

Economic Policy Priorities For The New Government

1.0 INTRODUCTION

Not too long ago, the Ghanaian economy was one of Africa's strongest economies. However, the economy has witnessed a sharp decline in growth in the last three years. The economy has remained vulnerable due largely to the over-dependence on primary commodities, which have been subject to price volatilities on international markets, with serious implications for export receipts and budget revenues. The industrial base of the economy has almost diminished due to a stagnating manufacturing sector, while private businesses have been suffocating under the weight of several obstacles. Deficits in energy, transportation and other infrastructure have remained large, a situation that has stifled economic growth. Unemployment has become a ticking time-bomb, posing a threat to social cohesion and national security. Public debt continues to mount at an alarming rate, and macroeconomic stability remains a mirage in the face of high cost of living and widespread poverty.

Against this background, the IFS brings to the attention of the new Government the following critical economic challenges along with proposals to address them. It is the Institute's view that Ghana cannot have different results based on the same past incremental policy

changes. IFS' proposals are informed by the Institute's conviction that Ghana needs new, bold and systematic policies capable of bringing about fundamental changes to the economy to enable it deliver tangible socio-economic benefits to Ghanaians.

2.0 KEY ECONOMIC CHALLENGES AND PROPOSED POLICY RESPONSES

2.1 Transform the Economy to Restore and Sustain High Growth

The Ghanaian economy has maintained virtually its "colonial structure" 60 years after independence as it still depends largely on cocoa, gold, timber—and recently oil—as the main export commodities. Exported in raw and unprocessed form, these commodities fetch low prices in international markets, where Ghana is a price taker, rendering the economy vulnerable to terms-of-trade shocks. The agricultural sector of the economy has been declining in relation to total output, but this is not due, as expected in the normal evolution of an economy, to rising productivity, but rather due to poor performance of the sector. The manufacturing base of the economy has been shrinking as many state-owned industries have been privatized and private businesses have been suffocating under the weight of numerous obstacles. As a result, economic growth has been down

from 9.3% in 2012 to 3.9% in 2015 and was projected to pick up to 4.1% in 2016. Ghana currently depends heavily on imports, putting incessant pressure on the domestic currency. Services has emerged as the leading sector of the economy, but because of automation of some of the activities in the sector, its capacity to generate jobs is limited.

To transform the economy to restore and sustain high growth will require concerted actions on a number of fronts, including the following:

- Transform agriculture and land use by supporting large-scale farming alongside small-holder farming; modernizing agriculture through mechanization; providing affordable credit; providing affordable inputs and extension services; expanding irrigation facilities; and expanding marketing, storage and preservation facilities.

- Promote industrialization by addressing bottlenecks facing the manufacturing sector, such as the energy constraints, poor infrastructure, unaffordable credit, high rate and multiplicity of taxes, lack of indigenously-developed technology and high cost of public services. There is also the need to establish appropriate processing and refining facilities to add value to the country's export commodities.

- Promote the private sector as the engine of growth and job creation by improving the business environment, including creating a favorable regulatory environment, improving land use planning and administration, improving business linkages to foster transfer of know-how and technological innovation, expanding business firms' access to credit and access to domestic and international (export) markets, and reducing business risks.

- Promote financial sector development to support the real economy through selective addition of institutions, encouraging and promoting competition, providing incentives for banks to locate outside urban areas, avoiding unfavorable taxation, and minimizing regulatory impediments.

- Promote research and development (R&D) by providing the necessary financial and logistical support to academic and research institutes to enable them develop local technology to support agriculture and manufacturing industries.

2.2 Tackle the Unemployment Time-bomb

Ghana is facing an acute problem of unemployment, particularly youth and graduate unemployment. This problem has become serious enough to pose a potential "time-bomb," as it can trigger a severe social upheaval. The high level of unemployment is due to a

myriad of factors, including low rate of economic growth, concentration of growth in low job-creating sectors like highly-automated service activities and capital-intensive extractives, while agriculture and manufacturing, which have a high potential to create jobs, have been stagnating. The high growth rate of urbanization without a commensurate creation of job opportunities, coupled with rapid growth of the labor force and the mismatch between skills and jobs, has caused unemployment to be extremely high in the country.

Dealing with the unemployment challenge requires implementing the following measures:

- Support agriculture to boost economic growth and employment (as mentioned earlier) by giving priority attention to the implementation of well-designed programs of public investment in agriculture, continued progress on regulatory reform, and specific measures such as a "school to land program" to engage young people in agriculture.

- Develop and implement a Public Works Program (PWP) that aims at providing work opportunities coupled with training through the delivery of public works, such as labor-intensive construction and community services by the youth and unemployed graduates.

- Expand the Rural Enterprise Program, through which household enterprises are promoted, to cover all districts in the country.

- Implement the National Strategy and Action Plan for Informal Enterprises already developed by the Ministry of Employment and Labor Relations.

- Encourage and support entrepreneurship by supporting initiation of business ideas, mobilizing human, financial and physical resources for establishing and expanding enterprises, reforming education curricula to focus attention on technical and entrepreneurial disciplines, mathematics and science to provide graduates with entrepreneurial skills that will enable them to set up their own businesses or to become more employable in the job market, and setting up business incubators as a mechanism to support business development and management, and growth-oriented entrepreneurs.

- Strengthen labor market information and monitoring systems to ensure a regular flow of information on employment opportunities.

2.3 Address the Infrastructure Deficit

Despite efforts by previous governments to meet the country's infrastructure needs, a large deficit still prevails which has tended to increase business costs and impede economic growth. The country has suffered

long periods of electricity shortages due to inadequate generation and distribution capacity to meet the growing demand. Many communities also lack access to potable water at the same time as tariffs have been rising sharply. The road network is inadequate and generally of poor quality, while the railway system is decrepit due to lack of investment in the sector.

The IFS proposes the following measures to deal with the infrastructure deficit:

- Increase annual budgetary allocations to infrastructure development.
- Expand power generation to include additional hydro and other renewables like solar, wind and nuclear, and improve distribution facilities to reduce losses and thereby help rein in tariffs. Also encourage private sector participation in the generation and distribution of power, based on well-structured contracts subject to a national regulatory framework.
- Expand water supply across the country to reduce business costs and promote geographical diversification of industries.
- Strengthen the management of the power and water supply sector, including institution of performance contracts.
- Expand and improve the quality of the road network to increase access and reduce the cost of transportation and of doing business generally.
- Restore the country's railway system to an acceptable standard to provide alternative and cheaper means of transporting people and goods and easing pressure on the road network;
- Encourage public-private partnerships (PPPs) to support infrastructure development and reduce the burden on the public budget.

2.4 Restore Macroeconomic Stability

Sustained macroeconomic stability has long eluded the country. The economy has been plagued by long periods of high inflation, high fiscal and current account deficits, currency instability, high interest rates and a high debt burden. This has been the result of ineffective fiscal and monetary management compounded by structural rigidities in the economy that perpetuate supply-demand gaps. Fiscal policy is plagued by revenue inelasticity and expenditure rigidities (resulting from widespread earmarking of revenues) that combine to perpetuate high deficits and thus high government borrowing. Monetary policy relies on demand-management tools that are incapable of effectively dealing with inflation, which is driven to a large extent by supply-side, cost-push factors that have been gaining prominence in an environment of increasing de-regulation of administrative prices and currency instability.

Macroeconomic stability can be achieved through the following policy measures:

- Target sustainable budget deficits based on a well-designed macroeconomic and fiscal framework.
- Improve fiscal management by matching revenue and expenditure, and addressing the inherent fiscal rigidities. Re-examine the continued viability of statutorily-earmarked funds and the numerous tax exemptions which together virtually hold the budget hostage and limit policy maneuver.
- Adhere strictly to the Public Financial Management Act (PFMA) to ensure that fiscal discipline is entrenched. Consider adopting a fiscal rule, such as a fixed deficit or debt/GDP ratio, in the context of the PFMA to underpin fiscal and debt sustainability.
- Establish an independent Parliamentary Budget Office or Fiscal Council manned by independent experts and professionals to support Parliament to strengthen budget scrutiny, ensure budget transparency and reinforce monitoring.
- Adhere strictly to the limits on central bank lending to government to reduce monetization of fiscal deficits.
- Adopt internally consistent and coherent fiscal and monetary policies anchored on a credible medium-term framework.
- Address supply-side drivers of inflation, such as food supply, fuel and utility prices and currency instability.

2.5 Deal with the Debt Albatross

The country is facing high public debt resulting from borrowing to finance high fiscal and current account deficits. Debt relief under the Heavily-Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) brought the country's debt down to 26% of GDP in 2006. Since then, the public debt has risen to nearly 70% of GDP at the end of 2016 and the debt service cost has equally escalated to about 6.3% of GDP in 2016, higher than investment spending of about 3.8% of GDP. In addition to the central government debt, there is also a substantial amount of quasi-government debt owed by SOEs to the banking system. The IMF reports that Ghana faces a "high risk of debt distress", with the debt dynamics being sensitive to potential shocks to the economy. With the current debt/GDP ratio, the country risks returning to a HIPC situation.

The IFS proposes the following measures to return the public debt to a sustainable path:

- Undertake appropriate fiscal consolidation to achieve sustainable budget deficits and debt levels.
- Adhere strictly to borrowing limits set by Parliament.
- Promote the domestic capital market to increase

avenues for less-costly domestic borrowing.

- To ease the current debt service burden, restructure the domestic debt to lengthen the maturity profile.
- Address state-owned enterprises' debt, including by seeking (donor) funding to liquidate them and/or by securitizing and liquidating them over time through the budget as part of the public debt management.
- Seek as much concessional external loans as possible while limiting more costly debt.
- To the extent possible, use loans to finance projects with high economic returns to support long-term debt sustainability.
- Deal with currency instability through economic transformation and macroeconomic stability.

2.6 Ensure Effective Fiscal Decentralization

Despite a long practice of fiscal decentralization in Ghana, fiscal powers of District Assemblies (DAs) still remain limited. Most DAs are unable to generate enough funds of their own to support their operations, making them to depend heavily on the central government for financial support. The assignment of functions from central to local government is fragmented, and there is no clear definition of responsibilities across the two levels of government. The recent Local Governance Act does not address many of the fiscal decentralization issues. After 24 years of implementation of decentralization and local governance processes, therefore, the envisaged goals have only been partially achieved and the country's decentralization process is still work in progress.

To accelerate the process of decentralization to bring development and services closer to the people, the following policies need to be implemented without any further delay:

- Implement fiscal decentralization fully in line with Article 34 of the Constitution to reinforce inclusive government and give concrete meaning to participatory democracy. The recent Local Governance Act does not address many of the concerns we have raised.
- Clearly delineate the functions between the central and local governments, especially in the areas of basic education, health care and infrastructure.
- Make District Assemblies increasingly reliant on their own revenue by revising, managing and sustaining the current revenue sources available to them, specifically property tax, local fees and licenses.
- Transfer substantive voting powers to local citizens to ensure proper downward accountability and local inclusiveness in government.
- Provide the necessary support to local governments in terms of training and logistics.

2.7 Address the Urbanization Challenges

Over the last three decades, Ghana's urban population has more than tripled, rising from 4 million to nearly 14 million people. As has happened elsewhere, urbanization has delivered benefits, including supporting economic growth since 1984, reducing poverty, and increasing access to education and urban services. In the last few years, however, Ghana has started to see the bad effects of the rapid urbanization, including congestion, unregulated urban expansion, limited access to services and affordable quality housing, and institutions unable to cope with the rapid transition. Ghana is now at a crossroads where it will have to ensure that its economic growth is accompanied by better productivity and inclusion that seek to improve the lives of all its citizens.

The IFS endorses the following World Bank proposals for dealing with the urbanization challenges:

- Strengthen land use management and planning in towns and cities by coordinating land development with infrastructure (roads, water, electricity, public places of convenience, markets) and by valuing land to create effective land markets. For this purpose, a municipal and/or metropolitan spatial data system is required.
- Improve connectivity between and within cities, with affordable public transport systems to support national productivity.
- Exploit existing, unharnessed revenue potentials in urban areas and find new sources of revenue to finance land use planning, transport connectivity, and affordable housing, as well as the provision of universal basic services.
- Implement a nation-wide "Program of Cities and Towns Cleaning" designed to repair/rehabilitate and clean roads and streets, as well as remove the dirt and garbage that have engulfed city roads, gutters and residential neighborhoods to minimize congestion, reduce pollution and generally beautify the cities and towns.
- Adequately resource and strengthen the coordination of the relevant public institutions to address the urbanization challenges.

2.8 Tackle the Corruption Canker

Corruption has become a major problem confronting Ghana, with debilitating effects on the country's politics, governance, the economy and the entire society. Corruption diverts resources meant for common or public use to private use; it slows down the economy; and it spreads economic misery and deepens poverty. Ghanaians now perceive public officials, including civil servants, law enforcement authorities, parliamentarians

and judicial officials, to be corrupt. Ghanaians also perceive that corruption has been on the increase and that previous attempts to curb it have been rather lethargic and largely failed. The perception of deepening corruption in the public sector is fueled by the numerous scandals that have hit public institutions, public servants and political office-bearers in recent years. Public confidence and trust in public institutions and state-appointed officials has waned with the repeated blatant scandals involving massive impropriety and wanton dissipation of public resources.

To deal decisively with corruption in the public sector, the IFS proposes the following policies:

- Public office holders should be made to lead by example by avoiding all overt and covert acts of corruption.
- Government must demonstrate a strong commitment to deal decisively with all forms of corrupt practices, irrespective of the status of the offender.
- Government must ensure early passage of the Right to Information Bill to promote open, transparent and accountable governance.
- Government must eschew clientelism, patronage, cronyism and nepotism in the public sector.
- Decouple the Minister of Justice from the Attorney General, with the former acting solely as the Government's lawyer and the latter as a Public Prosecutor with total prosecutorial authority and independence.
- Establish an Anti-Corruption Commission to be manned by eminent persons with proven integrity, who should be given unfettered independence and authority to deal with all acts of corruption; Support and strengthen governance-monitoring institutions like CHRAJ, EOCO, the Auditor General and Public Accounts Committee of Parliament with adequate financial resources and logistics to carry out their mandates effectively.

2.9 Formulate a Long-Term National Development Plan (LTNDP) to Accelerate Growth and Development of the Country

Ghana has experimented with various national development plans since independence, but none of them has been fully implemented. The current practice is for political parties to implement their manifestos partially when they are in power, only to be substituted by that of the next ruling party. The lack of a long-term national development plan (LTNDP) has derailed the country's progress due to lack of policy continuity to systematically address the challenges confronting the country. The LTNDP envisaged by the Constitution defines broad economic goals and targets relating to

economic growth, macroeconomic stability, debt, employment, education, health, poverty and inequality, infrastructure, etc. for a period of, say, 20 years with rolling 5-year and annual goals. Under the Plan, each government will be free to adopt its own policies and strategies to achieve the national goals, taking it from where the previous government left off. In that regard, the country will have policy continuity that will promote long-term sustainable development. There will also be benchmarks, which can be used by the electorate to assess the performance of individual governments and to be better able to decide whether to renew their mandate or to reject them when they go to the next poll.

The following measures have been proposed for the formulation of the LTNDP.

- Ensure the development of an all-inclusive LTNDP in line with Article 36 of the National Constitution.
- The LTNDP should be adopted by all governments irrespective of their political persuasion or party affiliation.
- Review the LTNDP currently being developed by the National Development Planning Commission (NDPC) by expanding the range of expertise involved in the planning process and also ensure buy-in and ownership by all political parties who will be bound by it.

3.0 MOBILIZING RESOURCES TO SUPPORT THE PROPOSED POLICIES

Implementing the policies outlined above will require huge financial resources. Like many other developing countries, Ghana has limited resources to fund its development. The government can however raise the required resources through a number of vehicles, such as from domestic revenue, grants, loans, and public-private partnerships (PPPs). Ghana has a relatively low tax-to-GDP ratio, currently hovering around 18-19%, well below the average of 25% for middle-income countries. This is a reflection of the slow response of taxes to growth in national income. At the same time that we are looking for resources to fund the various policies and programs, we should also be looking at ways to reduce and rationalize expenditure, including by plugging leakages in the public financial system.

To create the necessary fiscal space to mobilize resources to fund the policies outlined above, the IFS proposes the following measures to the government:

- Rope the informal sector into the tax net to broaden the tax base, including through registration of the various business associations, using new technology,

such as mobile money/digital payments schemes to collect due taxes and reduce compliance costs of filing. Another option is to outsource tax collections from the informal sector to private companies.

- Reinforce collaboration, including mandatory information-sharing or mutually-connected databases among institutions of state and regulators that interface with businesses. Also reduce tax exemptions to a minimum by limiting them to critical organizations and products.

- Strengthen tax administration through modernization and greater automation of collections and reinforced supervision.

- Reduce wasteful, irregular and unbudgeted expenditures in the public sector to save money by strictly enforcing the provisions of the PFMA.

- Actively support the development of the domestic capital market to ensure availability of long-term funds for long-term development spending. Here, the government can explore the use of pension funds, insurance funds, sovereign wealth funds (like the Petroleum Funds) and Central Bank reserves.

- Seek mostly concessional and long-maturity external loans.



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