



An Analysis of the

2003 ANNUAL BUDGET AND ECONOMIC POLICY STATEMENT

OF THE GOVERNMENT OF GHANA



**THE CENTRE FOR BUDGET ADVOCACY
OF ISODEC**

ACCRA, MARCH 2004

Edited by: VITUS AZEEM

18 OCT 2004

18 OCT 2004

received

AN ANALYSIS OF THE

**2003 ANNUAL BUDGET
AND
ECONOMIC POLICY STATEMENT**

THE CENTRE FOR BUDGET ADVOCACY
OF

I S O D E C



ACCRA
MARCH 2004



THE INTEGRATED SOCIAL DEVELOPMENT CENTRE

ISODEC is a Ghanaian Non-Governmental Organisation (NGO) founded in 1987. ISODEC is made up of three national affiliate bodies and two international joint venture operations in the West Africa sub-region. ISODEC'S mission is to promote fundamental human rights, especially of the poor and those without organised voice and influence. ISODEC currently provides basic needs services in the areas of health, education, legal aid and micro-finance. While these services keep ISODEC in close touch with the reality of the poorest and most powerless in our society, her main commitment is to influence public policies in favour of this constituency, both at home and internationally.

Through education and advocacy, we struggle to leverage public action and resources to end poverty and inequality in Ghana. Through information exchange (including economic literacy), we have built solidarity with like-minded civil society groups worldwide to promote accountability of international institutions, both public (e.g. the IMF, World Bank, the WTO) and private, e.g. (transnational corporations), with the objective of freeing up space for local/national development alternatives and to promote the right of poor countries to sustainable human development. We nurture accountability and good governance through capacity building, especially in the facilitation of participation and transparency in the management of public resources, the inculcation of equity and social justice, and vigilance to ensure that governments uphold the rule of law.

THE CENTRE FOR BUDGET ADVOCACY (CBA)

The CBA is a specialised institution within ISODEC, dedicated to research and analysis on the national budget and the economy as a whole, and provides budget information services to promote pro-poor and equitable public budgets. CBA conducts training in public expenditure management, budget analysis and pro-poor and equity-enhancing budgeting to both government and civil society organisations throughout Ghana, but also in a number of African countries. With the publication of this, our third response to the Budget of the Government of Ghana, we aim to draw the general public, office holders, opinion makers and intellectuals into impassioned discourse about how our democracy budgets its way toward a just and equitable nation-building. As always, we propose greater transparency, wider consultation and debate in Ghana and a search for homegrown and more just alternatives.

All enquiries can be directed to the following postal or e-mail addresses:

Centre for Budget Advocacy
ISODEC
P.O. BOX MP 2989
Mamprobi Accra, Ghana

www.isodec.org.gh
cba@isodec.org.gh

We can also be contacted on any of the following telephone/fax numbers:

Phone: (233-21) 306069/310634
Fax: (233-21) 311687

PREFACE

The Centre for Budget Advocacy (CBA) of the Integrated Social Development Centre (ISODEC) is proud to present the third of its annual analysis of the national budget. It is, however, the fourth in "ISODEC's Advocacy Series", which aims at getting information on ISODEC's research work and policy analysis into the public domain as part of its advocacy activities. Although this report comes a year after the budget was read, it still makes an important contribution to the search for policy directions to move our country forward and keeps the link for future reference.

Though you may find some portions of this report critical, our intentions are entirely honourable: simply to promote public debate on what constitutes the appropriate policy directions and the means by which our scarce public resources can be best managed and put to use for the common good. Public debate on the management of public resources is particularly crucial to our aspirations for a democratic society, one that is shaped by the maximum participation of the citizenry rich or poor, abled or disabled, men or women, child or adult and without regard to ethnicity or race. Such a democracy is not only representative but also participatory. Disagreement is central to participatory democracy. We believe that participatory democracy is not only intrinsically good but it is also a necessary instrument for delivering good governance and a socially just society where the capabilities and freedoms of especially the poorest can be best enhanced.

As has been the case in previous publications, we do not claim to have all the answers. However, our analysis is enhanced by the contributions of various resource persons and contributors at the public forums we held throughout the country last year on the 2003 Annual Budget. All the same, we still ask that, at worst, the report be read as setting a research agenda, an agenda for critical debate, especially in view of the fact that we raise more questions than we are able to provide answers.

ACKNOWLEDGEMENTS

This report owes much to the dedication of the entire ISODEC family operating as campaign activists, journalists, providing micro-finance, education and health services and legal support, as well as the hundreds of groups and communities that ISODEC works with all over the country. The CBA is indebted to the team that compiled the report: Bishop Akolgo, Nicholas Adamtey, William Ahadzie, Charles Abugre, Nii Moi Thompson and Vitus Azeem and for the input of many other ISODEC colleagues.

In the three years of its existence the CBA's operations have been made possible through the support of Save the Children (UK), the Civil Society Unit of the UNDP (New York), Novib (The Netherlands), Cordaid (Netherlands), Christian Aid and Oxfam (GB). We are very grateful to all of them and others not listed here and hope that the partnerships remain strong and sustainable.

We, at the CBA, remain committed to a continued effort of demystifying the budget and strengthening the public understanding and engagement in budget processes including formulation, implementation and monitoring.

Disclaimer.

This final product may not necessarily reflect the views of every contributor to the report, or even the external editor, as the CBA carried out a final editing to ensure that it does not conflict with ISODEC's philosophy and mission statement.

Vitus Adaboo Azeem (Editorial Coordinator and Director, CBA).



TABLE OF CONTENTS

■ ISODEC and the CBA	
■ Preface	i
■ Acknowledgements	ii
■ Table of Contents	iii
■ Acronyms	v
■ Executive Summary	1
Chapter 1: Introduction	4
1.1 The Basis of the Analysis	4
1.2 Values and Perspectives Underlying the Budget	5
1.3 The Role of Civil Society	6
Chapter 2: The 2002 Budget: Analysis of Macro-economic Policies	7
2.1 The Analytical Context of Economic Management	7
2.2 Macro-economic Outlook and Performance in 2002	9
2.2.1 The Macro-economic Outlook	9
2.2.2 Objectives	9
2.2.3 Strategies	10
2.2.4 The Macro-economic Performance in 2002	10
2.2.5 Fiscal Policy in 2002	11
2.2.6 Monetary Policy in 2002	15
2.3 The 2003 Macro-economic Outlook	17
2.3.1 The 2003 Budget and the GPRS, NEPAD and WAMZ	19
2.3.2 The Ghana Poverty Reduction Strategy	19
2.3.3 The New Partnership for Africa's Development	22
2.3.4 The West Africa Monetary Zone	25
2.3.5 Impact of GPRS, NEPAD and WAMZ on the 2003 Economic Framework	25
Chapter 3: Budget 2003 and Trade Related Issues	27
3.1 Trade in the Agriculture Sector and Budget 2003	27
3.2 Policy Inconsistencies and the Budget	29
3.3 Some Implications of the Tariff Withdrawal	30
3.4 Selected Areas of Domestic Trade Policy Inconsistency	31
3.5 Multilateral Negotiations and the 2003 Budget	32
3.6 Investment Agreements	32
3.7 Trade and Competition	33
3.8 Transparency and Government Procurement	34
3.9 Trade Facilitation	34

Chapter 4: Revenue Analysis		36
4.1	Introduction: Revenue Policies	36
4.2	Revenue Projections	36
4.3	Domestic Borrowing	39
4.4	Efforts to Enhance Revenue Mobilization New Taxes	39
4.1.1	Petroleum Taxes	39
4.1.2	The Timber Industry	40
4.1.3	The National Health Insurance Scheme	40
4.1.4	Review of Stamp Duty	41
4.2	Efforts to Enhance Revenue Mobilization Other Measures	41
4.2.1	Large Taxpayer Unit	41
4.2.2	Department of National Lotteries	42
4.5.3	Introduction of Sticker System	42
4.5.4	Support for Local Industries	43
4.3	Tax Relief Measures	43
4.4	The External Debt Stock	43
4.4.1	New Loans in 2003	44
4.4.2	The HIPC Fund	45
4.4.3	The Multi-Donor Budget Support	45
Chapter 5: Expenditure Analysis		47
5.1	Aggregate Public Spending	47
5.2	Statutory and Discretionary Payments	47
5.3	Components of Statutory Expenditure	48
5.3.1	District Assemblies Common Fund (DACF)	49
5.4	Discretionary Expenditures	49
5.4.1	Arrears Clearance	50
5.4.2	Utility Price Subsidies	50
5.4.3	HIPC-financed Expenditures	50
5.4.4	Divestiture Liabilities	51
5.5	Functional Classification of Expenditure	51
5.5.1	Government and Donor Contribution on Functional Basis	52
5.5.2	Infrastructure	52
5.5.3	Social Sector Expenditure	52
5.5.4.1	Distribution of Social Expenditure	53
5.5.4.2	Education and Health	53
5.5.4.3	Gender	54
5.5.4.4	Children	54
5.5.5	Special Focus on Agriculture	54
5.5.6	Poverty Reduction	56
5.5.7	Recommendations	56
Chapter 6: Conclusion		58
References		60

LIST OF ACRONYMS

■	ACPC	Africa, Caribbean, and Pacific Countries
■	AGOA	Africa Growth and Opportunity Act
■	AU	African Union
■	CAL	Capital Account Liberalisation
■	CBA	Centre for Budget Advocacy
■	CBOs	Community-Based Organisations
■	CDD	Center for Democratic Development
■	CEPA	Centre for Policy Analysis
■	CEPS	Customs, Excise and Preventive Service
■	CSOs	Civil Society Organizations
■	DACF	District Assemblies Common Fund
■	DNL	Department of National Lotteries
■	DPs	Development Partners
■	DVLA	Driver and Vehicle Licensing Authority
■	ECOWAS	Economic Community of West African States
■	EMCP	ECOWAS Monetary Cooperation Programme
■	EU	European Union
■	FDI	Foreign Direct Investment
■	GATT	General Agreement on Trade and Tariffs
■	GCB	Ghana Commercial Bank
■	GDP	Gross Domestic Product
■	GETFund	Ghana Education Trust Fund
■	GFZB	Ghana Free Zones Board
■	GIPC	Ghana Investment Promotion Centre
■	GLSS	Ghana Living Standards Survey
■	GNCC	Ghana National Commission on Children
■	GPFA	Ghana Poultry Framers Association
■	GPRS	Ghana Poverty Reduction Strategy
■	GPRTU	Ghana Private Road Transport Union
■	GSE	Ghana Stock Exchange
■	GWCL	Ghana Water Company Limited
■	HIPC	Heavily Indebted Poor Country
■	IDF	Investment for Developmental Framework
■	IEA	Institute of Economic Affairs
■	IGFs	Internally Generated Funds
■	IMF	International Monetary Fund
■	IRS	Internal Revenue Service
■	ISSER	Institute for Statistical, Social and Economic Research

■	LDCs	Less Developed Countries
■	LTU	Large Taxpayer Unit
■	MDAs	Ministries, Departments, and Agencies
■	MDBS	Multi-Donor Budgetary Support
■	MFN	Most-favoured nation
■	MIA	Multilateral Investment Agreement
■	NCCE	National Commission on Civic Education
■	NDPC	National Development Planning Commission
■	NEPAD	New Partnership for Africa's Development
■	NGOs	Non-governmental organisations
■	NHIS	National Health Insurance Scheme
■	NPP	New Patriotic Party
■	NTR	Non-Tax Revenue
■	OAU	Organisation of African Unity
■	PFP	Popular Front Party
■	PRGF	Poverty Reduction and Growth Facility
■	PRS	Poverty Reduction Strategy
■	PRSP	Poverty Reduction Strategy Paper
■	RAGB	Revenue Agencies Governing Board
■	SAPs	Structural Adjustment Programmes
■	SMEs	Small and Medium Enterprises
■	SOEs	State Owned Enterprises
■	TIN	Taxpayer Identification Number
■	TMC	Technical Monitoring Committee
■	UGCC	United Gold Coast Convention
■	UP	United Party
■	U.S.	United States
■	USAID	United States Agency for International Development
■	VAT	Value Added Tax
■	TOR	Tema Oil Refinery
■	TWN	Third World Network
■	USDA	U.S. Department of Agriculture
■	WDF	Women's Development Fund
■	WAMI	West African Monetary Institute
■	WAMZ	West African Monetary Zone
■	WSSD	World Summit on Social Development
■	WTO	World Trade Organisation

EXECUTIVE SUMMARY

The Analysis of the 2003 Budget is the third in the series of budget analyses being carried out by the Centre for Budget Advocacy (CBA) of ISODEC. These analyses are a part of our work on budget advocacy and general economic literacy. They are based on the need for citizens to constantly keep the state in check and accountable to them and reduce the country's over-dependence on external actors and better engage with its development partners in the interest of Ghana. It is also hoped that these analyses will help to demystify and clarify the arenas of politics and economics and provide capacity for civil society in understanding, appreciating and taking part in economic decision making. The analyses are also guided by the importance of the Budget in ensuring pro-poor policies and systems in line with ISODEC's mission statement.

In reviewing the performance of the 2002 Budget we appreciate the gains in macro-economic stability made in the areas of monetary and fiscal policies. However, we have concerns with calculations of these achievements and call for a consistent and transparent way of computing the economic indicators as the credibility of these figures can pose a potential threat to the integrity of policy analysis and the economic policies that are ultimately based on it. We also express concerns about the strategies used to achieve those macro-economic targets, including control of public expenditures, which usually means cuts in both basic social services and investment affecting the poor and marginalized.

In the light of the achievements in 2002, the 2003 Budget Statement proposed macroeconomic targets that were slightly higher and raise doubts about their being achieved. This was proved when, even before the budget was approved, the government begun taking or contemplating measures that were certain to doom its macroeconomic programme, particularly raising the price of petroleum products by nearly 100 percent ostensibly to match world market prices.

With regard to trade policy, this 2003 Analysis calls for a regulatory environment that offers local producers a competitive edge. Ghana is an agricultural country and trade policy must be closely tied to agriculture and the problem of food security. Attention must, therefore, be given to supply side constraints, especially of key crops such as maize that serve as price stabilizers in the domestic market. We specifically call for a re-introduction of tariffs on rice and poultry imports. Policy intervention must provide support to all aspects of agriculture and trade access as well as increased access to long-term credit. Budgetary policy must strive to provide solid infrastructure to ease production, storage, transportation, and handling problems of agricultural produce. We point out that any further liberalization of the Ghanaian economy, especially regarding foreign imports, will be detrimental to growth not only in the agricultural sector but growth in general.

On revenue mobilization, we observe that the 2003 budget, like the GPRS, is guided by the principle that the financing of all the programmes and activities to deliver the goods and services that Ghanaians value most must neither be inflationary nor lead to an unsustainable debt overhang. The 2003 budget, therefore, aims at reducing the reliance on net domestic financing and minimizing the dependence on donor inflows, particularly, loans. Consequently, the Budget Statement introduced a number of new revenue measures, including new taxes, to enhance domestic resource mobilization. However, some of these measures would negatively

impact the poor and disadvantaged in society while others are not really new measures but just a restatement of earlier measures that could not be implemented. In view of our failure to achieve the revenue targets set the previous year, we view the 2003 targets as being too ambitious and unachievable.

The 2003 budget's plan to avoid domestic borrowing completely, something that has featured prominently in all budgets in the past, can only be achieved through a deliberate suppression of public expenditures and/or lead to substantial increases in external borrowing. The HIPC inflows would most probably help the situation. However, it is still not clear whether Ghana will arrive at the Completion Point on schedule so as to benefit fully from the HIPC initiative but what is clear is that our external debt stock is rising and so our debt situation is not likely to become sustainable.

Broadly, public spending as a share of GDP increased from 14.4 percent in 2001 to 18.5 percent in 2002, which is still very low compared to the average in other low -income countries. External and domestic interest payments together constitute over 70 percent of statutory expenditures. In addition to shortfalls in constitutionally mandated expenditures, there also appeared to have been a steep fall in total investments, while expenditures for personal emoluments, administration and services seemed to have risen steadily over the years. In our analysis, we also note with concern the fact that important sectors like food and agriculture as well as trade and industry are left to the charity of foreign donors. The economic sector is the hub of employment generation in the country and if this sector is allowed to be excessively dependent on foreign donors, the development of the country will be in jeopardy. It is also alarming that donors are expected to make huge contributions to the infrastructure sector. There must be conscious attempts by the government to reduce its dependence on donors in the funding of such expenditure. This requires an intensification of domestic revenue mobilization in spite of the need to entice foreign investment and support local industry.

For the government to pursue its poverty reduction programmes successfully, it must devote a lot of resources to the social sector. Policies for the economic sector to increase income must be accompanied by pragmatic social-sector policies for the poor to enjoy the basic necessities of life. However, the distribution of social expenditures shows that the bulk of it (99%) is going into salaries and wages, administrative expenses, and services. Only 1.0 percent goes into investment expenditure. This means that the social sector expenditures under the GPRS are going mainly into administrative and related expenses to the neglect of critical infrastructure development. This is worrying and must be reviewed.

Children, who form a large part of Ghana's population (about 44 percent), have no organised groups to advocate issues on their behalf. Nevertheless, the children's rights lobby recognises the right of the child to survival, development, protection and participation. The public budget has a direct impact on the well-being and quality of life of children through allocations to the sectors whose work affects children the most. It is time the national budget started addressing issues affecting the plight of Ghanaian children through increasing specific allocation of resources.



The main goal of the Ghana Poverty Reduction Strategy is to ensure sustainable and equitable growth, accelerated poverty reduction and protection of the vulnerable and excluded within a decentralized democratic environment. The 2003 budget was not specific as to the targeted activities and resource allocations with respect to poverty reduction. We view the 2003 budget as being less pro-poor because investment expenditure for the social sector is dwindling, disbursements to the DACF fall below what are constitutionally required and the combination of HIPC resources and DACF is even below 5 percent of total revenue. The 2003 budget would least provide the necessary boost for the achievement of the goals of the GPRS.

We believe strongly that, for effective poverty reduction, public expenditures must focus on areas that provide safety nets for the poor, for example, making health service delivery affordable to the poor, subsidizing utilities for the poor, and granting support for children, the disabled and other disadvantaged groups.

In conclusion, predictability must be the key ingredient of a viable and sustainable budget policy. A proactive budget must be transparent and predictable. There is, therefore, a need for steadfastness and consistency on the part of government in the implementation of its budget.

THE INTEGRATED SOCIAL DEVELOPMENT CENTRE

ISODEC is a Ghanaian Non-Governmental Organisation (NGO) founded in 1987. ISODEC is made up of three national affiliate bodies and two international joint venture operations in the West Africa sub-region. ISODEC'S mission is to promote fundamental human rights, especially of the poor and those without organised voice and influence. ISODEC currently provides basic needs services in the areas of health, education, legal aid and micro-finance. While these services keep ISODEC in close touch with the reality of the poorest and most powerless in our society, her main commitment is to influence public policies in favour of this constituency, both at home and internationally.

Through education and advocacy, we struggle to leverage public action and resources to end poverty and inequality in Ghana. Through information exchange (including economic literacy), we have built solidarity with like-minded civil society groups worldwide to promote accountability of international institutions, both public (e.g. the IMF, World Bank, the WTO) and private, e.g. (transnational corporations), with the objective of freeing up space for local/national development alternatives and to promote the right of poor countries to sustainable human development. We nurture accountability and good governance through capacity building, especially in the facilitation of participation and transparency in the management of public resources, the inculcation of equity and social justice, and vigilance to ensure that governments uphold the rule of law.

THE CENTRE FOR BUDGET ADVOCACY (CBA)

The CBA is a specialised institution within ISODEC, dedicated to research and analysis on the national budget and the economy as a whole, and provides budget information services to promote pro-poor and equitable public budgets. CBA conducts training in public expenditure management, budget analysis and pro-poor and equity-enhancing budgeting to both government and civil society organisations throughout Ghana, but also in a number of African countries. With the publication of this, our third response to the Budget of the Government of Ghana, we aim to draw the general public, office holders, opinion makers and intellectuals into impassioned discourse about how our democracy budgets its way toward a just and equitable nation-building.

As always, we propose greater transparency, wider consultation and debate in Ghana and a search for homegrown and more just alternatives.



Centre for Budget
Advocacy ISODEC

P.O. BOX MP 2989
Mamprobi - Accra, Ghana
Phone: (233 - 21) 306 069
Fax: (233 - 21) 311 687
www.isodec.org.gh
www.cba@isodec.org.gh