ECONOMIC FREEDOM COUNTRY AUDIT REPORT: GHANA 2018
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FOREWORD

Ghana’s future propensity for prosperity relies, in large part, on its ability to influence prosperity at a micro-level, by providing the framework that supports an expansion in the economic freedom of citizens. The country has a potential to be one of the most attractive in sub-Saharan Africa for entrepreneurs, spurring investments and innovation to take place. This is evinced in the country being acknowledged as the second-fastest growing economy in Africa in 2017, behind only Ethiopia.

Ghana has made frantic efforts to improving its economic freedom in recent years. At the heart of these is becoming a multi-party democracy in 1992. The gains from some of these efforts include moving from a low-income country to a lower middle-income country in 2011, halving the number of people living in poverty over the 15 years to 2015, introducing reforms to the way goods are traded in Ghana through a single window, and many more. Despite these gains, there is sufficient evidence indicating the existence of bottlenecks which hinder expansion of economic freedom but crucially anchoring the ability of executed reforms to translate into meaningful prosperity gains to citizens. The country placing 16th in Africa in 2017 on the Economic Freedom of the World Index is testament to this. If Ghana is to compare favourably with other African countries to fulfil its aspiration of being the most attractive country in Africa for business, more needs to be invested in economically freedom.

Over the past decade, IMANI has been advocating for reforms to trade, ports, taxes, accountability of government consumption, the enforcement of contracts and the judiciary system, fiscal expenditure and monetary stability, among other topics. The crux of these efforts has been to help the government fix systemic inefficiencies and ultimately empower citizens to take ownership of their own wealth, rather than unduly relying on the government. This, after all is what economic freedom is; the ability of individuals to take control of their own fortune, which is further echoed in principle by the President of the Republic in his agenda of moving ‘Ghana Beyond Aid’.

Without such freedom, economic growth will not reach its full potential, poverty will not reduce at an appreciable rate that impacts livelihoods, and human development could be negatively impacted. It is important that the country crucially focuses its reforms in the business environment to empowering citizens and expanding economic freedoms to ensure individuals, business and government can all prosper!

Patrick Stephenson
Head of Research
IMANI Center for Policy and Education
ACKNOWLEDGMENTS

We would like to acknowledge and thank all the people who helped, contributed, supported the Economic Freedom Audit in Ghana. We would particularly like to thank Mr. Fred McMahon, the Economic Freedom project leader, and all other team members of the Fraser Institute for their support and historical information on the Economic Freedom of the World Index. We would also like to thank the team at Atlas Network USA, without whom this audit would not have been brought to fruition.

We also want to express our gratitude to all participating organisations, groups, and individuals, who took the time and effort to contribute to this audit.

Lastly, IMANI Center for Policy and Education would like to thank the researchers, writers and team members, specifically Franklin Cudjoe, Patrick Stephenson, Anita Nkrumah, Keshia Osei-Kufuor, Constance Kwaa Ababio, Elvis Ayeh, Siobhan Sam and Nora Dei-Anang, for their dedication to and hard work in organising the audit and completing the reports on it.
EXECUTIVE SUMMARY

Ghana’s score on the Economic Freedom of the World Index has fluctuated from 2.8 to 6.9 from 1975 to 2015 (out of a possible score of 10). In more recent years, from 1990 to 2015, Ghana’s score has stagnated between 5 and 6.9 and was ranked 6.5 in 2015. This resulted in Ghana being ranked in the third quartile in comparison with the other 159 countries evaluated. While efforts have been made to increase democracy and decentralisation, the inconsistent and inefficient implementation of some policies has begged the question of whether economic freedom has truly improved in the country. To answer this question, an audit of Ghana’s economic freedom was necessary.

As such, in July 2018, IMANI Center for Policy and Education, with the support of Fraser Institute and Atlas Network, conducted an audit of economic policies in Ghana with the goal of increasing economic freedom and prosperity. Fraser Institute’s 2017 Economic Freedom of the World report, which has been in publication since 1996, was used as a basis for the audit. The index shows the current status of economic policy and how the policy can be improved. It also provides models of world class policy that, if implemented, would bring renewed growth and prosperity to Ghana. The Institute’s Economic Freedom project leader, Fred McMahon, as well as representatives from Atlas Network were present at the Audit in Ghana.

The actual Audit was preceded by series of online publications on Ghana’s performance of all the indicators under the Economic Freedom of the World Report. The aim of the exercise was to create awareness among the citizenry and the targeted stakeholders who were to be invited for the audit. The audit was organised as a full day event, with breakout sessions for each of the five indicators on the index: size of government, legal systems and property right, sound money, freedom to trade internationally, and regulations. The members of each group were tasked to examine the economic policy dimensions of a particular indicator and suggest viable recommendations to enhance Ghana’s performance. These recommendations were presented during the final plenary session. An individual’s participation in a particular session was based on his/her expertise and familiarity of the issue discussed. In all, over 100 individuals from academia, industry, government, diplomats, economic and international business associations, think tanks, CSOs and media, participated in the audit.

The findings from the analysis of size of government in Ghana and the session that took place at the audit were that, although Ghana scored relatively well on this indicator, attaining Ghana’s highest score on any indicator, with a score of 6.97 in the 2017 report, there are still areas of size of government that could be improved. These include the Government Consumption and Top marginal income and payroll tax rate sub-indicators. Ghana should not be complacent with this score and should not allow government expenditure to become excessive.

With the legal systems and property rights indicator, the focus of the break-out session during the audit was on topics such as the weak accountability for corruption in the legal system, nepotism in recruitment in the judiciary, low quality and high cost for enforcing contracts. The many challenges identified were evident in the score of 5.44 Ghana received for this indicator. Many recommendations were suggested for this indicator, such as the installation of court monitoring and evaluation systems.

Regarding the sound money indicator, at the time that data was collected in 2015 for the 2017 report, inflation in Ghana had reached high levels of 17.15%, due to excessive fiscal expenditure, amongst
other things. This led to a score of 6.87 in the 2017 Economic Freedom of the World Index, in large part as a result of money supply being disproportionately greater than GDP. Ghana’s inflation had reduced since 2015, but there is still scepticism as to the sustainability of the lower inflation levels in international spheres.

The dual contrary effects of efforts to reform trade procedures as well as constant stagnant bureaucracy has led to Ghana scoring 6.51 on the freedom to trade internationally indicator. The number of procedures and the cost of importing and exporting have remained unchanged since 2015. The audit highlighted these challenges and offered solutions such as, introducing a one-off payment for the registration of products and strengthening the monitoring and evaluation of the paperless ports project.

The regulations indicator was audited in two parts; regulations in credit and regulations in business. Ghana scored 6.85 overall for the regulations indicator, 7.39 for credit market regulations sub-indicator and scored 6.40 for business regulations sub-indicator. Ghana’s score for credit market regulations earned a rank of 124th out of 159 countries in the index. Challenges that arose included the high cost of borrowing, excessive government borrowing and the risk of default. Regarding business regulations, the complexities in business registration, license acquisition and tax payment procedures were affirmed as challenges to economic freedom.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADR</td>
<td>Alternative Dispute Resolution</td>
</tr>
<tr>
<td>BOG</td>
<td>Bank of Ghana</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>CSO</td>
<td>Civil Society Organisation</td>
</tr>
<tr>
<td>EF</td>
<td>Economic Freedom</td>
</tr>
<tr>
<td>EPW</td>
<td>Economic Freedom of the World</td>
</tr>
<tr>
<td>GCNet</td>
<td>Ghana Community Network Services Limited</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GHS</td>
<td>Ghana Cedi</td>
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<tr>
<td>GLSS</td>
<td>Ghana Living Standards Survey</td>
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<td>GNSW</td>
<td>Ghana National Single Window</td>
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<tr>
<td>GRA</td>
<td>Ghana Revenue Authority</td>
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<tr>
<td>ID</td>
<td>Identification</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>MDA</td>
<td>Ministries, Departments and Agencies</td>
</tr>
<tr>
<td>MOTI</td>
<td>Ministry of Trade and Industry</td>
</tr>
<tr>
<td>NDPC</td>
<td>National Development Planning Commission</td>
</tr>
<tr>
<td>NPL</td>
<td>Non-Performing Loan</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>SSNIT</td>
<td>Social Security and National Insurance Trust</td>
</tr>
<tr>
<td>TFA</td>
<td>Trade Facilitation Agreement</td>
</tr>
<tr>
<td>US$/USD</td>
<td>United States of America Dollar</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>WGI</td>
<td>World Governance Indicators</td>
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<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
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</tbody>
</table>
INTRODUCTION

Since Ghana’s independence in 1957, successive governments have made promises and attempts to create an environment that promotes growth and an equal opportunity for all to make wealth. Yet enormous gaps exist between reality and the goal. Governance and public service delivery, particularly in the judiciary, central government, local government, state owned enterprises, defence and security, are constantly riddled with corruption, bureaucracy, and delays which affect the freedom and speed with which citizens and businesses make economic decisions. To facilitate the creation of billion-dollar industries, create sustainable jobs, reduce poverty levels and grow Ghana’s economy with minimal to no aid, policy makers must uphold economic freedoms that will enhance optimal distribution of scarce resources and provide equal opportunity for all (Imani, 2018).

The cornerstone of Economic Freedom is personal choice, voluntary exchange, freedom to enter markets and compete, and security of privately owned property. It allows producers and sellers to compete freely against each other on equal terms, unhobbled by bureaucracy and regulation, which all too often are designed to give the advantage to the powerful and restrict the freedom of others. It is easy to see how economic freedom promotes prosperity and well-being; any transaction freely agreed to must benefit all parties as consumers who are free to choose will only be attracted by superior quality and price. In an economically free country, producers and sellers, including new ones, are welcome to the marketplace and must constantly improve the price and quality to meet customers’ demands. Billions of mutually beneficial transactions occur every day, powering the dynamic that spurs increased productivity and job creation throughout the economy (Economic Freedom of the World, 2017).

Is Economic Freedom Necessary for Development?

Empirically over 600 fact-based studies in top academic journals have shown that economic freedom promotes growth, prosperity, and other positive outcomes [Fraser Institute, undated]. In 1997, Easton and Walker found that changes in economic freedom have a significant impact on the steady-state level of income even after the level of technology, the level of education of the workforce, and the level of investment are taken into account. De Haan and Sturm in 2000 showed that positive (negative) changes in economic freedom lead to positive (negative) changes in economic growth rates, using the Economic Freedom index published in Gwartney, Lawson, and Block (1996) and per-capita GDP data for 80 countries. The results of the study indicate that, after educational level, investment, and population growth have been taken into account, changes in economic freedom have a significant impact on economic growth. Figure 1 below indicates the level of correlation between per capita income in Ghana and the level of economic freedom in Ghana between 1975 and 2015.
Aside increases in economic growth, EF has also been empirically proven to strongly promote investments. Gwartney and Lawson (2004), as part of the Economic Freedom of the World report of the same year, found that nations with a score below 5 for economic freedom (on a scale of zero to ten, where a higher value indicates a higher level of economic freedom) attracted US$845 in investment per worker over the period from 1980 to 2000 and only US$68 per worker in foreign direct investment. Nations with an economic freedom score above 7 attracted US$10,871 in investment per worker, including US$3,117 of foreign direct investment. The study also found that investment in economically free nations (with a score above 7) was 70% more productive than investment in nations with poor levels of economic freedom (score below 5). Other studies have also found economic freedom to reduce poverty levels and improve general well-being. On the other hand, a handful of studies (Bergh and Nilsson 2010; Apergis et al. 2014) have found mixed positive and negative associations when using regression analysis to test the relationship of economic freedom and income inequality.

What is Economic Freedom of the World (EFW) Index?

To measure EF of different countries, the Fraser Institute, a Canadian based global think tank designed the Economic Freedom of the World (EFW) Index in 1996. Using 42 data points across 5 broad areas, EFW measures and ranks the extent to which policies and institutions of a country are supportive of economic freedom. The five key areas of economic freedom are: the size of the government; legal systems and property rights; sound money; freedom to trade internationally and regulations. Each variable for each country receives a rating on a scale of 0 - 10. These ratings are then averaged and used to obtain a component rating for the 42 components under the 5 key areas. The component ratings are then averaged to give a country ratings (Fraser Institute(a)).
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The index thus provides both a description of an economy and, by examining the individual variables, a prescription for policy improvement. Nobel Laureate Douglass North has called the EFW index “...the best available description of efficient markets...” (Fraser Institute(a)). The EFW ranks countries in four different quartiles: first quartile (most free countries), second quartile, third quartile, and fourth quartile (least free country).

According to the EFW index, Ghana’s economic freedom though has historically been rising, has in recent years declined. Figure 1 shows Ghana’s performance on economic freedom between 1975 and 2015. As shown, economic freedom has been on the decline since 2009. However, Ghana’s EFW rank has improved in recent times from 103 in 2017 to 97 in 2018, out of 162 countries.

Though Ghana beat West African neighbours like Nigeria, Cote d’Ivoire and Togo in the 2017 EFW annual report, Ghana ranked 103 out of 159 countries in the world and ranked in the third quartile of the EFW. In Africa, Ghana was the 16th most economically free country. Ghana’s rank fell behind Mauritius (1st) Rwanda (2nd), Seychelles (3rd), Botswana (4th) and Liberia (9th). Figure 2 shows Ghana’s overall economic freedom and Ghana’s rank in the 5 key areas of economic freedom.

Figure 2: Ghana’s Rank on the five indicators of the Economic Freedom of the World 2017 Index

Source: Economic Freedom of the World (2017), Fraser Institute
Economic Freedom Audit in Ghana

Ghana compares favourably in economic freedom with countries in the West African sub-region, although a rank of 103 out of 159 countries is still poor especially in light of the Ghana’s agenda to go beyond aid. The goal of economic freedom audit was to increase economic freedom and prosperity by analysing economic policies in Ghana. Additionally, reform measures were proposed that will ultimately lift Ghana into the top 10 position. The audits have been conducted in several countries in the world including Oman, Panama, Jordan, Egypt, Côte d’Ivoire, Morocco, the Kyrgyz Republic, Tunisia, Malaysia, Lebanon, Greece, Serbia, Uruguay, and Nepal (Fraser Institute (b)).

Imani Centre for Policy and Education, an African think tank with considerable global repute, organised the 2018 Economic Freedom Audit for Ghana. The audit was the first of its kind in Ghana and it brought together top government officials, business leaders, justices of the judicial courts, academics and the media to develop practical policy reform ideas and deliver these ideas to government and the people of Ghana. The audit also enabled participants and the public to see how Ghana performed against regional, world, and top 10 averages in the five areas of economic freedom.

Structure of the Report

The report is divided into five parts with each part focusing on a particular area of economic freedom, namely: size of government, legal systems and property rights, sound money, freedom to trade internationally and regulations. Each part discuss Ghana’s performance in the areas of economic freedom and compare Ghana’s performance with other countries and world averages. It also outlines the key policy implementation challenges as well as suggest policy reform measures that when implemented can lift Ghana into the top 10 position on the EFW index.
PART I: SIZE OF GOVERNMENT
The Size of Government indicator is among the five areas studied under the Economic Freedom of the World Index. Overly large government spending and taxation can crowd out other economic activities and limit people’s economic freedom. Ghana appears to do modestly well in this area as Ghana ranked 55 out of 159 countries (this rank is based on data from 2015). However, undisciplined spending threatens Ghana’s fiscal future. The figure below shows Ghana’s historical performance on the size of government indicator from 1975 to 2015.

**Figure 3: Rankings of Size of Government indicator in Ghana (1975-2015)**

![Figure 3: Size of Government](image)

**Source: Economic Freedom of the World, Fraser Institute**

The EFW index indicates high government consumption in Ghana (See Table 1.) Also, worryingly high are government enterprises and investment and taxes. Five variables were considered under Size of Government. The variables are explained below:

1. **Government Consumption:** This component is measured as general government consumption spending as a percentage of total consumption. Countries with a larger proportion of government expenditures received lower ratings. Table 1 shows the data on government spending as a percentage of GDP and Ghana’s score for 2015. According to the World Development Indicators (WDI) of the World Bank however, government consumption fell by about 7% in 2016. It must be noted that government spending in Ghana in 2016 was under restrictions by the International Monetary Fund (IMF) through the extended credit facility.

2. **Transfers and Subsidies:** This component is measured as general government transfers and subsidies as a share of GDP.

3. **Government Enterprises and Investments:** Data on government investment as a share of total investment were used to construct the zero-to-10 ratings. Countries with more government enterprises and government investment received lower ratings.
4. Top marginal income tax rate: Countries with higher marginal tax rates that take effect at lower income thresholds received lower ratings based on the matrix below.

5. Top marginal income and payroll tax rate: Countries with higher marginal tax rates that take effect at lower income and payroll thresholds received lower ratings based on the matrix below.

Detailed explanation of the variables, the methodology and the data sources are provided in the appendix.
Analysis of Ghana’s Performance in this Category

Ghana’s score on the Economic Freedom of the World Index in the category of Size of Government, is relatively commendable. Overall, Ghana scored 7.0 out of 10, while the top 10 countries in the index scored an average of 7.6 out of 10. Of the five sub-indicators, Government Consumption, Transfers and Subsidies, Government Enterprises and Investment, Top Marginal Income Tax Rate, and Top Marginal Income and Payroll Tax Rate, Ghana scored better than the Top 10 average on two sub-indicators, as shown in Table 1.

Table 1: Economic Freedom Under Size of Government

<table>
<thead>
<tr>
<th>Countries</th>
<th>Government Consumption</th>
<th>Transfers and subsidies</th>
<th>Government enterprises and investment</th>
<th>Top marginal income tax rate</th>
<th>Top marginal income and payroll tax rate</th>
<th>Size of Government</th>
<th>Economic Freedom Summary Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>3.8</td>
<td>27.0</td>
<td>7.2</td>
<td>10.9</td>
<td>9.0</td>
<td>25.0</td>
<td>9.0</td>
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<tr>
<td>Cameroon</td>
<td>7.9</td>
<td>13.1</td>
<td>9.6</td>
<td>2.1</td>
<td>10.0</td>
<td>105.4</td>
<td>5.6</td>
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<tr>
<td>Congo, Republic</td>
<td>6.3</td>
<td>18.7</td>
<td>9.9</td>
<td>0.8</td>
<td>4.0</td>
<td>34.4</td>
<td>3.0</td>
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<td>Croatia</td>
<td>8.8</td>
<td>19.0</td>
<td>9.6</td>
<td>2.0</td>
<td>6.0</td>
<td>34.1</td>
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<td>Ghana</td>
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<td>0.7</td>
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<td>29.4</td>
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<td>12.2</td>
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<td>Nigeria</td>
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<td>66.9</td>
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<td>Sierra Leone</td>
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<td>22.2</td>
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<td>Hong Kong</td>
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<td>3.6</td>
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<td>Top 10 Average</td>
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<td>17.6</td>
<td>7.6</td>
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<td>9.0</td>
<td>6.0</td>
<td>27.7</td>
<td>7.5</td>
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</tbody>
</table>


* Columns marked “score” contain the economic freedom score 0 - 10, where higher values indicate higher levels of economic freedom; columns marked “data” contain the raw data of each indicator. For example, in government consumption Hong Kong has a score of 8.0, reflecting government consumption equal to 12.7 percent of GDP. Detailed explanation of the variables are provided in the appendix.

Ghana’s lowest scores are for the sub-indicators, Government Consumption, Government Enterprises and Investments, and Top Marginal Income and Payroll Tax Rate. In comparison with a sample of other countries in Table 1, Ghana’s score for Government Consumption is higher than only, such as Zambia, South Africa, the Seychelles and Botswana. The highest score out of these comparisons are Nigeria and Sierra Leone, which both scored higher in this sub-indicator than the most economically free country in the 2017 report, Hong Kong.

Ghana scores high in the sub-indicator of Transfers and Subsidies, achieving 9.6 out of 10. This is at...

Columns marked “score” contain the economic freedom score 0 - 10, where higher values indicate higher levels of economic freedom; columns marked “data” contain the raw data of each indicator. For example, in government consumption Hong Kong has a score of 8.0, reflecting government consumption equal to 12.7 percent of GDP. Detailed explanation of the variables are provided in the appendix.

Ghana's lowest scores are for the sub-indicators, Government Consumption, Government Enterprises and Investments, and Top Marginal Income and Payroll Tax Rate. In comparison with a sample of other countries in Table 1, Ghana's score for Government Consumption is higher than only, such as Zambia, South Africa, the Seychelles and Botswana. The highest score out of these comparisons are Nigeria and Sierra Leone, which both scored higher in this sub-indicator than the most economically free country in the 2017 report, Hong Kong.

Ghana scores high in the sub-indicator of Transfers and Subsidies, achieving 9.6 out of 10. This is at par with other countries in Sub-Saharan Africa (SSA), with nine of the thirteen other SSA countries sampled in Table 1 scoring between 9 and 10. These scores are higher than both the top 10 average and the world average. A minimum of 0.5% of GDP directed towards the payments of transfers and subsidies was used to calculate this score. Therefore, countries, such as Ghana, which uses 1.8% of GDP on transfers and subsidies, score well.

According to the methodology of the EFW, a score of 6 is given for any country with government investment between 25%-30% of total investment. Under the sub-indicator Government Enterprises and Investments, Ghana scored 6 out of 10. This score was given as government investment was 27.3% of total investment in 2015. This score is at par with the World Average score, and better than some other sub-Saharan African countries' scores, such as Botswana (scored 4.0), Côte d'Ivoire (scored 4.0), Nigeria (scored 2.0), and Botswana (scored 0.0). However, Ghana’s score still falls behind the top 10 Average, which has a score of 8.4, as well as the top performer, Hong Kong, which scored 7.0, and other countries in the region, such as Cameroon, which scored 10.0.

Ghana scored well in the sub-indicator Top Marginal Income Tax Rate, achieving a score of 9.0 out of 10. This indicates that Ghana has a relatively lower top marginal tax rate (25%), that takes effect at a relatively lower income threshold of less than US$ 25,000 (1982/1984 US$). Ghana's top marginal tax rate is 25% at a threshold of GHS 38,880 per year (Ghana Investment Promotions Agency, undated). Ghana’s score in this sub-indicator in 2017 was higher than the World Average score, the top 10 Average score, and several Sub-Saharan nations’ scores, such as Sierra Leone, Kenya and Uganda.

Policy Implementation Challenges

Although Ghana scored comparatively well on the Size of Government indicator in the 2017 Economic Freedom of the World Report, ranking 55 out of 159 countries, there is a need to be conscientious about keeping progress in this area constant. Ghana’s score on the World Bank’s Worldwide Governance Indicators (WGI), under the indicator, Government Effectiveness, was ranked in the 45th percentile in 2015 (World Bank, 2015). While this was higher than the Sub-Saharan African average rank of 27 out of 100 in 2015, Ghana’s rank leaves a lot of room for improvement.

During IMANI’s country audit of the 2017 Economic Freedom of the World report, which took place in July 2018, a number of stakeholders expressed some major concerns that could halt economic freedom and thus development in Ghana. Some of the major issues are discussed below.

A narrow tax base was cited as an issue during the stakeholder consultation.
While consistent, reliable employment data is elusive in Ghana, many sources agree that the majority of those employed in the country are engaged in the informal sector. This is unsurprising, as a large informal sector is an issue that plagues many developing nations. The Ghana Statistical Service cited that 59.9% of those employed were in the informal sector (Ghana Statistical Service, 2015). Meanwhile, Friedrich Ebert Stiftung accounts 88% of total employment to the informal sector (Friedrich Ebert Stiftung Ghana, undated).

A large informal sector is an issue as it is harder for the government to collect revenue from those who are informal, compared to those in the formal sector. This problem is emphasised by the sectoral composition of those employed in informal work. The Ghana Statistical Service stated that formal institutions engaged 76.0% of those in the agricultural sector, while only 24% were engaged by the informal sector. Contrarily, informal employment engaged 62.1% of the total number of those working in the services sector, and 53.8% of those in the industry sector (Ghana Statistical Service, 2015).
The amount of people employed in informal work, within the differentiated sectors of the economy is important as the average incomes within the sector vary, meaning that the government will receive different amounts of revenue from income taxation, depending on which type of workers they target. Those in the agriculture sector, which has the largest majority of people engaged in formal employment, averagely has a lower income than those in the industry and services sectors. According to a study by the Global Living Wage Coalition in 2017 (Smith et al., 2017), based on the Ghana Living Standards Survey (GLSS) 6 and using February 2017 inflation rates, the average monthly gross income for skilled agriculture and fishery workers in Ghana was about GHS 467 (US$ 101), compared to that of service and sales workers, who earned GHS 871 (US$ 187) per month, plant machine operators and assemblers, who earned GHS 1,176 (US$ 254) per month, and legislators and managers, who earned GHS 1,921 (US$ 415) per month, as shown in figure 5.


US$ equivalent figures on average monthly income use exchange rate available on 28/02/17. Available at: https://www.oanda.com/currency/converter/
Given that the most of those employed in formal employment, and thus paying income taxes, are in the agriculture sector, the income tax base is very narrow. This could lead to a regressive tax system rather than a progressive one, as those with lower income have to give a greater proportion to the government in the form of taxes than those with higher incomes. While the top marginal income tax rate is 25% in Ghana, which is relatively low on the scale used by the Fraser Institute’s Economic Freedom of the World Index, the top marginal income and payroll tax in Ghana was higher, at 37% in the 2017 report, based on 2015 data. The top marginal income and payroll tax includes SSNIT payments. This leaves room for improvement which can be achieved by broadening the tax base by absorbing more of the informal sector, as well as lowering income taxes at the top marginal level.

Many stakeholders also cited undisciplined and large government expenditure as an issue

The impact of the size of governments and other associated sub-indicators on economic growth have been studied by many economists throughout history. For a long time, the Keynesian theory that an increase in government spending pumped necessary injections of income by improving the provisions of public goods, which then multiplied into the economy was accepted until the past century, when empir-
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One such challenger of Keynesian theory is Rahn, who, in 1996, theorised that increases in government spending led to economic growth until an optimal point. Increases in government spending beyond this optimal led to decreases in economic growth. Some examples of this include Norway, which spent 39.6% of GDP (World Bank, 2016) in 2016 but only had 1.1% of GDP growth (World Bank, 2016), in comparison with the Philippines, which spent considerably less in the same year, 14.0% of GDP but experienced an economic growth rate of 6.9%.

Figure 6: Rahn Curve

![The Rahn Curve](source)

Source: Foundation for Economic Education, 2015

However, some economists argue that the Rahn Curve is too simplified and does not take into account other factors that may affect the rate of economic growth, such as the development level of the country. Proponents of this theory maintain that at lower levels of development, it is easier to sustain higher growth rates and that if the government spent a higher percentage of GDP on improving infrastructure, there may be an even larger increase in economic growth (Economics Help, 2008). For example, from 2008-2013 China spent an average of 8.8% of annual GDP on infrastructure (Statistica, undated). This was one of the highest expenditures on infrastructure as a percentage of GDP in the world. This may have contributed to the China’s GDP growth throughout the period which fluctuated from a low of 7.76% to a peak of 10.64% during 2008-2013.

Ghana’s expenditure as a percentage of GDP has been decreasing over the past few years, as Figure 7 shows. In 2014, total central government expenditure, including arrears clearance equated to 22.0% of GDP. In comparison, in 2017, total central government expenditure, including arrears clearance, had decreased to 19.2% of GDP.
A study by Biyase and Zwane (2018) evaluated panel data in 30 African countries from 1990-2005 and whether Wagner’s Law was realistic, i.e. whether there was a link between economic growth in these countries and their levels of government expenditure (Biyase & Zwane, 2015). The research found that the amount of government spending significantly impacts economic development in Africa. During the period in question, government expenditure in Ghana was considered low, due to it being 15% of GDP or lower.

Over the decade since that period, government consumption, as a percentage of GDP has decreased (World Bank database, 2005-2015). Spending efficiency of government which is at the heart of the conversation of transition from spending to generating growth, appears to been weak, given that there have been several financial irregularities uncovered. For example, from 2012-2014, the Auditor General cited financial irregularities in the Ministries, Departments and Agencies (MDAs), totalling over GHS 1.1 billion (US$ 261 million ). If government consumption is unchecked and improperly regulated, it will adversely affect development in the country.

Furthermore, at the time that data was taken for the Economic Freedom of the World 2017 report, in 2015, there were 84 ministers in government. At the time, this was the largest

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Wagner’s Law states that an increase in government spending is the result of an expansion of national income. Using exchange rate available on 31/12/16. Available at: https://www.oanda.com/currency/converter/
government in Ghana’s history as a republic. Since then the size of the government has expanded to 110 ministers in 2017 (CitiNewsRoom, 2017). Large governments lead to increase bureaucracy and put a strain on the government’s national budget.
Recommendations

1. Steps should be taken to ensure that government spending is not excessive. For example, the actual size of government, that is, the number of ministers and their deputies should be reduced and the duplication of functions by some agencies should be prevented.

2. Efforts to broaden the tax net must be intensified in order to reduce the tax burden on the formal sector. Tax concessions should also be reviewed.
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Part II: LEGAL SYSTEMS  
(RULE OF LAW) AND PROPERTY RIGHTS)
One of the most important functions of government is to protect people and their rightfully acquired property. It is a central element of both economic freedom and civil society. The legal systems and property rights indicator focuses on the importance of legal systems in determining economic freedom. Key elements of legal and property rights systems consistent with economic freedom are rule of law, security of property rights, an independent and unbiased judiciary, and impartial and effective enforcement of the law (Economic Freedom of the World, 2017). When it takes too long or costs too much to achieve justice in the court system, it inhibits individual and business freedom to use their resources and can discourage further investments. An inefficient legal and poor property right system also reduces predictability and reliability of the legal system (Larcker and Tayan, n.d.).

As such, any country has a lot to gain by promoting a good legal system that protects property rights. The legal and judicial system is one of the institutions with the most influence on economic performance. In an economy with a well-functioning legal and judicial system, investments in both human and physical capital are supported by secure property rights. This certainty encourages more rapid accumulation of factors of production and promotes economic growth (Lorizio and Gurrieri, 2014). As Ghana increases its efforts to industrialise and grow its economy, the importance of improving the legal system and protecting property rights, cannot be overemphasised.

Nine sub-indicators are considered under the legal system (rule of law) and property rights indicator of the EFW index. They are explained below:

1. **Judicial Independence**: This component is from the Global Competitiveness Report question: “Is the judiciary in your country independent from political influences of members of government, citizens, or firms?” According to the 2017-2018 Global Competitiveness Report, Ghana’s score remained unchanged in 2016 for the judicial independence variable.

2. **Impartial Courts**: This component is from the Global Competitiveness Report question. It measures the extent to which “the legal framework in your country for private businesses to settle disputes and challenge the legality of government actions and/or regulations is inefficient and subject to manipulation”. According to the 2017-2018 Global Competitiveness Report, Ghana’s score improved by about 4%, moving from 5.04 to 5.25 in 2016. Lack of impartial courts and problems with the integrity of the legal system can politicise the legal system and give special privileges to the rich and powerful, weakening the economic freedom of other members of society.

3. **Protection of Property Rights**: This component is from the Global Competitiveness Report question: “Property rights, including financial assets, are poorly defined and not protected by law or are clearly defined and well protected by law?”. According to the 2017-2018 Global Competitiveness Report, Ghana’s score improved by about 1%, moving from 5.45 to 5.50 in 2016.

4. **Military interference in rule of law and politics**: This component is based on the International Country Risk Guide Political Risk Component G, Military in Politics: “A measure of the military’s involvement in politics”. Since the military is not elected, involvement, even at a peripheral level, diminishes democratic accountability.
5. **Integrity of the legal system:** This component is based on the International Country Risk Guide (the Political Risk Component I for Law and Order): “Two measures comprising one risk component. Each sub-component equals half of the total. The ‘law’ sub-component assesses the strength and impartiality of the legal system, and the ‘order’ subcomponent assesses popular observance of the law”.

6. **Legal Enforcement of Contracts:** This component is based on the World Bank’s Doing Business estimates for the time and money required to collect a debt. According World Bank Doing Business Report, since 2013, time and cost to enforce contracts in Ghana has remained unchanged at 710 days and 23% of the claim. Contract enforcement is also crucial. Lack of appropriate contract enforcement discourages people and businesses from entering into freely agreed contracts, since it leaves the parties uncertain whether the contracts will be fairly enforced and disputes properly handled by the legal system. Such uncertainty reduces the space for freely made agreements.

7. **Regulatory costs of the sale of real property:** This sub-component is based on the World Bank’s Doing Business data on the time measured in days and monetary costs required to transfer ownership of property that includes land and a warehouse. According World Bank Doing Business Report, since 2007 time and cost to register a property in Ghana has remained unchanged at 47 days and 6.2% of the property value.

8. **Reliability of the Police:** This component is from the Global Competitiveness Report question: “To what extent can police services be relied upon to enforce law and order in your country?” According to the 2017-2018 Global Competitiveness Report, Ghana’s score improved by about 6%, moving from 6.14 to 6.5 in 2016. Lack of police reliability and the high cost of crime add huge expenses to business, increase risk, and, at worst, expose business people to violence and destruction.

9. **Business costs of crime:** This component is from the Global Competitiveness Report question: “To what extent does the incidence of crime and violence impose costs on businesses in your country?” According to the 2017-2018 Global Competitiveness Report, Ghana’s score improved by about 3%, moving from 5.34 to 5.5 in 2016.

10. **The Gender Disparity Adjustment** is a new measure of the extent to which economic freedom extends to women, whether a nation’s laws treat women equally in economic matters—for example, starting a business, employment, and so on. It is scored from zero to one. Ghana almost scores a one; it is rounded to 1.0 at one digit but it is actually 0.976, low enough to rank Ghana 49th in the world since a large number of nations score

1.0. This means that at least one law on the books that discriminates against women.

**Notes:** The gender disparity adjustment is scored on a 0 to 1.0 scale rather than 0 - 10. The score is used to adjust the rule of law score. Nations that receive less than 1.0 have their rule of law score
multiplied by the Gender adjustment.

Detailed explanation of the variables, the methodology and the data sources are provided in the appendix.

Ghana’s Performance in Legal Systems and Property Rights

Ghana scored 5.4 out of 10 in legal systems and property rights in the 2017 Economic Freedom of the World Index. Though Ghana’s score is ahead of the West African average, it is well behind other African countries such as Botswana (6.2), Rwanda (7.3), and South Africa (5.8) and very far behind the top 10 average (8.5) in this indicator (Economic Freedom of the World, 2017). An efficient market economy is not possible without a sound and predictable legal structure that protects property rights and contracting for all, equally and fairly (Lorizio and Gurrieri, 2014). Despite the relatively good rank (69 out of 159 countries), improvement here may be Ghana’s greatest challenge and opportunity. No nation, except perhaps some petro states, has achieved rich nation status without a strong rule of law (Economic Freedom of the World, 2017).

Figure 8: Rankings of Legal Structure in Ghana (1980-2015)

Source: Economic Freedom of the World, Fraser Institute

Unfortunately, the rule of law in Ghana has been up and down, but mostly down since 1995 (See Figure 8). In particular, lack of impartial courts and protection of property rights, military interference, problems with the integrity of the legal system, weak enforcement of contracts, and business costs of crime hold Ghana back. With a score of 5.4 out of 10, Ghana’s ratings on the legal systems and property rights indicator was quite average in the 2017 economic freedom of the world report and remained unchanged in the 2018 report (see Table 2).
As indicated in Table 2, out of the nine sub-indicators, Ghana performed poorly on two: legal enforcement of contracts (with a score of 3.7) and on the integrity of the legal system (with score of 4.2). Given that Ghana scored below average on these two sub-indicators, the focus of this report will be on legal enforcement of contracts and on the integrity of the legal system. The audit sought to find answers to how Ghana can improve the time and cost of enforcing contracts and how Ghana can improve the integrity of the legal system.

During the audit, discussions in the Legal Systems and Property Rights group were enlightening, especially in light of the corruption scandal that marred the reputation of Ghana’s legal system in 2015. The group was adequately represented by lawyers, judges, representatives of the judicial service, private sector, Civil Society Organisations (CSOs) and academia. The discussion began with the identification of specific challenges that prevent Ghana’s Legal System from promoting EF. These challenges were identified based on the experiences and observations of the participants. Some of the major challenges identified are discussed in the subsequent section.

**Table 2: Economic Freedom in Legal Systems (Rule of Law) and Property Rights**

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**Source: Economic Freedom of the World, Fraser Institute.**

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Policy Implementation Challenges

Legal Enforcement of Contracts

Swift and efficient enforcement of contracts is key to economic freedom and growth. As argued by Lanau et. al (2014), who studied judicial system reforms in Italy, an inefficient judicial system for enforcing contracts creates a difficult environment for doing business, contributes to reduced investments and slows growth (Lanau et. al, 2014). Ghana scored poorly on this sub-indicator (as highlighted in table 2). Out of a score of 10, Ghana scored 3.7 on legal enforcement of contracts and it was Ghana’s worst performing sub-indicator, out of the 42 sub-indicators used in the Economic Freedom of the World Index. The data source for this sub-indicator is the World Bank doing business index. According to the 2019 World Bank doing business report, Ghana ranks 116 out of 190 countries, on the basis of the time, the cost and the quality of the judicial processes for enforcing contracts.

It takes 710 days to enforce a contract in Ghana’s courts, compared to a Sub-Saharan African (SSA) average of about 655 days. Ghana, with costs of 23% of the value of the claim, compares favourably with both SSA averages (44%) and other African countries, in terms of cost of enforcing contracts. Additionally, Ghana scored 6.5 out of 18 on the Quality of Judicial Processes Index, lower than the Sub-Saharan Africa average of 6.7 (World Bank, 2019). The key challenges in Ghana’s judicial system accounting for this relatively weak system of legal enforcement of contracts, are explained below. Key reforms adopted by countries around the world to address these challenges are highlighted.

Challenges Relating to Time

1. Difficult and unsecure transmission, exchange and management of court information resulting from manual filing of writs and other documents. In addition to this, there is no queue management system in place especially in light of the fact that all the seven commercial courts uses a single registry. This causes a lot of delays, increase the time for filling and services and provides an extra incentive for users of the courts to make unofficial payments as a way of seeking preferential treatments.

2. There is no frontloading in the filing process in Ghana’s commercial courts unlike the processes in the supreme court and courts of appeal. Frontloading is the process of filing claims and defences with most or all of the evidence at the beginning of a suit. The objective of this is to achieve a just, fast and efficient system of delivering justice by ensuring that only the most substantive cases are brought before the courts (Iguh, undated). Additionally, It gives both defence and plaintiff the opportunity to review the evidence in order to decide on whether or not to proceed to trial or resort to different resolution methods (Iguh, undated).

3. There is uncertainty and delays in serving writs and other court documents as a result of the poor addressing systems in Ghana. The National Digital Property Addressing System, introduced in 2017, has low uptake and as such is yet to fully benefit the judicial process. In addition to this, serving writs and other documents is the exclusive role of court bailiffs in Ghana. Private bailiffs are not allowed to serve writs and other court documents (Working Group, 2018).
4. Weakened Alternative Dispute Resolution (ADR) System: The ADR system in Ghana is being manipulated by most defendants and counsel as a way of buying time before the case goes to full trial. In addition to this, the heavy workload of cases and tight timelines affect judges ability to commit the right amount of time to achieve amicable settlement between parties. There is also the challenge of inadequate training for commercial court judges in the proper use of ADR.

5. Abuse of Adjournments: Adjournments contributes greatly to the long delays in adjudicating commercial cases in Ghana. This often leads to high backlog of cases, which Ghana’s legal system is infamously for. Unfortunately, these delays create an avenue for bribery and corruption to occur, as those looking for faster service would be willing to make unofficial payments (Event Report, 2018).

6. Limited financial resources to manage and sustain successful reforms. For instance, dedicated pre-trial facilities have been turned to court rooms due to limited space for court hearings.

Table 3: Reforms Adopted by Countries to Reduce the Time for Enforcing Contracts

Challenges Relating to Quality of the Judicial Process

1. Absence of a Small Claims Court: Although Ghana has dedicated commercial courts, there are no commercial courts at the district level, no small claims courts or fast-track procedures for hearing small claims (World Bank, 2019).

2. Absence of rules on adjournments: there are no laws that regulate the maximum number of adjournments that can be granted in a particular case. In addition, adjournments are not limited to unforeseen or exceptional circumstance. This leave a lot of room for abuse of the adjournment provisions.

3. Key performance reports of the courts are not generated. Performance reports such as time to disposition reports, clearance rate reports, and single case progress reports are not generated by commercial courts in Ghana. This makes it difficult for measure and track the performance of the courts.

4. Lack of court automation: court automation is non-existent in Ghana’s courts. From filling and services to assignment of cases to judges to managing cases, every process is done manually. Ghana scored zero out of four in court automation on the 2019 World Bank doing business index. This greatly affects the speed with which cases are adjudicated and the overall efficiency of the judicial process.

5. In addition to the Alternative Dispute resolution process being abuse by counsellors to buy time, the courts does not provide any financial incentives to use mediation as a way of resolving cases.

Table 3: Reforms Adopted by Countries to Reduce the Time for Enforcing Contracts

Integrity of the Legal System

Participants in the Legal Systems and Property Rights group agreed that 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 Economic Freedom. 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. Ghana scored 4.2 out of ten in integrity of the legal system in the 2017 Economic Freedom of the World Report. Specific challenges contributing to the low integrity of the legal system highlighted during the audit are discussed below:

1. Weak accountability and sanctioning regime: there is weak follow-up to reported corruption incidence. Further, the supply of bribes is as high as demand. The tendency to punish the receiver and not the giver increases corruption.

2. Lack of transparency in terms of appointments, promotions, dismissals etc. Appointments and promotions based out of favour and not based on expertise and qualifications, often weakens the quality of service. Furthermore, this practice serves as the underlying challenge to proper sanctioning. Indeed, sanctioning becomes difficult when nepotism prevents authorities from carrying out the right disciplinary action.

3. This challenge is also strongly linked to the culture of “protocol”. It was discussed 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.

Recommendations

Government should carefully and swiftly consider the following recommendations given that the World Bank in 2018 indicated “...legal reforms can be slow to advance as they require long-term political commitments, substantial resources and close collaboration between multiple regulatory agencies and law making institutions...”.

1. Establish a dedicated platform for electronic filing of process.

2. Revise the Code of Civil Procedure to allow for filing and services to be done through electronic transmission such as emails and text messages, aided with caller ID confirmation. In addition, allow defendants to be able to file Notice of Appearance electronically (Ministry of Trade and Industry Enforcing Contracts Working Group, 2018).

3. Revise the Code of Civil Procedure to allow for frontloading in commercial courts.

4. Revise the Code of Civil Procedure to allow fast-track procedures for small claims at the district courts. Alternatively, small claims courts can be set up to handle commercial cases under the district court system.

5. Revise the Code of Civil Procedure to limit the number of adjournments for any particular case and ensure proper monitoring to facilitate compliance. In addition, adjournments should be limited to unforeseen and exceptional circumstances.

6. Introduce electronic case management for judges, lawyers, staff and other users of the courts to enhance efficiency in the judicial process.

7. Assigning cases to judges should be done randomly using automated electronic systems.

8. Install court monitoring and evaluation systems to automatically generate performance management reports such as time to disposition and clearance rate reports. These reports should be made available to the public on an electronic platform or a website in order to enhance transparency and accountability.

9. Introduce electronic payment systems for court fees to reduce the turnaround times.
Legal Enforcement of Contracts

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Integrity of the Legal System

1. Both the recipient and the giver of the bribes should be punished when caught. In addition, a culture of whistleblowing should be encouraged. A proper sanctioning system must be enforced and adhered to.

2. While there is no harm in making recommendations and referrals, recruitment must be strictly-based on qualifications, and not familial and friendship ties.
References


Fraser Institute(b). (undated). Audit Program. Available at: https://www.fraserinstitute.org/economic-freedom/audit-program


Part III: SOUND MONEY
Inflation erodes the value of rightfully earned wages and savings. Sound money is thus essential to protect property rights. When inflation is not only high but also volatile, it becomes difficult for economic agents to plan for the future and thus effectively utilise economic freedom, and this also suppresses investment and job creation. Ghana scores below all the comparator groups and nations. This has resulted in persistent high levels of inflation. As shown in Figure 1, the volatility and inconsistent levels of inflation over the past few decades have reflected in a fluctuating score in this area. (See Figure 9).

Figure 9: Ghana’s Rankings on the indicator Sound Money (1975-2015)


As well as problematic monetary policy, Ghana’s score here is weakened by restrictions on foreign bank accounts which undermine people’s freedom to control their own resources. The importance of this can be seen from the fact that all top nations have a 10 for this variable, along with Botswana (See Table 5).

The sound money area of economic freedom considers four variables, explained below:

1. Money Growth: The component measures the average annual growth of the money supply in the last five years minus average annual growth of real GDP in the last ten years. Countries where growth of the money supply greatly exceeds growth of real output receive lower ratings.

2. Standard deviation of Inflation: The component measures the standard deviation of the inflation rate over the last five years. Generally, the GDP deflator is used as the measure of inflation for this component. When these data were unavailable, the Consumer Price Index (CPI) was used.
3. Inflation – most recent year: Generally, the CPI is used as the measure of inflation for this component as it is often available before the GDP deflator is available. When these data were unavailable, the GDP deflator inflation rate was used. Ghana’s inflation has reduced quite significantly in recent times. Inflation in Ghana has fallen from 15.4% in December 2016 to 9.6% in April, 2018 [Bank of Ghana (BoG), 2018]. Efforts must be increased to consolidate gains made.

4. Freedom to own foreign currency bank account: When foreign currency bank accounts were permissible without any restrictions both domestically and abroad, the rating was 10; when these accounts were restricted, the rating was zero. If foreign currency bank accounts were permissible domestically but not abroad (or vice versa), the rating was 5.

Detailed explanation of the variables, the methodology and the data sources are provided in the appendix.
Ghana’s Performance in Sound Money

Ghana’s score of 6.9 for the sound money indicator in the Economic Freedom of the World 2017 report is below the scores of many other African countries. In comparison, Nigeria scored 7.9, Côte d’Ivoire 7.0, and Liberia scored 9.1. The average score in the top 10 economies for this indicator was 9.7, while the world average score was 8.3, indicating that Ghana is on the more restricting end of the scale for sound money (See Table 5 below).

Table 5: Economic Freedom of the World (Sound Money Indicator)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Money growth</th>
<th>Standard deviation of inflation</th>
<th>Inflation: Most recent year</th>
<th>Freedom to own foreign currency bank accounts</th>
<th>Sound Money</th>
<th>Economic Freedom Summary Index</th>
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<tr>
<td>Botswana</td>
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<td>9.2</td>
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<td>4.0</td>
<td>9.1</td>
<td>4.8</td>
</tr>
</tbody>
</table>

* Columns marked “score” contain the economic freedom score 0 - 10, where higher values indicate higher levels of economic freedom; columns marked “data” contain the raw data. For example, in Hong Kong, money grew by 5.1% reflecting a score of 9. Details on raw data are specified in the appendix.

Of the four sub-indicators, Ghana scored relatively well on the Standard Deviation of Inflation, garnering a score of 9.1 out of 10. This was higher than the world average core for that sub-indicator of 8.4 and higher than for other countries, such as Uganda (6.4), Sierra Leone (6.8), Liberia (8.6) and Botswana (8.9). The sub-indicator measures the standard deviation of the inflation rate over the last five years (EFW, 2017). Ghana’s relatively low standard deviation of 2.2 indicators a level of relative stability and predictability in inflation over the period 2010-2015.

Regarding money growth, Ghana scored 6.8 in the 2017 EFW report. This component is measured by subtracting the average annual growth in the money supply over the previous five years, from the average annual real growth of GDP in the past ten years. Ghana’s score indicates that the average growth in the money supply was greater than the average growth of real output but not excessively so, other-
wise a score closer to 0 would have been allocated. Ghana’s score is lower than all other countries’ in Table 5, including the Top 10 Average score (9.4), the World Average score (8.8), and other African countries’ scores, such as Zambia (8.1), Rwanda (9.0) and Liberia (9.4). At the time of the report, the data used was taken from 2015. As such, for the indicator Inflation: most recent year, Ghana scored 6.6. As with the money growth sub-indicator, Ghana’s score was the lowest among the countries in Table 5. During 2015, inflation in Ghana was relatively high at 17.1%, compared to other countries, such as Cameroon with 2.7% inflation (leading to a score of 9.5), Nigeria with 9.0% inflation (scoring 8.2), and Botswana, with 3.1% inflation (scoring 9.4). However, it should be noted that, since the time that this data was collected, Ghana’s inflation rate has reduced to 9.3% in November 2018 [BoG, 2018].

Ghana scored 5.0 out of 10 for the sub-indicator, Freedom to Own Foreign Currency Bank Accounts. This was due to the fact that foreign bank accounts are permissible abroad, but not domestically, or vice versa (foreign bank accounts permissible domestically but not abroad). Countries where foreign bank accounts were permissible both domestically and abroad, such as Botswana, The Gambia and Kenya, were given a score of 10 out of 10. Countries where neither was permissible, such as Cameroon and Côte d’Ivoire, were given a score of 0 out of 10.

Policy Implementation Challenges

Ghana scored comparatively low on the Sound Money indicator in the 2017 Economic Freedom of the World Report, ranking 137 out of 159 countries. This indicates that there is a lot of room for improvement and reform in this area.

During IMANI’s country audit of the 2017 Economic Freedom of the World report, which took place in July 2018, a number of stakeholders expressed some major concerns that could halt economic freedom and thus development in Ghana. Some of the major issues are discussed below.
Money Supply Growth

After five years of relatively slow economic growth, Ghana’s real GDP grew by from 3.7% in 2016 to 8.5% in 2017 before slowing to 6.5% in 2018. Growth in money supply in Ghana tends to exceed growth in GDP in most cases. For example, in June 2018, growth in money supply, measured generally as M2, was more than twice (14.2%) the growth in GDP (5.4%) [BoG, 2018]. This leads to high levels of inflation, a problem which has been largely driven by the general lack of fiscal discipline in Ghana. At the time of the EFW 2017 report, money supply growth was 16.0% and inflation stood at 17.2%, over twice as much as the inflation target of 8% ± 2%.

During the period in question, Ghana lacked fiscal discipline, as evidenced by Moody’s assessing Ghana’s fiscal strength as ‘very low’ [Moody’s, 2016]. Ghana engaged in expansionary fiscal policy, spending at a higher pace than the pace at which taxes were collected. This lead to debt monetisation [Ahlund, 2014], which increased the money supply and potentially exacerbated inflation [Standard & Poor’s, 2015]. Additionally, because of the insurmountable debt, in April 2015, Ghana signed up to the International Monetary Fund (IMF) Extended Credit Facility (ECF) programme [AfDB, 2018], subjecting the country to fiscal restrictions [Alagidede, 2016].

In 2014, interest payments on debt were almost a third the amount of revenues the government collected, as stated by the vice president of Moody’s at the time, Ms. Elisa Parisi-Capone [Moody’s, 2015]. She also stated that ‘Ghana’s debt affordability was among the weakest of all the sovereigns that Moody’s rates’ [Moody’s, 2015]. The government debt to GDP ratio rose from 56.8% of GDP in 2013 to 70.2% of GDP in 2014 and 72.2% of GDP in 2015 [Ministry of Finance and Economic Planning, 2016].
Although Ghana managed to reign in expenditure and have better control over the money supply, the data collected for the 2017 Economic Freedom of the World Report, still shows some scepticism about the sustainability of the downward trend evinced in inflation. The World Bank reported in 2018 that, in order to sustain the macroeconomic stability Ghana achieved in 2017, the continuation of fiscal consolidation efforts is necessary, with domestic revenue mobilisation and expenditure controls being paramount [The World Bank, 2018]. One way to achieve this is for Ghana to transition from a net importer, of almost all consumables, to a net importer with a proper industrialisation plan. With the recent industrialisation efforts of the government, such as the “one district one factory” policy yet to produce any substantial results, the sustainability of lower inflationary pressure remains to be seen.

Source: Ministry of Finance, Ghana 2017 Budget Statement
Recommendations

1. Government must initiate steps to cut wasteful expenditure in order to reduce the expenditure pressure on the limited revenue.

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


PART IV: FREEDOM TO TRADE INTERNATIONALLY
As much as individuals and businesses in Ghana should have the ability 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 ranked 115th. This has created a barrier to prosperity. To become prosperous, Ghana needs to be able to effectively sell to the over 7.5 billion people on the planet, not only the 30.2 million citizens of Ghana. Much of the problem lies in red tape and inefficiency, with Ghana getting low marks in non-tariff barriers, compliance costs, and regulatory barriers. Formal barriers to trade are also too high. Foreign ownership restrictions and particularly, capital controls weaken foreign direct investment, which was the engine of growth in their early years for some of the most advanced nations today (EFW, 2017).

The freedom to trade internationally considers nine variables, explained below:

1. Tariffs (Revenue from trade taxes as percentage of trade sector): This sub-component measures the amount of tax on international trade as a share of exports and imports.

2. Tariffs (Mean tariff rate): This sub-component is based on the unweighted mean of tariff rates.

3. Tariffs (Standard deviation of tariff rates): Compared to a uniform tariff, wide variations in tariff rates indicate greater efforts towards central planning of the economy's production and consumption patterns.

4. Non-tariff trade barriers: This sub-component is based on the Global Competitiveness Report survey question: “In your country, tariff and non-tariff barriers significantly reduce the ability of imported goods to compete in the domestic market. 1–7 (best)”.

5. Compliance Cost of Importing and Exporting: This sub-component is based on the World Bank's Doing Business data on the time (i.e., non-money) cost of procedures required to import a full 20-foot container of dry goods that contains no hazardous or military items.

6. Black Market Exchange rates: This component is based on the percentage difference between the official and the parallel (black-market) exchange rate.

7. Foreign ownership or investment restrictions: This sub-component is based on the following two questions from the Global Competitiveness Report: (1) “How prevalent is foreign ownership of companies in your country? 1 = Very rare, 7 = Highly prevalent”; (2) “How restrictive are regulations in your country relating to international capital flows? 1 = Highly restrictive, 7 = Not restrictive at all".
8. Capital controls: The International Monetary Fund reports on up to 13 types of international capital controls. The zero-to-10 rating is the percentage of capital controls not levied as a share of the total number of capital controls listed, multiplied by 10.

9. Freedom of foreigners to visit: This component measures the percentage of countries for which a country requires a visa from foreign visitors.

Detailed explanation of the variables, the methodology and the data sources are provided in the appendix.
Ghana’s Performance in Freedom to Trade Internationally

Ghana’s score in freedom to trade internationally has declined in recent years and in the 2017 Economic Freedom of the World, Ghana ranked 115th. Figure 11 below indicates the level of economic freedom in trading internationally between 1975 and 2015.

Figure 11: Ghana’s Ranking on the Freedom to Trade Internationally indicator (1975-2015)


In the 2017 Economic Freedom of the World Report, the lowest performing sub-indicators for Ghana out of the nine listed above were capital controls (a score of 3.8 out of 10), the compliance cost for importing and exporting (3.2 out of 10) and the freedom of foreigners to visit (2.5 out of 10) as indicated in table 6. Given the importance of import dependence and the revenue accrued from exports in the country, the audit focused on the compliance cost of importing and exporting, especially in light of Ghana’s poor scores amidst several reforms carried out at Ghana’s ports over the decade.

Table 6: Economic Freedom Scores and Rankings (Freedom to Trade indicator)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Revenue from trade taxes (% of trade sector)</th>
<th>Mean Tariff Rate</th>
<th>Standard deviation of tariff rates</th>
<th>Non-tariff trade barriers</th>
<th>Compliance costs of importing and exporting</th>
<th>Black market exchange rates</th>
<th>Foreign ownership/investment restrictions</th>
<th>Capital controls</th>
<th>Freedom of foreigners to visit</th>
<th>Freedom to trade internationally</th>
<th>Economic Freedom Summary Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>3.8</td>
<td>9.4</td>
<td>8.5</td>
<td>7.6</td>
<td>5.5</td>
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<td>10.0</td>
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<td>Cameroon</td>
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<tr>
<td>Côte d’Ivoire</td>
<td>4.0</td>
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<td>12.2</td>
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</tbody>
</table>
Compliance Cost of Importing and Exporting

Ports in Ghana play an important economic role; as well as facilitating trade, they are an important source of revenue for the government. In the long term, the revenue raised from ports is imperative to the industrialisation of the Ghanaian economy. Industries require safe and cheap means of importing raw materials for production and exporting finished goods. Thus, an efficient port has become an important element of industrialisation. Conditions for efficiency are constantly evolving as the world changes. Since the construction of the Port of Takoradi in the 1920s and since Ghana’s independence, activities at the ports have seen continuous reforms to ensure that they meet business needs for an affordable and reliable port and government’s revenue mobilisation needs.

Compliance costs of importing and exporting can be measured in monetary terms and in time spent. A well-known and documented source of cost of compliance in trade is the World Bank Doing Business Index, which is also the source for this sub-indicator/variable in the EFW index.

The current costs of compliance in monetary terms and in terms of time spent, as of the 2019 Doing Business Index, are outlined below in Table 7.

Source: Economic Freedom of the World, Fraser Institute. Table shows the data on the nine variables under the freedom to trade internationally (discussed above) and Ghana’s score for 2015. Comparisons are made with other countries in Africa as well as world averages. Details on data used are specified in the appendix.
Over the last decade, efforts to increase efficiency and minimise trade costs have intensified with the introduction of reforms such as the Ghana National Single Window, the paperless port project, joint destination inspection and a cargo tracking note system among others. While some gains have been made by implementing these reforms, implementation has not always been smooth, especially in recent times. Stakeholders of the ports have often complained of limited consultation prior to the implementation of reforms and, as such, have had little ownership of the initiative [Ghanaweb, 2018]. Government have also bemoaned the attitude of the private sector in receiving some of these initiatives. To achieve the objectives of reforms and an efficient port thereof, it is important to swiftly identify and address emerging challenges of trade facilitation.

**Policy Implementation Challenges**

**Non-Tariff Costs - Fees and Charges**

According to Article 6 of the World Trade Organisation (WTO) Trade Facilitation Agreement (TFA), fees and charges at member countries’ ports should satisfy certain key parameters. Critical amongst them is the requirement to limit customs fees and charges to the approximate costs of the services rendered. As a result, fees and charges are not expected to be for revenue generation purposes [WCO, 2014]. Unfortunately, this is a challenge for Ghana, as customs fees and charges are for revenue generation and are not commensurate with services rendered. For instance, for large importers, the cost of services rendered constitute just about 25% of total fees and charges at Ghana’s ports [WTO, 2017]. This is a major hurdle for Ghana since it ratified the WTO TFA in January, 2017 [GBN, 2017] and also seeks to improve the trading environment in order to attract more investments.

In addition, overall non-tariff cost which covers issues such as stringent regulations, corruption, bureaucratic red tape and fees and charges, constitute 55.5% of import prices and 41.4% of export prices. A USAID economic impact analysis of Ghana’s trade fees and charges (2018) indicates that a 10%
reduction in non-tariff cost, leads to a reduction in the domestic retail prices of all imported commodities and increase the competitiveness of Ghanaian exports. Specifically, market prices of large diesel generators and pharmaceuticals falls by about 10% and 4% respectively. Further, a 10% reduction in non-tariff cost can increase government revenues by about US$ 802 million, as trade volumes increases.

**Documentation and/or Information Availability**

Available and accessible trade related information is an essential part of safe and reliable movement of goods across borders [UNECE, undated]. Ghanaian importers, exporters and other trade actors are weary that there is no accessible central point for information on importing and exporting rules or requirements for products [IMANI, 2018]. This leaves a lot of room for guessing and unnecessary mistakes with consequences on both cost and time to import (or export). To avoid some of these costs, importers may sometimes resort to informal payments to facilitate the processes [Agbaga, 2018]. The World Trade Organisation (WTO) specifies, in the TFA, the need to provide precise and complete information in a timely manner to traders. As a result, the TFA requires participating countries to provide enquiry points as a way to enhance transparency, ensure predictability and minimise trade costs through the flow of information.

Ghana recently established an enquiry, with the Ministry of Trade and Industry as the leading government organisation responsible for the project. The expected maximum response time is four days with no fees required for standard request, except for complex enquiries [USAID, 2018]. Some notable challenges to progress and sustainability of enquiry points may include limited capacity to collect the right information, delayed responses to request and slow rates of updating the information. Further challenges may include low level of coordination and cooperation among government agencies and limited resources [Ministry of Trade & Industry Technical Working Group on Fees and Charges, 2017].

**Risk Management and Valuation Assurance**

A key objective of the Ghana National Single Window (GNSW) project, which started in 2002, is to introduce a fully integrated Risk Management system that will allow customs and partner government agencies to focus inspections and examinations on higher risk consignments, thus facilitating the free flow of legitimate transactions (Government of Ghana, 2016). This notwithstanding, risk targeting presently at Ghana’s port is not based on risk selectivity using risk indicators such as the importer’s compliance history, clearing agent, and ports of origin among others.

There are three channels in Ghana’s risk management system: green, yellow and red, with the red channel requiring the most inspected. Presently, 70% of cargo presently goes through the red channel, which requires physical examination. Of this number, relatively few are non-compliant goods deemed to cause offenses that threaten proper revenue collection. For example, September 2017 - February 2018, only 11% of non-compliant consignments were serious offenses, whereas 89% of the non-compliant goods were for smaller offenses.
Furthermore, document review is supposed to be reserved for cargo targeted for the yellow channel in the risk management system. However, 100% of consignments have to go through the document review, regardless of their risk status. Additionally, consignments going through the green channel have to pass through an electronic scanning process, which is also intrusive. This indicates that risk targeting may not necessarily be based on risk selectivity, given historical and current data.

The Paperless Port Project

The Paperless Ports project was initiated in Ghana in 2000. However, in recent times, the project has gained more prominence due to reforms to make it more efficient. These include the introduction of an e-payment platform and reducing the number of inspection agencies at the ports. The aim of these reforms is to reduce export costs and time by 50% each, and to improve Ghana’s score on the Trading Across Borders indicator on Doing Business Index to 99 by 2026 [Government of Ghana, 2016]. In general, stakeholders agreed that although there were ‘teething’ issues with the paperless ports project, it has reduced the number of days taken for imported goods to be cleared [IMANI, 2018].

Despite the gains made in this area, one major concern that emerged during the EFA was the lack of clarity in the ownership of the project, with many stakeholders, including the Ghana Revenue Authority (GRA), the Ministry of Trade and Industry (MOTI), Ghana Community Network Services Limited (GC Net), West Blue Consulting (Customs World), and others,

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Classified as one of the following: contraband goods; excess quantity; non-declared goods; prohibited/restricted; short landed; misclassification; under invoicing.

Administrative issues, such as change of freight station, manifest amendment, wrong container size, correcting chassis number, etc.
involved in the implementation of the paperless ports and Ghana National Single Window Project (GNSW). This ownership is important to monitor and evaluate the impact of the reforms at the ports. This is a pressing issue given that the MOTI signed a contract in 2018 with a third implementing agent, Ghana Link Network Services Limited with its overseas partner, CUPIA of Korea Customs Service, to implement an integrated trade facilitation and customs management system [Public Procurement Authority, 2018], despite the fact that West Blue and GC Net, have time remaining on their current contracts.
Recommendations

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.
References

Agbaga J. (2018), Personal Interview

GBN (2017), Ghana ratifies Trade Facilitation Agreement – WTO. Available at: https://www.ghanabusinessnews.com/2017/01/04/ghana-ratifies-trade-facilitation-agreement-wto/


PART V: REGULATIONS
Regulations remain one of the most powerful tools at the disposal of the state in shaping economic growth and social well-being. (Department for Business Innovation and Skill, 2011). Most developed countries have leveraged regulation and innovation to simplify laws and improve access to it. In times of crises, regulations come in handy for government to handle multiplex policy areas, project and manage risks more effectively, and regain the trust of their citizens. Just as regulations have positive impact on the success of an economy, an “overdose” or ineffectiveness can be detrimental to the growth of an economy.

The regulations indicator measures how regulations restrict entry into markets and interfere with the freedom to engage in voluntary exchange reduce economic freedom. The components focus on regulatory restraints that limit the freedom of exchange in credit, labour, and product markets. Ghana ranked 90th in the world in red tape in the 2017 EFW report, which limits the dynamism of the economy. Its score has been mostly declining in recent years (See figure 12). The regulations indicator of economic freedom studies regulations in three main areas: regulations in credit, regulations in the labour market, and regulations in business.

Figure 12: Ghana Rankings for the Regulation indicator (1975-2015)

Regulation of Credit

Access to credit is essential to building a successful economy. Credit is an important component and a key driver of economic growth. Several studies have empirically demonstrated the relationship between the availability, growth, use and regulations of credit and overall GDP in various economies. Banu (2013) posits that any economy, no matter how advanced cannot develop in the absence of credit. When credit grows, consumers can borrow and spend more, while enterprise can also borrow and invest more. Further, an increase in consumption and investments creates additional jobs and leads to a growth in both income and profits. Credit is also important in developing economies such as Ghana where the private sector and small scale enterprises do not have adequate access to capital markets.

Credit market regulations is one of the sub-themes under the “regulation” indicator. It essentially looks at the challenges that affect the credit market. For a robust measurement and assigning scores, the economic freedom of the world report uses three variables namely; ownership of banks, private sector credit and interest rate controls/negative real interest rate.

The three variables are considered are defined below:
1. **Ownership of Banks**: Data on the percentage of bank deposits held in privately owned banks were used to construct rating intervals. Countries with larger shares of privately held deposits received higher ratings.

2. **Private sector credit**: This sub-component measures the extent of government borrowing relative to borrowing by the private sector. Greater government borrowing indicates more central planning and results in lower ratings. If available, this sub-component is calculated as the government fiscal deficit as a share of gross saving.

3. **Interest rate controls/ negative real interest rates**: Data on credit-market controls and regulations were used to construct rating intervals. Countries with interest rates determined by the market, stable monetary policy, and reasonable real-deposit and lending-rate spreads received higher ratings.

*Figure 13: Ghana’s Rankings for the Credit Regulations sub-indicator (1975-2015)*

*Source: Economic Freedom of the World, Fraser Institute (2017).*
Analysis of Ghana’s Performance in this Category

Ghana’s score under regulation of credit has improved significantly from 1.76 in 1980 to 7.4 in 2017 (see figure 14). However, it is the worst performance among the three variables under the broad regulations indicator. While Ghana ranks 69th and 73rd for labour and business respectively, it placed 124th under regulations to credit. Comparing it with neighbours within the region, Ghana lags behind the East African countries; Kenya (8.0), Botswana (9.2), Rwanda (8.2) though it managed to outperform other sub-Saharan African countries like the Gambia (6.3), Liberia (4.5) and Cameroon (6.8). Also, Ghana missed the world’s average by 0.8 points. (See Table 8 below).

For the specific three sub-indicators, Ghana performed relatively better under ownership of banks by obtaining 8 out of 10. This is quite impressive given that it exceed the world average by 0.3 and falls short of the top ten (10) average of 10 points (deviation of 2.0 points). It also worthy to note that Ghana has maintained the 8.0 mark since the year 2005. This is a good indication that private banks continue to play key role in the management of wealth within the country. On private sector borrowing, Ghana’s performance was and has significantly improved since 1975, it is also one of the indicators with higher fluctuations in the scores. For example, after obtaining 4.85 in the year 2000, a remarkable score of 9.27 was achieved 2005, after which a low score of 5.24 in 2010. Based on a current ranking the country’s performance (6.8) is below the world average and the average of the top 10 performers. This connotes that to achieve relative stability in Ghana’s ranking, government borrowing must be tamed.

Figure 14: Ghana’s Score on Regulation of Credit sub-indicator (selective years)

<table>
<thead>
<tr>
<th>Year</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>7.19</td>
</tr>
<tr>
<td>2015</td>
<td>6.77</td>
</tr>
<tr>
<td>2010</td>
<td>5.24</td>
</tr>
<tr>
<td>2005</td>
<td>9.27</td>
</tr>
<tr>
<td>2000</td>
<td>4.85</td>
</tr>
<tr>
<td>1990</td>
<td>7.79</td>
</tr>
<tr>
<td>1980</td>
<td>3.29</td>
</tr>
</tbody>
</table>

Ghana’s Score on Private Sector Credit sub-indicator

Table 8: Economic Freedom of the World (Credit Market Indicator)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Ownership of banks</th>
<th>Private sector credit</th>
<th>Interest rate controls/negative real interest rates</th>
<th>Credit market regulations</th>
<th>REGULATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>8.0</td>
<td>9.6</td>
<td>10.0</td>
<td>9.2</td>
<td>7.9</td>
</tr>
<tr>
<td>Cameroon</td>
<td>5.0</td>
<td>6.4</td>
<td>9.0</td>
<td>6.8</td>
<td>6.3</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>8.0</td>
<td>8.1</td>
<td>10.0</td>
<td>8.7</td>
<td>6.7</td>
</tr>
<tr>
<td>Gambia, The</td>
<td>10.0</td>
<td>0.0</td>
<td>9.0</td>
<td>6.3</td>
<td>6.8</td>
</tr>
<tr>
<td>Kenya</td>
<td>10.0</td>
<td>4.1</td>
<td>10.0</td>
<td>8.0</td>
<td>7.3</td>
</tr>
<tr>
<td>Liberia</td>
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<td>9.0</td>
<td>4.5</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>10.0</td>
<td>6.7</td>
<td>10.0</td>
<td>8.9</td>
<td>7.3</td>
</tr>
<tr>
<td>Rwanda</td>
<td>8.0</td>
<td>7.5</td>
<td>9.0</td>
<td>8.2</td>
<td>8.4</td>
</tr>
<tr>
<td>Seychelles</td>
<td>5.0</td>
<td>10.0</td>
<td>9.0</td>
<td>8.0</td>
<td>7.4</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>2.0</td>
<td>0.0</td>
<td>8.0</td>
<td>3.3</td>
<td>4.7</td>
</tr>
<tr>
<td>South Africa</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
<td>7.4</td>
</tr>
<tr>
<td>Uganda</td>
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<td>9.0</td>
<td>9.1</td>
<td>7.9</td>
</tr>
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<td>Zambia</td>
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<td>10.0</td>
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</tr>
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</tr>
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<td>10.0</td>
<td>10.0</td>
<td>9.5</td>
</tr>
<tr>
<td>Top 10 Average</td>
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<td>9.8</td>
<td>10.0</td>
<td>9.9</td>
<td></td>
</tr>
<tr>
<td>World Average</td>
<td>7.7</td>
<td>7.5</td>
<td>9.4</td>
<td>8.2</td>
<td></td>
</tr>
</tbody>
</table>

Policy Implementation Challenges

Ghana scored comparatively low under the credit market regulation ranking 124th out of 159 countries. During IMANI’s country audit of the 2017 Economic Freedom of the World index, key stakeholders present at the programme highlighted some major issues which they believed were hindering the Ghana’s performance in credit market regulation. Some of the concerns have been discussed below.

Risk of Default

Risk of default emerged as one of the major challenges preventing the growth of private sector share of credit. Many participants agreed that most banks are reluctant to give loans to private businesses due to high risk of them defaulting. This challenge has been iterated by the Bank of Ghana (BOG) in a number of periodic publications. For instance, in the October 2017 edition of the Banking Sector Report, BOG indicated that “...credit conditions survey conducted in October 2017 pointed towards a net tightening in credit stance on loans to enterprises, while the stance on loans to households eased. Banks tightened credit stance on both short and long-term loans to large enterprises as well as to small and medium enterprises (SMEs), citing increases in the proportion of adversely-classified loans in total loan portfolio (as reflected in their non-performing loans (NPLs) ratio) as the major reason...” [BoG, 2017]. The issue of high non-performing loans (NPL) has been a worrying concern for industry players and the regulatory body. As a result, BOG is putting in place measures to curb this menace due to its continuous ability to weakens private sector credit. According to data from the BOG, NPL recorded an annual growth of 58.1% in October 2016 but assuaged to 21.6% within the same period in 2017 [BoG, 2017].

The high default risk is as a result of information asymmetry which has been compounded by the lack of formal identification and property addressing systems [IMANI, 2018]. 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. To address the information asymmetry problem, government recently launched a digital addressing system and the national identification system but their impact on formal identification is yet to felt probably due to lack of low patronage.

High Cost of Borrowing

Resulting from the high perception of risk, the cost of borrowing has also been identified as relatively high hence impeding access to credit by the private sector. Financial institutions in order to ensure that they obtain high rate of return to compensate for the high risk tends to charge high interest rate on loans. Also, other unfavourable macroeconomic indicators such high inflation and monetary policy rate have heavily influenced the high cost of borrowing.
prohibitive interest rates. According to the Bank of Ghana Monthly Statistical Bulletin, the average lending rate, as at June 2018, was 27.5% while inflation for the month of June stood at 10%.

**Excessive government borrowing**

It has been empirically proven that high levels of government borrowing tends to crowd out credit to private sector simply because banks finds it less riskier to lend to the government than to private entities. Over the years, successive governments’ inability to generate enough revenue has resulted in high levels borrowing through both domestic and foreign sources. Domestic borrowing in particular has detrimental effects on the economy and private sector credit. According to the BOG, as at May 2018, total public debt was about GHS 154.3 billion (US$ 32.9 billion), of which 72.6% was domestic debt [BoG, 2018].

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Calculated using exchange rate available on 31/05/18. Available at: [https://www.oanda.com/currency/convertor/](https://www.oanda.com/currency/convertor/)
Recommendations

1. Government must ensure that the recently launched digital address system and the national identification system implemented effectively and patronised by all to bridge the information asymmetry gap.

2. It is critical for the government to also make efforts towards reducing its borrowing to levels to make funds readily available for private entities to access.
References


Business Regulations
Overly stringent regulation can slow business expansion and weaken profits, which are both the means of further investment and the motivation for further investment. Ghana ranks 73rd in the world in business red tape. Its score has been more or less stagnant though there have been improvements in recent years (See figure 15). Administrative requirements, bureaucracy costs, and the cost of tax compliance all slow business formation and weaken existing businesses. Cutting this thicket of red tape would diminish the big problem in this area - extra payments, since heavy administrative requirement and bureaucracy costs feed corruption by giving officials an opportunity to demand bribes in exchange for cutting through the red tape. Often, the red tape and delays are intentionally created by the bureaucracy to create the opportunity for bribes.

Figure 15: Ghana’s Ranking on the Business Regulations sub-indicator (2002-2015)

Six variables are considered under this indicator. They are defined below:

1. Administrative requirements: This sub-component is based on the Global Competitiveness Report question “Complying with administrative requirements (permits, regulations, reporting) issued by the government in your country is (1 = burdensome, 7 = not burdensome)”. 

2. Bureaucracy costs: This sub-component is based on the “Regulatory Burden Risk Ratings” from IHS Market, which measures “the risks that normal business operations become more costly due to the regulatory environment”. This includes regulatory compliance and bureaucratic inefficiency and / or opacity.

3. Starting a business: This sub-component is based on the World Bank’s Doing Business data on the amount of time and money it takes to start a new limited liability business.
4. Extra payments or bribes or favouritism: This sub-component is based on the Global Competitiveness Report questions: (1) “In your industry, how commonly would you estimate that firms make undocumented extra payments or bribes connected with the following: imports and export permits, connection to public utilities, annual tax payments, awarding of public contracts (investment projects), getting favourable judicial decisions among others.”

5. Licensing restrictions: This sub-component is based on the World Bank’s Doing Business data on the time required per year for a business to prepare, file, and pay taxes on corporate income, value added or sales taxes, and taxes on labour.

6. Cost of tax compliance: This sub-component is based on the World Bank’s Doing Business data on the time required per year for a business to prepare, file, and pay taxes on corporate income, value added or sales taxes, and taxes on labour.
Analysis of Ghana’s Performance in this Category

Table 9: Economic Freedom of the World (business regulations Indicator)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Administrative requirements</th>
<th>Bureaucracy costs</th>
<th>Starting business</th>
<th>Extra payments/bribery/favoritism</th>
<th>Licensing restrictions</th>
<th>Tax compliance</th>
<th>Business regulations</th>
<th>REGULATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
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<td>Cameroon</td>
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<tr>
<td>Top 10 Average</td>
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<td>8.5</td>
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<tr>
<td>World Average</td>
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<td>5.2</td>
<td>5.1</td>
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<td>8.3</td>
<td>7.2</td>
<td>6.4</td>
<td>6.4</td>
</tr>
</tbody>
</table>


Ghana’s score of 6.4 out of the business regulations indicator is above the scores of most African countries with the exception of countries such as Botswana (6.9), Rwanda (8.3), Liberia (6.6) and Seychelles (7.0). (see Table 9 above).

Out of the six (6) sub-indicators, Ghana performed relatively well on starting a business by obtaining a remarkable score of 9.3 out of 10. This is higher than the world’s average of 9.1 and higher than other countries such as Botswana (8.5), Kenya (9.1), Nigeria (8.5) and South Africa (8.6). This performance suggest that the amount of time and money involved to start a limited liability company in Ghana is relatively shorter and less costly than the world’s average. Also, the performance is reflect recent commitment by government to shorten the time period for business registration through the introduction of online registration of business.

With regards to licensing restrictions, Ghana gained the second highest score among the six-sub indicators by obtaining a total of 8.1 points. However, the score obtained was below the world’s average of 8.3 and below almost all the other African countries used in the comparative analysis in Table 9 above with the exception of Cote d’Ivoire (5.3) and Zambia (7.8).

The third highest score under business regulation was cost of tax compliance where Ghana managed to obtain a total of 7.5 points. Though the performance was above the world’s average of 7.2, it trails behind countries like Zambia (7.9), Botswana (8.3) and Seychelles (9.0). A review of Ghana’s
past performance of this particular indicator reveals that Ghana has maintained the 7.5 score since 2010. This means little has been done by officials to reduce the time period for preparing, filing and payment of all forms of taxes in Ghana. Therefore For Ghana to perform better, better reforms are expected.

For extra payments/bribes/favoritism, Ghana performed abysmally with a total of 3.3 which is below the world’s average of 4.5. With the exception of Uganda, Sierra Leone, Nigeria and Kenya, all the other African countries included in the comparative analysis in Table 9 outperformed Ghana. This particular sub-indicator measures how common it is for firms to make undocumented/extra payments or bribes connected with the following: imports and export permits, connection to public utilities, annual tax payments, awarding of public contracts (investment projects), getting favourable judicial decisions among others. Ghana’s poor performance reveals that undocumented and bribe payments is rife in country. In the 2017 Corruption Perception Index, Ghana dropped 11 places from the 2016 index to 81st position. According to Transparency International, despite some progress made, important gaps still exist within the legal framework of the country. Also, petty corruption is on the ascendancy while patronage networks remains deeply rooted (Transparency International, 2014).

Also, for the bureaucracy cost sub-indicator, Ghana attained 6 out of 10, a figure above the world’s average of 5.2 and also lower than only two of selected African countries such as considered for the comparative analysis, namely: Rwanda (7.6) and Botswana (6.2). This means that within the sub-region, Ghana performs creditably when it comes regulatory burden risk. Nonetheless, Ghana needs to improve upon its performance to be able to perform better in subsequent rating since countries such Hong Kong scored 10 out of 10.
Policy Implementation Challenges

According to the Economic Freedom of the World Report, Ghana ranks 73rd in business regulations. Ghana’s performances have been stagnated while businesses continue to go through several “hurdles” in their daily operations. Some major challenges which have lingered on for some time now have been discussed below:

Complexities in business registration and license acquisition

Registering a business is still laborious despite some significant changes that have occurred over the years such as the creation of additional registration offices and the introduction of online registration of business. According the 2019 World Bank Doing Business, registering a limited liability company takes about 8 which is above both the sub-Saharan and OECD averages of 7.4 and 4.9 respectively. In terms of the time spent in registering a business, a total of 15 days have been documented [Doing Business, 2019].

Table 10: The procedure, time and cost of registering a Limited Liability Business in Ghana

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Time to Complete</th>
<th>Associated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtain a Tax Identification Number</td>
<td>2 days on average</td>
<td>No charge</td>
</tr>
<tr>
<td>Check for availability of company name and submit company documents to</td>
<td>One day</td>
<td></td>
</tr>
<tr>
<td>obtain the certificate of incorporation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A Commissioner of Oaths authenticates forms required for the certificate</td>
<td>One day simultaneous with the</td>
<td>GHC 10</td>
</tr>
<tr>
<td>to commence business</td>
<td>previous procedure</td>
<td></td>
</tr>
<tr>
<td>Obtain from the Registrar-General Department the certificate to commence</td>
<td>Two days simultaneous with the</td>
<td>0.5% of the stated capital as commencement tax +</td>
</tr>
<tr>
<td>business and the certificate of incorporation</td>
<td>previous procedure</td>
<td>GHC 10 (registration fee with Ghana Revenue Authority) + GHC 100 form fees</td>
</tr>
<tr>
<td>Deposit paid-in capital in a bank account</td>
<td>One day</td>
<td>No Charge</td>
</tr>
<tr>
<td>Apply for business licenses at the Metropolitan Authority</td>
<td>Seven (7) days</td>
<td>GHC 270</td>
</tr>
</tbody>
</table>
The complexities involved in registering a business has often been cited by many private business owners as one of the major reasons for remaining unregistered. The process has fuelled the activities of middlemen popularly known as “goro boys” who sometimes assist individuals by promising fastrack services and usually comes at an additional cost which may even be twice or more than the official cost of the registration. In a documentary series Prepared by IMANI, some business owners even revealed that they met these middle men at the Registrar General premises and were charged unapproved fees before their registration was completed successfully. It is therefore not surprising that Ghana obtained a lower score in payment of unapproved/extra fees/bribes. To address this challenge and more, the government recently launched the online registration portal to help prospective owners to register their businesses within 24 hours. An impact assessment of the project is yet to be undertaken to ascertain its impact on the time and cost of registering a business.

In addition, there is lack of a one-stop shop for business registration and license acquisition. Depending on the type of business one intends to enter, the prospective business owner is expected to acquire several approval certifications and license which can sometimes drag on for days due to the number of institutions involved, the slow pace at which they work and the number of unapproved fees to be paid. All these and more accounts for Ghana’s low performance under business regulation sub-indicator.

**Cumbersome tax payment procedures**

Taxes are one of the major sources of revenue for governments. As a result, the administration of taxes must be done in an efficient manner to incentivise regular payment and efficient usage of the proceeds. Ghana’s tax administration is considered cumbersome with numerous payments required in the year yet the amount generated is always described as inadequate. In a previous study, it was revealed that about 68 percent of Ghanaians “claim that it is “very difficult or difficult” to find out what taxes or fees one is supposed to pay” [Armah-Attob, D., Awal, M., 2013]. According to the World Bank Doing Business report, under the paying taxes indicator, a total of 31 payments are required in a year in a year. Though this is below the Sub-Saharan African number of 37.5 payments. Ghana can strive to achieve or get closer to the OECD figure of 11.2 or the 3 payments implemented in Hong Kong and China. Reducing the payments and time involve will enhance the ease of doing business in Ghana.
and (2) the monetary cost of obtaining the license (measured as a share of per-capita income). These

Licensing restrictions

H: Reliability of police

Vmin range received ratings of either zero or 10, accordingly.

sured as a percentage of the debt). These two ratings were then averaged to arrive at the final rating for

where the plaintiff has complied with the contract and judicial judgment is rendered in his favor.

F: Legal enforcement of contracts


about 8 which is above both the sub-Saharan and OECD averages of 7.4 and 4.9 respectively. In terms

Ghana’s performances have been stagnated while businesses continue to go through several “hurdles”

Table 11: Paying Taxes in Ghana

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Ghana</th>
<th>Sub-Saharan Africa</th>
<th>OECD high income</th>
<th>Best Regulatory Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments (number per year)</td>
<td>31</td>
<td>37.5</td>
<td>11.2</td>
<td>3 (Hong Kong SAR, China)</td>
</tr>
<tr>
<td>Time (hours per year)</td>
<td>224</td>
<td>280.6</td>
<td>159.4</td>
<td>49 (Singapore)</td>
</tr>
<tr>
<td>Total tax and contribution rate (% of profit)</td>
<td>32.4</td>
<td>46.8</td>
<td>39.8</td>
<td>26.1% (32 Economies)</td>
</tr>
<tr>
<td>Postfiling index (0-100)</td>
<td>49.54</td>
<td>54.63</td>
<td>84.41</td>
<td>None in 2017/18</td>
</tr>
</tbody>
</table>

Recommendations

1. Registration forms should be simplified and less cumbersome to fill. The existing form for business registration is quite complex with numerous questions which makes it unattractive for businesses owners to attempt to register their entities.

2. The creation of one-stop shops where representatives of various relevant agencies would be located in one place. The aim is to save time and make the process more efficient, as forms can be handed directly to the subsequent agencies.
References


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ADDITIONAL REFERENCES


Fraser Institute(b). (undated). Audit Program. Available at: https://www.fraserinstitute.org/economic-freedom/audit-program


APPENDIX

Explanatory Notes and Data Sources of the Economic Freedom of the World Index.

Area 1: Size of Government

A: Government consumption

This component is measured as general government consumption spending as a percentage of total consumption. The rating for this component, as with many of the following components, is designed to mirror the actual distribution of the raw data but on a zero-to-10 scale. The rating is equal to: \( \frac{(V_{\text{max}} - V_i)}{(V_{\text{max}} - V_{\text{min}})} \times 10 \). The \( V_i \) is the country’s actual government consumption as a proportion of total consumption, while the \( V_{\text{max}} \) and \( V_{\text{min}} \) were set at 40 and 6, respectively. The 1990 data were used to derive the maximum and minimum values for this component. Countries with a larger proportion of government expenditures received lower ratings. In contrast, as the ratio approaches the maximum value, the ratio moves toward zero.


B: Transfers and subsidies

This component is measured as general government transfers and subsidies as a share of GDP. The rating for this component is equal to: \( \frac{(V_{\text{max}} - V_i)}{(V_{\text{max}} - V_{\text{min}})} \times 10 \). The \( V_i \) is the country’s ratio of transfers and subsidies to GDP, while the \( V_{\text{max}} \) and \( V_{\text{min}} \) values are set at 37.2 and 0.5, respectively. The 1990 data were used to derive the maximum and minimum values for this component. The formula will generate lower ratings for countries with larger transfer sectors. When the size of a country’s transfer sector approaches that of the country with the largest transfer sector during the 1990 benchmark year, the rating of the country will approach zero.

Sources: International Monetary Fund, Government Finance Statistics Yearbook; World Bank, World Development Indicators; International Monetary Fund, International Financial Statistics; United Nations National Accounts.
C: Government enterprises and investment

Data on government investment as a share of total investment were used to construct the zero-to-10 ratings. Countries with more government enterprises and government investment received lower ratings. When the government investment share was generally less than 15% of total investment, countries were given a rating of 10. When government investment was between 15% and 20% of the total, countries received a rating of 8. When government investment was between 20% and 25% of the total, countries were rated at 7. When government investment was between 25% and 30% of the total, countries were assigned a rating of 6. When government investment was generally between 30% and 40% of the total, countries received a rating of 4. When government investment was between 40% and 50% of the total, countries were rated at 2. A rating of zero was assigned when government investment exceeded 50% of total investment. In cases where government investment data were unavailable, we used qualitative data on the scope of SOEs to assign ratings.

Sources: International Monetary Fund, Government Finance Statistics Yearbook; World Bank, World Development Indicators; International Monetary Fund, International Finance Statistics; World Economic Forum, Global Competitiveness Report; United Nations National Accounts; European Bank for Reconstruction and Development, Transition Indicators

D: Top marginal tax rate

i. Top marginal income tax rate

Countries with higher marginal tax rates that take effect at lower income thresholds received lower ratings based on the matrix below. The income threshold data were converted from local currency to 1982/1984 US dollars (using beginning-of-year exchange rates and the US Consumer Price Index). These figures include sub-national rates if applicable.

ii. Top marginal income and payroll tax rates

Countries with higher marginal income and payroll (wage) tax rates that take effect at lower income thresholds received lower ratings based on the matrix below. The income threshold data were converted from local currency to 1982/1984 US dollars (using beginning-of-year exchange rates and the US Consumer Price Index). These figures include sub-national rates if applicable.


<table>
<thead>
<tr>
<th>Income Threshold at Which the Top Marginal Rate Applies (1982/1984 US$)</th>
<th>&lt;$25,000</th>
<th>$25,000 - &lt;$50,000</th>
<th>$50,000 - &lt;$150,000</th>
<th>$150,000+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Marginal Tax Rate</td>
<td>&lt;21%</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>
This sub-component is based on the World Bank’s Doing Business data on the time in days and minutes as a percentage of the debt). These two ratings were then averaged to arrive at the final rating for the adjusted annual money growth is equal to (or greater than) 50%, a rating of zero results.

### Area 2: Legal System and Property Rights

**Note 1:** The ratings for Area 2 are adjusted to reflect inequalities in the legal treatment of women. See Chapter 3: Adjusting for Gender Disparity in Economic Freedom and Why It Matters (pp. 189–211) for methodological details.

**Note 2:** The ratings for Area 2 from 1970 to 1995 are the same as the Area V ratings from Economic Freedom of the World: 2001 Annual Report. Please see that report for methodological details.

**A: Judicial independence**

This component is from the Global Competitiveness Report question: “Is the judiciary in your country independent from political influences of members of government, citizens, or firms? No—heavily influenced (= 1) or Yes—entirely independent (= 7)”. The question’s wording has varied slightly over the years. All variables from the Global Competitiveness Report were converted from the original 1-to-7 scale to a 0-to-10 scale using this formula: $EFWi = ((GCRi - 1) ÷ 6) × 10$.

**Source:** World Economic Forum, Global Competitiveness Report. In recent years, the most recently available data from the online database, which provides a two-year moving average, have been used for this component and all other components based on the Global Competitiveness Report.
B: Impartial courts

This component is from the Global Competitiveness Report question: “The legal framework in your country for private businesses to settle disputes and challenge the legality of government actions and/or regulations is inefficient and subject to manipulation (1) or is efficient and follows a clear, neutral process (7).” The question’s wording has varied slightly over the years. Note: The “Rule of Law” ratings from the World Bank’s Governance Indicators project are used to fill any values missing from the primary data source since 1995.


C: Protection of property rights

This component is from the Global Competitiveness Report question: “Property rights, including over financial assets, are poorly defined and not protected by law (1) or are clearly defined and well protected by law (7).” Note: This replaces a previous question from the Global Competitiveness Report on protection of intellectual property.


D: Military interference in rule of law and politics

This component is based on the International Country Risk Guide Political Risk Component: “A measure of the military’s involvement in politics. Since the military is not elected, involvement, even at a peripheral level, diminishes democratic accountability. Military involvement might stem from an external or internal threat, be symptomatic of underlying difficulties, or be a full-scale military takeover. Over the long term, a system of military government will almost certainly diminish effective governmental functioning, become corrupt, and create an uneasy environment for foreign businesses.” Note: The “Political Stability and Absence of Violence” ratings from the World Bank’s Governance Indicators project are used to fill any values missing from the primary data source since 1995.

Sources: PRS Group, International Country Risk Guide; World Bank, Governance Indicators.

E: Integrity of the legal system

This component is based on the International Country Risk Guide Political Risk Component I for Law and Order: “Two measures comprising one risk component. Each sub-component equals half of the total. The ‘law’ sub-component assesses the strength and impartiality of the legal system, and the ‘order’ sub-component assesses popular observance of the law.”

F: Legal enforcement of contracts

This component is based on the World Bank’s Doing Business estimates for the time and money required to collect a debt. The debt is assumed to equal 200% of the country’s per-capita income where the plaintiff has complied with the contract and judicial judgment is rendered in his favor. Zero-to-10 ratings were constructed for (1) the time cost (measured in number of calendar days required from the moment the lawsuit is filed until payment); and (2) the monetary cost of the case (measured as a percentage of the debt). These two ratings were then averaged to arrive at the final rating for this sub-component. The formula used to calculate the zero-to-10 ratings was: \((V_{max} - V_i) / (V_{max} - V_{min}) \times 10\). \(V_i\) represents the time or money cost value. The values for \(V_{max}\) and \(V_{min}\) were set at 725 days and 82.3% (1.5 standard deviations above average in 2005) and 62 days (1.5 standard deviations below average in 2005) and 0%, respectively. Countries with values outside the \(V_{max}\) and \(V_{min}\) range received ratings of either zero or 10, accordingly.


G: Regulatory costs of the sale of real property

This sub-component is based on the World Bank’s Doing Business data on the time measured in days and monetary costs required to transfer ownership of property that includes land and a warehouse. Zero-to-10 ratings were constructed for (1) the time cost (measured in number of calendar days required to transfer ownership); and (2) the monetary cost of transferring ownership (measured as a percentage of the property value). These two ratings were then averaged to arrive at the final rating for this sub-component. The formula used to calculate the zero-to-10 ratings was: \((V_{max} - V_i) / (V_{max} - V_{min}) \times 10\). \(V_i\) represents the zero-to-10 ratings were constructed. The values for \(V_{max}\) and \(V_{min}\) were set at 265 days and 15% (1.5 standard deviations above average in 2005) and 0 days and 0%, respectively. Countries with values outside the \(V_{max}\) and \(V_{min}\) range received ratings of either zero or 10, accordingly.


H: Reliability of police

This component is from the Global Competitiveness Report question: “To what extent can police services be relied upon to enforce law and order in your country? (1 = Cannot be relied upon at all; 7 = Can be completely relied upon)”.

I: Business costs of crime

This component is from the Global Competitiveness Report question: “To what extent does the incidence of crime and violence impose costs on businesses in your country? (1 = To a great extent; 7 = Not at all).”


Area 3: Sound Money

A: Money growth

The component measures the average annual growth of the money supply in the last five years minus average annual growth of real GDP in the last ten years. Countries where growth of the money supply greatly exceeds growth of real output receive lower ratings. The M1 money supply (basically defined as checkable deposits plus currency in circulation) figures were used to measure the growth rate of the money supply. The rating is equal to: (Vmax - Vi) / (Vmax - Vmin) multiplied by 10. Vi represents the average annual growth rate of the money supply during the last five years adjusted for the growth of real GDP during the previous ten years. The values for Vmin and Vmax were set at zero and 50%, respectively. Therefore, if the adjusted growth rate of the money supply during the last five years was zero, indicating that money growth was equal to the long-term growth of real output, the formula generates a rating of 10. Ratings decline as the adjusted growth of the money supply increases toward 50%. When the adjusted annual money growth is equal to (or greater than) 50%, a rating of zero results.

*Sources: World Bank, World Development Indicators; International Monetary Fund, International Financial Statistics; United Nations National Accounts.*

B: Standard deviation of inflation

The component measures the standard deviation of the inflation rate over the last five years. Generally, the GDP deflator was used as the measure of inflation for this component. When these data were unavailable, the Consumer Price Index was used. The following formula was used to determine the zero-to-10 scale rating for each country: (Vmax - Vi) / (Vmax - Vmin) multiplied by 10. Vi represents the country's standard deviation of the annual rate of inflation during the last five years. The values for Vmin and Vmax were set at zero and 25%, respectively. This procedure will allocate the highest ratings to the countries with the least variation in the annual rate of inflation. A perfect 10 results when there is no variation in the rate of inflation over the five-year period. Ratings will decline toward zero as the standard deviation of the inflation rate approaches 25% annually.

*Sources: World Bank, World Development Indicators; International Monetary Fund, International Financial Statistics.*
C: Inflation: most recent year

Generally, the CPI was used as the measure of inflation for this component as it is often available before the GDP deflator is available. When these data were unavailable, the GDP deflator inflation rate was used. The zero-to-10 country ratings were derived by the following formula: (Vmax - Vi) / (Vmax - Vmin) multiplied by 10. Vi represents the rate of inflation during the most recent year. The values for Vmin and Vmax were set at zero and 50%, respectively—the lower the rate of inflation, the higher the rating. Countries that achieve perfect price stability earn a rating of 10. As the inflation rate moves toward a 50% annual rate, the rating for this component moves toward zero. A zero rating is assigned to all countries with an inflation rate of 50% or more.

Sources: World Bank, World Development Indicators; International Monetary Fund, International Financial Statistics.

D: Freedom to own foreign currency bank accounts

When foreign currency bank accounts were permissible without any restrictions both domestically and abroad, the rating was 10; when these accounts were restricted, the rating was zero. If foreign currency bank accounts were permissible domestically but not abroad (or vice versa), the rating was 5. Note This component was not updated for the 2014 Annual Report.


Area 4: Freedom to Trade Internationally

A: Tariffs

i. Revenues from trade taxes (% of trade sector)

This sub-component measures the amount of tax on international trade as a share of exports and imports. The formula used to calculate the ratings for this subcomponent was: (Vmax - Vi) / (Vmax - Vmin) multiplied by 10. Vi represents the revenue derived from taxes on international trade as a share of the trade sector. The values for Vmin and Vmax were set at zero and 15%, respectively. This formula leads to lower ratings as the average tax rate on international trade increases. Countries with no specific taxes on international trade earn a perfect 10. As the revenues from these taxes rise toward 15% of international trade, ratings decline toward zero.

ii. Mean tariff rate

This sub-component is based on the unweighted mean of tariff rates. The formula used to calculate the zero-to-10 rating for each country was: \((V_{\text{max}} - V_i) / (V_{\text{max}} - V_{\text{min}})\) multiplied by 10. \(V_i\) represents the country's mean tariff rate. The values for \(V_{\text{min}}\) and \(V_{\text{max}}\) were set at 0% and 50%, respectively. This formula will allocate a rating of 10 to countries that do not impose tariffs. As the mean tariff rate increases, countries are assigned lower ratings. The rating will decline toward zero as the mean tariff rate approaches 50%. (Note that, except for two or three extreme observations, all countries have mean tariff rates within this range from 0% to 50%.)


iii. Standard deviation of tariff rates

Compared to a uniform tariff, wide variations in tariff rates indicate greater efforts towards central planning of the economy's production and consumption patterns. Thus, countries with a greater variation in their tariff rates are given lower ratings. The formula used to calculate the zero-to-10 ratings for this component was: \((V_{\text{max}} - V_i) / (V_{\text{max}} - V_{\text{min}})\) multiplied by 10. \(V_i\) represents the standard deviation of the country's tariff rates. The values for \(V_{\text{min}}\) and \(V_{\text{max}}\) were set at 0% and 25%, respectively. This formula will allocate a rating of 10 to countries that impose a uniform tariff. As the standard deviation of tariff rates increases toward 25%, ratings decline toward zero. (Note that, except for a few very extreme observations, the standard deviations of the tariff rates for the countries in our study fall within this 0% to 25% range.)


B: Regulatory trade barriers

i. Non-tariff trade barriers

This sub-component is based on the Global Competitiveness Report survey question: “In your country, tariff and non-tariff barriers significantly reduce the ability of imported goods to compete in the domestic market. 1–7 (best)”. The question’s wording has varied slightly over the years. Note, notwithstanding the sub-component’s title, this indicator captures both tariff and non-tariff barriers.


ii. Compliance cost of importing and exporting

This sub-component is based on the World Bank’s Doing Business data on the time (i.e., non-money) cost of procedures required to import a full 20-foot container of dry goods that contains no hazardous or military items. Countries where it takes longer to import or export are given lower
ratings. Zero-to-10 ratings were constructed for (1) the time cost (in hours) associated with border compliance and documentary compliance when exporting; and (2) the time cost (in hours) associated with border compliance and documentary compliance when importing. These two ratings were then averaged to arrive at the final rating for this subcomponent. The formula used to calculate the zero-to-10 ratings was: \( \frac{(V_{\text{max}} - V_i)}{(V_{\text{max}} - V_{\text{min}})} \times 10 \). \( V_i \) represents the time cost value. The values for \( V_{\text{max}} \) and \( V_{\text{min}} \) were set, respectively, at 228.38 and 0 hours (1.5 standard deviations above average in 2014) for exporting; and 338.00 hours (1.5 standard deviations below average in 2014) and 0 hours for importing. Countries with values outside the \( V_{\text{max}} \) and \( V_{\text{min}} \) range received ratings of either zero or 10, accordingly.

**Source:** World Bank, Doing Business

### C: Black-market exchange rates

This component is based on the percentage difference between the official and the parallel (black-market) exchange rate. The formula used to calculate the zero-to-10 ratings for this component was the following: \( \frac{(V_{\text{max}} - V_i)}{(V_{\text{max}} - V_{\text{min}})} \times 10 \). \( V_i \) is the country’s black-market exchange-rate premium. The values for \( V_{\text{min}} \) and \( V_{\text{max}} \) were set at 0% and 50%, respectively. This formula will allocate a rating of 10 to countries without a black-market exchange rate; that is, those with a domestic currency that is fully convertible without restrictions. When exchange-rate controls are present and a black market exists, the ratings will decline toward zero as the black-market premium increases toward 50%. A zero rating is given when the black market premium is equal to, or greater than, 50%.

**Source:** MRI Bankers’ Guide to Foreign Currency.

### D: Controls of the movement of capital and people

#### i. Foreign ownership/investment restrictions

This sub-component is based on the following two questions from the Global Competitiveness Report: (1) “How prevalent is foreign ownership of companies in your country? 1 = Very rare, 7 = Highly prevalent”; (2) “How restrictive are regulations in your country relating to international capital flows? 1 = Highly restrictive, 7 = Not restrictive at all”. The wording of the questions has varied slightly over the years.

**Source:** World Economic Forum, Global Competitiveness Report.

#### ii. Capital controls

The International Monetary Fund reports on up to 13 types of international capital controls. The zero-to-10 rating is the percentage of capital controls not levied as a share of the total number of capital controls listed, multiplied by 10.

iii. Freedom of foreigners to visit

This component measures the percentage of countries for which a country requires a visa from foreign visitors. It reflects the freedom of foreigners to travel to this country for tourist and short-term business purposes. The formula used to calculate the zero-to-10 ratings was: \( \frac{V_i - V_{\text{min}}}{V_{\text{max}} - V_{\text{min}}} \times 10 \). \( V_i \) represents the component value. The values for \( V_{\text{max}} \) and \( V_{\text{min}} \) were set at 47.2 (1 standard deviation above average) and 0. Countries with values outside the \( V_{\text{max}} \) and \( V_{\text{min}} \) range received ratings of either zero or 10, accordingly.


Area 5: Regulation

Note 1: The rating for Area 5 is calculated as the average of Components 5A, 5B, and 5C. When there were not enough data to generate ratings in at least two of those components, which is common especially in earlier years, the rating for Area 5 was computed to be \( 2.5 + 0.50(X_t) \), where \( X_t \) is the average of all the subcomponents in Area 5. This formula was created based on a regression analysis comparing countries with and without complete data.

A: Credit market regulations

i. Ownership of banks

Data on the percentage of bank deposits held in privately owned banks were used to construct rating intervals. Countries with larger shares of privately held deposits received higher ratings. When privately held deposits totalled between 95% and 100%, countries were given a rating of 10. When private deposits constituted between 75% and 95% of the total, a rating of 8 was assigned. When private deposits were between 40% and 75% of the total, the rating was 5. When private deposits totalled between 10% and 40%, countries received a rating of 2. A zero rating was assigned when private deposits were 10% or less of the total.


ii. Private sector credit

This sub-component measures the extent of government borrowing relative to borrowing by the private sector. Greater government borrowing indicates more central planning and results in lower ratings. If available, this sub-component is calculated as the government fiscal deficit as a share of gross saving. Since the deficit is expressed as a negative value, higher numerical values result in higher ratings. The formula
used to derive the country ratings for this sub-component was (-Vmax - Vi) / (Vmax + Vmin) multiplied by 10. Vi is the ratio of deficit to gross investment, and the values for Vmax and Vmin are set at 0 and -100.0%, respectively. The formula allocates higher ratings as the deficit gets smaller (that is, closer to zero) relative to gross saving.

If the deficit data are not available, the component is instead based on the share of private credit to total credit extended in the banking sector. Higher values are indicative of greater economic freedom. Thus, the formula used to derive the country ratings for this sub-component was (Vi - Vmin) / (Vmax - Vmin) multiplied by 10. Vi is the share of the country’s total domestic credit allocated to the private sector and the values for Vmax and Vmin are set at 99.9% and 10.0%, respectively. The 1990 data were used to derive the maximum and minimum values for this component. The formula allocates higher ratings as the share of credit extended to the private sector increases.

**Sources:** World Bank, World Development Indicators; World Economic Forum, Global Competitiveness Report; International Monetary Fund, International Financial Statistics.

### iii. Interest rate controls /negative real interest rates

Data on credit-market controls and regulations were used to construct rating intervals. Countries with interest rates determined by the market, stable monetary policy, and reasonable real-deposit and lending-rate spreads received higher ratings. When interest rates were determined primarily by market forces as evidenced by reasonable deposit and lending-rate spreads, and when real interest rates were positive, countries were given a rating of 10. When interest rates were primarily market-determined but the real rates were sometimes slightly negative (less than 5%) or the differential between the deposit and lending rates was large (8% or more), countries received a rating of 8. When the real deposit or lending rate was persistently negative by a single-digit amount or the differential between them was regulated by the government, countries were rated at 6. When the deposit and lending rates were fixed by the government and the real rates were often negative by single-digit amounts, countries were assigned a rating of 4. When the real deposit or lending rate was persistently negative by a double-digit amount, countries received a rating of 2. A zero rating was assigned when the deposit and lending rates were fixed by the government and real rates were persistently negative by double-digit amounts or hyperinflation had virtually eliminated the credit market.

**Sources:** World Bank, World Development Indicators; International Monetary Fund, International Financial Statistics.

### B: Labor market regulations

#### i. Hiring regulations and minimum wage

This sub-component is based on the “Employing Workers” section of the World Bank’s Doing Business and uses the following components: (1) whether fixed-term contracts are prohibited for permanent tasks; (2) the maximum cumulative duration of fixed-term contracts; and (3) the ratio of the minimum wage for a trainee or first-time employee to the average value added per worker. An economy is assigned a score of 1 if fixed-term contracts are prohibited for permanent tasks and a score of 0 if they...
can be used for any task. A score of 1 is assigned if the maximum cumulative duration of fixed-term contracts is less than 3 years; 0.5 if it is 3 years or more but less than 5 years; and 0 if fixed-term contracts can last 5 years or more. Finally, a score of 1 is assigned if the ratio of the minimum wage to the average value added per worker is 0.75 or more; 0.67 for a ratio of 0.50 or more but less than 0.75; 0.33 for a ratio of 0.25 or more but less than 0.50; and 0 for a ratio of less than 0.25.

**Source:** World Bank, Doing Business

### ii. Hiring and firing regulations

This sub-component is based on the Global Competitiveness Report question: “The hiring and firing of workers is impeded by regulations (= 1) or flexibly determined by employers (= 7)”. The question’s wording has varied over the years.

**Source:** World Economic Forum, Global Competitiveness Report

### iii. Centralized collective bargaining

This sub-component is based on the Global Competitiveness Report question: “Wages in your country are set by a centralized bargaining process (= 1) or up to each individual company (= 7)”. The wording of the question has varied over the years.

**Source:** World Economic Forum, Global Competitiveness Report

### iv. Hours regulations

This sub-component is based on the “Rigidity of Hours Index” in the World Bank’s Doing Business, uses the following five components: (1) whether there are restrictions on night work; (2) whether there are restrictions on holiday work; (3) whether the length of the work week can be 5.5 days or longer; (4) whether there are restrictions on overtime work; and (5) whether the average paid annual leave is 21 working days or more. For each question, when the regulations apply, a score of 1 is given. If there are no restrictions, the economy receives a score of 0. The zero-to-10 rating is based on how many of these regulations are in place: 0 regulations results in a rating of 10; 1 regulation results in a rating of 8; and so on.

**Source:** World Bank, Doing Business

### v. Mandated cost of worker dismissal

This sub-component is based on the World Bank’s Doing Business data on the cost of the advance notice requirements, severance payments, and penalties when dismissing a redundant worker with 10-years tenure. The formula used to calculate the zero-to-10 ratings was: \( \frac{V_{\text{max}} - V_i}{V_{\text{max}} - V_{\text{min}}} \times 10 \). Vi represents the dismissal cost (measured in weeks of wages). The values for
Vmax and Vmin were set at 58 weeks (1.5 standard deviations above average in 2005) and 0 weeks, respectively. Countries with values outside the Vmax and Vmin range received ratings of either zero or 10 accordingly.


vi. Conscription

Data on the use and duration of military conscription were used to construct rating intervals. Countries with longer conscription periods received lower ratings. A rating of 10 was assigned to countries without military conscription. When length of conscription was six months or less, countries were given a rating of 5. When length of conscription was more than six months but not more than 12 months, countries were rated at 3. When length of conscription was more than 12 months but not more than 18 months, countries were assigned a rating of 1. When conscription periods exceeded 18 months, countries were rated zero. If conscription was present but apparently not strictly enforced or the length of service could not be determined, the country was given a rating of 3. In cases where it is clear conscription is never used, even though it may be possible, a rating of 10 is given. If a country’s mandated national service includes clear non-military options, the country was given a rating of 5.

Sources: International Institute for Strategic Studies, The Military Balance; War Resisters International, World Survey of Conscription and Conscientious Objection to Military Service; additional online sources used as necessary.

C: Business regulations

i. Administrative requirements

This sub-component is based on the Global Competitiveness Report question: “Complying with administrative requirements (permits, regulations, reporting) issued by the government in your country is (1 = burdensome, 7 = not burdensome)”. The question’s wording has varied slightly over the years.

Source: World Economic Forum, Global Competitiveness Report

ii. Bureaucracy costs

This sub-component is based on the “Regulatory Burden Risk Ratings” from IHS Markit, which measures “[t]he risk that normal business operations become more costly due to the regulatory environment. This includes regulatory compliance and bureaucratic inefficiency and/or opacity. Regulatory burdens vary across sectors so scoring should give greater weight to sectors contributing the most to the economy”. The raw scores range, roughly, from 0 to 7, with higher values indicating greater risk. The formula used to calculate the zero-to-10 ratings was: (Vmax - Vi ) / (Vmax - Vmin) multiplied by 10. Vi is the country’s Regulatory Burden rating, while the Vmax and
Vmin were set at 5 and 0.5, respectively. These ratings were first published for 2014, and the 2014 ratings were used for 2012–2013. This source replaces that used previously, the World Economic Forum’s Global Competitiveness Report question: “Standards on product/service quality, energy and other regulations (outside environmental regulations) in your country are: (1 = Lax or non-existent, 7 = among the world’s most stringent).”

**Source:** IHS Markit.

### iii. Starting a business

This sub-component is based on the World Bank’s Doing Business data on the amount of time and money it takes to start a new limited liability business. Countries where it takes longer or is more costly to start a new business are given lower ratings. Zero-to-10 ratings were constructed for three variables: (1) time (measured in days) necessary to comply with regulations when starting a limited liability company; (2) money costs of the fees paid to regulatory authorities (measured as a share of per capita income); and (3) minimum capital requirements, that is, funds that must be deposited into a company bank account (measured as a share of per-capita income). These three ratings were then averaged to arrive at the final rating for this subcomponent. The formula used to calculate the zero-to-10 ratings was: 

\[(V_{max} - V_{i}) / (V_{max} - V_{min}) \times 10\]

Vi represents the variable value. The values for Vmax and Vmin were set at zero and 15%, respectively. This formula will allocate a rating of 10 to countries that do not impose tariffs. As the average tax rate on international trade increases, ratings decline toward zero. Countries with no specific tariffs or less than 10% of the total.

**Source:** World Bank, Doing Business.

### iv. Extra payments /bribes /favoritism

This sub-component is based on the Global Competitiveness Report questions: (1) “In your industry, how commonly would you estimate that firms make undocumented extra payments or bribes connected with the following: A—Import and export permits; B—Connection to public utilities (e.g., telephone or electricity); C—Annual tax payments; D—Awarding of public contracts (investment projects); E—Getting favourable judicial decisions. Common (= 1), Never occur (= 7).” (2) “Do illegal payments aimed at influencing government policies, laws or regulations have an impact on companies in your country? 1 = Yes, significant negative impact, 7 = No, no impact at all”. (3) “To what extent do government officials in your country show favouritism to well-connected firms and individuals when deciding upon policies and contracts? 1 = Always show favouritism, 7 = Never show favouritism”. The wording of the questions has varied slightly over the years.

**Source:** World Economic Forum, Global Competitiveness Report
v. Licensing restrictions

This sub-component is based on the World Bank’s Doing Business data on the time in days and monetary costs required to obtain a license to construct a standard warehouse. Zero-to-10 ratings were constructed for (1) the time cost (measured in number of calendar days required to obtain a license) and (2) the monetary cost of obtaining the license (measured as a share of per-capita income). These two ratings were then averaged to arrive at the final rating for this sub-component. The formula used to calculate the zero-to-10 ratings was: \((\text{Vmax} - \text{Vi}) / (\text{Vmax} - \text{Vmin})\) multiplied by 10. \(\text{Vi}\) represents the time or money cost value. The values for \(\text{Vmax}\) and \(\text{Vmin}\) were set at 363 days and 2,763% (1.5 standard deviations above average in 2005) and 56 days (1.5 standard deviations below average in 2005) and 0%, respectively. Countries with values outside the \(\text{Vmax}\) and \(\text{Vmin}\) range received ratings of either zero or 10, accordingly.

**Source: World Bank, Doing Business**

vi. Cost of tax compliance

This sub-component is based on the World Bank’s Doing Business data on the time required per year for a business to prepare, file, and pay taxes on corporate income, value added or sales taxes, and taxes on labor. The formula used to calculate the zero-to-10 ratings was: \((\text{Vmax} - \text{Vi}) / (\text{Vmax} - \text{Vmin})\) multiplied by 10. \(\text{Vi}\) represents the time cost (measured in hours) of tax compliance. The values for \(\text{Vmax}\) and \(\text{Vmin}\) were set at 892 hours (1.5 standard deviations above average in 2005) and 0 hours, respectively. Countries with values outside the \(\text{Vmax}\) and \(\text{Vmin}\) range received ratings of either zero or 10, accordingly.

**Source: World Bank, Doing Business.**
Countries with values outside the Vmax and Vmin range received ratings of either zero or 10, accordingly. Zero-to-10 ratings were then averaged to arrive at the final rating for this sub-component. The formula used to calculate the zero-to-10 ratings was: 

\[
\frac{V_{\text{max}} - V_i}{V_{\text{max}} - V_{\text{min}}} \times 10
\]

where \(V_{\text{max}}\) represents the variable value and \(V_{\text{min}}\) is the minimum variable value. This formula was used for the sub-components of regulatory costs of the sale of real property, travel regulations, government regulations, and the law sub-component in the political risk component. The formula was also used for the sub-component of freedom to own foreign currency bank accounts, the sub-component of interest rate convergence, and the sub-component of military security.