurance for their employees.

**Energy**

1. The government must think through amending the Energy Sector Levies Act (ESLA) to include a formula by which allocations towards the road fund, energy fund, national electrification fund and towards payments
for fuel supplied by Bulk Oil Distributors will be made. This formula should ensure that due cognisance is taken of effects of the other disbursements on energy debt reduction. (Example, the formula may say that ‘x’ amount goes to service debt per year where ‘x’ is the optimum amount needed to progressively service debt per year. Beyond this amount, any extra proceeds received will be distributed according to predetermined percentages into the other specified funds)

2. There is the need to pay attention to ring fencing the proceeds of ESL to focus more on debt recovery in light of persistent debt burden of the power utilities

3. Government needs to commit to initiatives that will ensure that debt accumulation by power utilities is managed so that net debt accumulation overtime is not positive.

4. It will be prudent for the government to share the standardised guidelines by which projects for IPEP were selected as well as expected outcomes of IPEP projects. This will allow for monitoring and tracking by key stakeholders.

5. In the adoption of solar energy for government and public buildings, it is needful for government to ensure the efficiency of energy or power utilisation at all government and public institutions to bolster cost savings. the government may also consider eliminating costly storage technologies (solar batteries) by opting for direct current (DC) connections

**Infrastructure**

1. Government needs to be clearer on plans to fast track the development of bauxite resources which is a prerequisite to the operationalisation of the Sino-hydro loan or to come clean on alternative sources of financing for the loan.

2. It must also make available or source alternative sources of finance to continue the infrastructure projects outlined should the government default on its payments to Sino-hydro.

3. A key focus should be maintained on ring fencing funds for infrastructure projects to ensure funds are available and disbursed on time to avoid cost overruns as was the case with the ABFA funded projects reported by PIAC

4. Separation of the Ghana Railway Authority into the regulator and management institutions to ensure efficiency and sustained investment