

# Into the 4th year — of Hope in — Austerity

An analysis of the 2004 budget and  
economic policy statement of the  
Government of Ghana



By the Centre for Budget Advocacy (CBA) of the Integrated Social  
Development Centre (ISODEC)

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# Preface

The Centre for Budget Advocacy (CBA) of ISODEC is proud to come out with its fourth publication of the Centre's Budget Analysis, a task that is aimed at promoting a more equitable allocation and efficient utilization of our limited resources so as to bring about a sustainable human development and the empowerment of the poor and marginalized in our society. As with our previous publications, this publication is an analysis of the 2004 Annual Budget from a social justice and equity perspective.

The CBA works for the spread of budget activism, because it is important that the people of this country, and the West African sub-region, are better able to influence what goes into the budget and how the taxes they pay are used. That is why, in our budget analysis, we examine the budget with respect to how it seeks to reduce poverty, especially as we are in the third year of the implementation of the GPRS. We are interested in whether the Budget adequately provides for the poor and vulnerable in our society, how it seeks to make education and health facilities easily accessible and how it empowers our governance institutions to assist government control the spate of corruption and misuse of public resources.

We would encourage our policy makers and legislatures as well as the technocrats who are responsible for the execution of the budget to read this publication, even if it does not please them or meet their standards. We are sure that there are some issues that can assist them improve upon their policy making and the implementation of such policies. We feel strongly that our concerns do not differ much from the concerns of most of our compatriots. These concerns revolve around Ghana's continued dependence on foreign loans when we should be focusing more on domestic revenue mobilization, the increasing corruption and the misuse of our public resources in the country, the opening up of all sectors of our economy to foreign domination and the meagre benefits we derive from the huge natural and human resources at our disposal.

Ghana is in its twelfth year of our democratic dispensation and it is very important to see whether there has been any change in the economic policies or not and whether Ghanaians are better off now than a decade ago or not. Two policy initiatives are driving government and the economy. The sub-regional monetary zone convergence criteria and the adherence to the harsh policies of our external development partners inherited from previous regimes, especially the structural

adjustment policies (SAPS). It is even more worrying as we focus more on reaching the HIPC Completion Point no matter what the costs to the majority of Ghanaians. Government policies must be judged against two important commitments: meeting the targets under the Millennium Development Goals (MDGs) and the rights of Ghanaians to sustainable development, especially under the Economic, Social and Cultural Rights (ESCR) framework.

Finally, while we strive to bring our analysis up to date in the face of both human and material constraints we still encourage Ghanaians to see the analysis as a useful exercise, especially as another budget is around the corner. We can easily compare the analysis with the new budget and it would be particularly useful to our Parliamentarians as they debate the new budget.

**Vitus Adaboo Azeem**  
*Editorial Coordinator*

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# Executive Summary

The fourth in the series of the Centre for Budget Advocacy's (CBA) review of the government's budget statements focuses on the 2004 Annual Budget Statement and assesses the social and economic policies of the NPP government at the end of its first term of office. The analysis starts by examining the performance of the 2003 Budget as approved by Parliament and includes a general review of the macro-economic targets, revenue and expenditure performance as well as the implementation of new (special) initiatives introduced that year. It also reviews the gaps in the implementation of the 2003 Budget. While the country exceeded its targeted GDP growth rate of 4.7% and 0.5 percentage points, it failed to achieve its targets on inflation and budget deficit. Particularly, noteworthy, and somehow embarrassing to the government was its failure to implement the increases in tariffs on imported rice and poultry products, a policy that was aimed at protecting local poultry and rice farmers from cheaper imports.

The analysis further looks at the 2004 Budget proposals, which include government's macroeconomic targets, revenue and expenditure estimates, particularly, expenditures on poverty reduction and some initiatives for the year. The analysis agrees with some analysts who viewed the budget as an election year budget because it deliberately understated some targets, especially the GDP growth rate, which was put at par with what was attained in 2003, so as to gain credit for achieving same. Some generous concessions were also made to the private sector, following calls by organized groups for such tax concessions. The analysis takes the stand that much as the private sector needs to be supported for it to grow and create employment opportunities, tax concessions are not the best type of support that can be provided and should be kept to the barest minimum, especially in a country that is highly dependent on external development partners for its development financing.

In its analysis, the CBA seeks to raise some pertinent questions that arise from the government's adoption and continued implementation of policy prescriptions by the International Financial Institutions. These questions include the following:

- Do the benchmarks set by the multilateral institutions reflect the major development priorities of the country?
- Are they likely to ensure that Ghanaians enjoy their right to sustainable development?

- Will strict adherence to these IMF prescriptions bail us out of the economic quagmire considering the current macroeconomic situation of the country, especially debt sustainability?
- Are those policy prescriptions linked to the achievement of macroeconomic growth, employing creation and poverty reduction.
- Can we ever get out of the debt trap in which we have found ourselves for the past two decades, especially as we work to reach the HIPC Completion point?

We also question the basis for the government's optimistic projections of rapid economic growth (in spite of a GDP growth rate put at the same level as that for 2003) and poverty reduction in the short-to-medium term when growth in the financial and business sub-sector, which is supposed to provide the fuel for economic growth, is decelerating, and growth in two of the largest sub-sectors of the economy - manufacturing and the hospitality sectors - is either stagnating or declining. Moreover, the broad projections for the external sector in 2004 disguise some very important features and trends in the country's exports and imports. With sluggish growth rates forecasted for key sectors like agriculture, manufacturing as well as finance, insurance, and real estate in 2004, it is highly unlikely that the non-traditional sector would bounce back and post such high rates of growth in 2004 unless the government takes appropriate remedial action in the course of the year. The CBA believes that the successful state intervention in the cocoa sector which led to a dramatic growth in the sector is evidence of how carefully calibrated interventions in the economy by the state can yield positive results. The CBA urges the government to provide similar interventions for the other sectors of agriculture, as well as industry (particularly manufacturing) and services, such as hairdressing and barber shops, which provide jobs for hundreds of thousands of young people around the country.

The fiscal policy in 2004 appears to be geared more towards meeting the demands of reaching the "completion point" for the HIPC debt-relief initiative which include a reduction in public sector borrowing and public-debt levels, rather than running a sound economy, something that leads to a range of internal inconsistencies that threaten the effective implementation of the fiscal aspects of the budget. On taxes, the CBA's call for an upward adjustment of existing tax reliefs and the tax bands, which has gone unheeded, needs to be addressed, as the same individuals, who are consumers, also absorb the burden of the indirect that

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are being imposed on goods and services, such as the real VAT (12.5%) and NHIS levy (2.5%), another VAT in disguise, import, export and excise duties. Deductions in marginal income tax rates favour only citizens in the higher income brackets and not the poor, especially when government continues to raise indirect regressive taxes.

Moreover, the Corporate Income Tax concessions, which favour the strong companies, reinforces the whole neo-liberal development paradigm that limits the space and flexibility of our government to design policies that will advance our present and future development. The CBA calls on the government to ensure that the effort to promote the private sector is finetuned to take close account of small and medium scale enterprises that are also widely known to be the main sources of employment in Ghana.

The Analysis of the 2004 Annual Budget further examined public expenditure priorities and their impacts on the productive sectors of the economy, as well as on poverty reduction. We believe that public expenditure is one of the critical ingredients of a country's development, as the provision of social services is the foundation of the State's obligation to its people, and should be carried out with the overall objective of meeting the needs of all segments of society, especially the most vulnerable. The Government has the primary responsibility of ensuring the effective delivery of essential public services, such as access to health care and education, as well as ensuring access to food, to all people. To make public expenditure efficacious, it is essential that resource allocation decisions be underpinned by sound analysis and that a well-designed set of institutions and systems are in place to ensure efficiency and effectiveness in the use of resources. The country's budget should be a central mechanism in translating the development aspirations in the Millennium Development Goals (MDGs), NEPAD, GPRS and other development policies into reality.

Finally, the analysis supports the 2004 Budget Statement's objective of: "Enhanced Social Service and Reducing Vulnerability" to enhance the delivery of social service to ensure locational equity and quality, particularly with regard to education and health services. Good outcomes from these two areas would go a long way to improve the human capacity of people to enhance growth and reduce poverty. If government keeps to this promise, the poor, marginalized and underprivileged people of this country will be heading towards a better life in the next decade.

## 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. 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 (eg. The IMF, World Bank, the WTO) and private, eg. (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 specialized institution within ISODEC, dedicated to research and analysis of the national budget. It provides budget information services to promote proper and equitable public budgets. CBA conducts training in public expenditure management, budget analysis and pro-poor and equitable-enhancing budgeting to both government and civil society organisations throughout Ghana, and in a number of African countries. With the publication of this, our fourth response to 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 towards a just and equitable nation building.

Indeed, we ask whether excessive external borrowing has gradually eroded our independence, whether to meet our basic needs, or our ability to think, plan and work our way out of poverty. We observe that the convenience of foreign borrowing has diverted accountability of our governments from us, the citizens, to the distant Boards of the Bretton Woods Institutions. We argue that such outward affinities are partly responsible for the trickle-down approach implied in the "Property Owning Democracy" that indefinitely postpones wealth-sharing and investment in our poor. We analyze evidence from the Budget, official pronouncements and the policy instruments of the IMF to show that revenue generation and public expenditure sacrifice the interest of the poor while favouring the rich, and hurt domestic producers while promoting imports and foreign investments. We propose greater transparency, wider consultation and debate in Ghana and a search for homegrown and more just alternatives.

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