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# REVENUE EARMARKING IN GHANA: MANAGEMENT AND PERFORMANCE ISSUES



## **Revenue Earmarking in Ghana:** Management and Performance Issues

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The views expressed in this paper are the views of the IFS

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## Abstract

Although revenue earmarking was seldom used in Ghana before the Fourth Republic, it has now become a common fiscal practice. Specifically, while only two formal earmarking arrangements existed in the country before the Fourth Republic, there are currently 11 arrangements of revenue earmarking with one more in the pipeline. Because earmarking currently consumes a large chunk of the country's fiscal resources, with about 35% of total revenue and grants earmarked in 2013, ensuring effective management of the various earmarked funds is an important component of the country's quest for effective fiscal management. This paper examines how effectively the various earmarked funds have been managed and how they have performed. The paper finds that the earmarked funds in Ghana face entrenched management challenges, which, with the exception of a handful, have led to poor performance of the funds. The usefulness of revenue earmarking in Ghana is therefore undermined. In addition to recommending against the establishment of new earmarked funds in Ghana unless they are found to be essential, the paper provides a number of recommendations as to how best the management challenges can be addressed in order to improve the performance of the existing earmarked funds to justify their continuous existence.

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## 1.0 Introduction

Revenue earmarking or hypothecation of revenue is the budgeting practice of assigning or dedicating revenue from taxes, fees or other sources to specific government programs or projects through a statutory enactment or constitutional clause<sup>1</sup>. The main goal of revenue earmarking is to protect what is considered to be important expenditure categories from the vagaries of the political process by linking them to a particular source(s) of revenue and making the system run on an automatic basis, thereby ensuring that the level of revenue drives the level of expenditure concerned over time (McCleary, 1991).

Revenue earmarking has long attracted intense debate even though it continues to be practiced worldwide. From health care provision to the construction of specific developmental projects, revenue earmarking has been the funding arrangement that many countries have long relied on. According to Webber and Wildavsky (1986), revenue earmarking has existed since the earliest recorded fiscal practices. In the United States, for instance, it is said that the first instance of earmarking was instituted by the first Congress in the Lighthouse Act of 1789, whereby a portion of federal revenue was earmarked by Congress for the construction of lighthouses in states along the Atlantic coast. The use of revenue earmarking has now become a common practice in the United States<sup>2</sup>, both at the federal and state levels. Susannah Camic (2006), for instance, non-exhaustively lists 19 different federal taxes that are earmarked. Although it was a widespread fiscal practice in Europe in earlier times, revenue earmarking has greatly diminished in European countries, making it less common compared with the United States<sup>3</sup>. It is, however, noteworthy that comparatively, earmarking is a more acceptable practice in continental Europe than in the UK as the latter has had a long history of strong dislike for earmarking (Eklund, 1969). In fact, as part of budget reforms England abolished earmarking in 1787. Nevertheless, a few earmarking arrangements still exist in the UK today. National Insurance Contributions (NICs), which go to the National Insurance Fund from which benefits are paid, is the principal example of earmarking in the UK.

Earmarking has been found to flourish in environments where there are competing group interests. Therefore, revenue earmarking is more common in the developing world than in the developed world as the former has a higher degree of social heterogeneity and thus a greater number of competing group interests. Writing in 1969, Eklund observed that earmarking was frequently practiced in Latin America and French-speaking Africa, while it was less common in former British-ruled countries in Africa. Starting from the 1960s, many developing countries, particularly in South America and French-speaking Africa, practiced revenue earmarking for expenditure on highways, which received a lot of policy support from the World Bank in the 1970s and 1980s.

In Ghana, revenue earmarking was not common before the Fourth Republic. In fact, the use of social

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<sup>1</sup> In some countries such as the United States, earmarking does not have to be supported by a constitutional clause or statutory enactment but could arise from committee reports that accompany an appropriation bill.

<sup>2</sup> It is, however, worthy of note that some aspects of revenue earmarking have been blocked by the 112th US Congress since 2010 with the charge that earmarking has largely been abused by congressmen to fund pork-barrel projects for political gains, thereby complicating the efforts being made to balance the federal budget.

<sup>3</sup> However, like the United States, revenue earmarking is widely practiced in Switzerland.



security tax to fund pensions and retirement benefits, which was formally instituted in 1965, and the establishment of the Road Fund in 1985 by PNDC Decree were the only formal earmarking arrangements that existed before the Fourth Republic. However, since the beginning of the Fourth Republic, the country has increasingly been practicing revenue earmarking. In addition to restructuring, transforming and expanding the Road Fund in 1997, 10 more major earmarking arrangements have been instituted since 1992. These are the District Assemblies Common Fund (DACF), 1992/1993; Ghana Education Trust Fund (GETFund), 2000; Export Development and Agricultural Investment Fund (EDAIF), 2000; National Health Insurance Fund (NHIF), 2003; Petroleum Related Funds (PRFs), 2003; Venture Capital Trust Fund (VCTF), 2004; MDAs Retention of Internally Generated Funds (RIGF), 2007; Ghana Stabilization Fund (GSF), 2011; Ghana Heritage Fund (GHF), 2011; Earmarked Transfers to Ghana National Petroleum Corporation (GNPC) from Oil Revenue, 2011; and Ghana Infrastructure Investment Fund (GIIF), 2014. This means that starting from the beginning of the Fourth Republic, on average, one new earmarking arrangement has been instituted every two years.

Although the Venture Capital Trust Fund continues to operate, it cannot currently be treated as a genuine earmarking arrangement, since the 25% of revenue from the National Stabilization Levy instituted in 2001, the main earmarked revenue source for the Trust Fund, was truncated in 2007 when the levy was repealed in that year. Also, in March 2016, Parliament repealed the EDAIF Act by the passage of the Ghana Export-Import Bank (EXIM) Act, 2016 (Act 911). The reason is that the Ghana Export-Import Bank was established through the merger of EDAIF, Export Finance Company Limited (EFCL) and Eximguaranty Company Ghana Limited (ECL). Therefore, Ghana's budgeting system currently has 11 active major earmarking arrangements. Although the MPs' Common Fund (MPsCF) and the Student Loan Trust Fund (SLTF) are earmarking arrangements, they are funded from the DACF and the GETFund respectively. Therefore, MPsCF and SLTF are respectively treated as parts of DACF and GETFund in this paper. In its Budget Statement and Economic Policy for the 2016 Financial Year, the government stated that preparations have begun for the establishment of one more earmarked fund, the Tertiary Education Research Fund, to support research and development. A bill to this effect, which is currently before Cabinet for consideration, is expected to be passed by Parliament in 2016, according to the government.

Despite the increasing use of revenue earmarking in Ghana and its implications for fiscal management, and despite the intense debate that often characterizes discussions on revenue earmarking in policy circles, to our knowledge no thorough study has ever been conducted on the subject. This paper is therefore intended to fill this gap. The questions that arise are as follows: i) How suitable is the use of revenue earmarking as a budgeting practice? ii) What have been the reasons for the establishment of the various earmarked funds in Ghana? iii) How effectively have these funds been managed, and how have they performed? iv) What should the government do in the face of the performance and management challenges? and v) What have been the fiscal implications of the increasing use of revenue earmarking in Ghana?

The first four questions will be addressed in this paper. The last question, however, will be addressed in a separate paper on fiscal rigidities in Ghana. The rest of the paper is organized as follows. Section 2 discusses the types and suitability of revenue earmarking in general terms. Section 3 examines the performance and management issues of the major earmarked funds in Ghana, including their sub-

funds, if any. We also discuss in this section the reasons for the establishment of the funds and the institutional arrangements involved. Section 4 discusses the main findings and the key issues raised in Section 3. Section 5 presents policy recommendations. Finally, Section 6 concludes the paper.

## 2.0 Types and Suitability of Revenue Earmarking

### 2.1 Types of Revenue Earmarking

Revenue earmarking is classified as either constitutional or statutory, as the definition given in the introduction clearly indicates.

Earmarking can also be classified as being partial or full. Under full earmarking, the earmarked revenue is the only source of revenue to fund the program concerned, while under partial earmarking, additional revenue is permitted to be allocated to supplement the earmarked revenue.

Economically, earmarking is said to be either strong or weak. Strong earmarking arises when the beneficiaries of the good or service being provided are the ones paying the fees involved or being taxed. These goods usually have no or few external benefits or costs, largely satisfy the economic efficiency requirement<sup>4</sup> with respect to their provision, and thus display strong characteristics of private goods. Commonly cited examples of strong earmarking are gasoline tax and vehicle registration/licensing fees for expenditure on highways, and social security taxes/contributions dedicated to fund employee pensions and retirement benefits. These examples satisfy strong earmarking conditions because it is the payers of the taxes/charges that largely benefit from the commodities provided. To achieve optimum delivery of the commodity concerned, it is generally not difficult to get beneficiaries to agree to be assessed more. Weak earmarking on the other hand arises when the benefits derived from the good provided from the earmarked revenue cannot be directly and exclusively linked to the payers of the tax. Here, like general taxation, social welfare and income redistribution considerations are relied upon for justification when deciding how much tax to assess for the earmarked fund, and not economic efficiency considerations.

### 2.2 How Suitable is Revenue Earmarking as a Budgeting Practice?

It is difficult to objectively analyze the appropriateness or suitability of revenue earmarking as a budgeting practice in general terms. The reason is that both the theoretical and the empirical literature on earmarking have not been able to come out with clear guidance as to what performance criteria earmarking should have. McCleary (1991), for example, argues that “the theoretical literature are confined to deriving circumstances under which earmarking might prove desirable, and they say little about how earmarking might be implemented or what might determine whether earmarking arrangements were suitable or not. The practical literature evaluates the experience of earmarking in various countries and economic sectors, using broad criteria in assessing the growth and mix of earmarked expenditures. On the basis of such qualitative criteria, earmarking usually receives a mixed or negative rating”. For these reasons, passionate arguments both in favour of and against earmarking have been made.

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<sup>4</sup>Economic efficiency (optimality) requires that marginal cost of a good equals its marginal benefit. In the presence of externalities, marginal social benefit should be equated to marginal social cost to ensure economic efficiency

Among the arguments made in favour of earmarking are the following:

- *Funding Guarantee Leading to Better Planning*: It is argued that by providing a guaranteed source of funding for important programs and projects, earmarking ensures predictability of funding and therefore enhances long-term planning and budgeting. Thus, by guaranteeing minimum revenue, the funding process is largely depoliticized. Therefore, political and bureaucratic wrangling is avoided, thereby making it easier to handle important planning issues such as employee retention and capital investment to enhance service delivery.
- *Lower Cost and Speedy Completion of Projects*: It is argued that by ensuring stability and continuity of funding, earmarking could lead to lower costs and speedy completion of projects.
- *Overcoming Resistance to Tax Increases*: By linking revenue to spending decisions, earmarking is an easy way to rally support for tax increases or the introduction of new taxes for the purpose of revenue enhancement.
- *Satisfaction of Benefit Approach to Equity in Taxation*: Academic supporters of earmarking like Buchanan (1963) argue that earmarking can satisfy the benefit approach to equity in taxation. By this it is meant that earmarking, at least the strong type, provides the environment whereby payers of certain taxes become the beneficiaries of the commodity provided with the tax revenue. Therefore, tax payers can make private choices on each public service provided by comparing their costs with their benefits rather than allowing the government to make choices based on social welfare and redistributive considerations, which usually leads to economic inefficiencies. It should, however, be pointed out that few instances of earmarking satisfy this benefit approach to equity in taxation.

Ironically, some of the features of earmarking that are considered by supporters as being beneficial are the same ones used by opponents in rejecting it. Earmarking has been criticized on the following grounds:

- *Budget Rigidities*: By guaranteeing funding for specific programs or projects, earmarking brings rigidities into the budgeting process. Consequently, the government becomes incapacitated when the need for serious spending rebalancing—such as the need to seriously rein in expenditure to, for instance, cut down the fiscal deficit—arises. Also, by statutorily restricting its hand, the government finds it difficult to recalibrate its spending decisions in favour of new and more essential priorities when the need to do so arises. Additionally, earmarking has been criticized to be contrary to sound fiscal management because it pre-commits future generations and governments.
- *Less Review*: It is also argued that programs benefiting from earmarked revenues usually receive less reviews and scrutiny due to the automaticity of funding as compared with those funded from general taxation. This may lead to complacency and thus inefficiency in service delivery.
- *Misallocation of Resources*: Earmarking can also lead to misallocation of resources as too much revenue may be given to earmarked activities while too little is given to other activities, especially when powerful activists or interest groups are in support of the earmarked activities.
- *Infringing on the Government's Discretionary Powers*: It is also argued that earmarking infringes upon the government's discretionary powers with respect to resource allocation, thereby making the government become fiscally inactive. It must however be pointed out that in the presence of corruption in government this is exactly what supporters of earmarking intend to achieve. Still, nothing guarantees that the agencies managing the earmarked funds will be free from corruption.



Despite this unsettled debate about the suitability of earmarking as a budgeting tool, it is agreed that for earmarking to be useful it must satisfy at least the following three criteria. First, the earmarked funds should be effectively and efficiently managed by the agencies concerned. Second, the automaticity of funding that is intended should not be tampered with by the government. Third, earmarking should not lead to fiscal complications. To what extent does revenue earmarking in Ghana satisfy these criteria? In Sections 3 and 4, we will see the extent to which the first two criteria are satisfied. However, whether or not earmarking in Ghana meets the last criterion will be addressed in our next paper, which was mentioned in the introduction.

### 3.0 Earmarked Funds in Ghana and their Performance and Management Challenges

Although there have been specific reasons for, or backgrounds to, the establishment of each earmarked fund, generally, the introduction of the District Assemblies Common Fund (DACF) as an earmarking arrangement by the 1992 Constitution has served as the catalyst for the recent proliferation of revenue earmarking in the country. Thus, the success of the DACF in providing continuous funding for local development without much political wrangling has taught the various governments a lesson that, to likewise with ease ensure continuous funding for programs they consider important, they need to institute revenue earmarking for the programs. However, it is worthy of note that the use of revenue earmarking has enabled governments to introduce higher taxes in many instances without much public outcry.

We discuss in this section the performance and management challenges of seven (7) well-known and representative earmarked funds in Ghana, including their sub-funds, if any: the Social Security Fund, the District Assemblies Common Fund, the Road Fund, the Ghana Education Trust Fund, the National Health Insurance Fund, and the Ghana Petroleum Funds (Ghana Stabilization Fund and Ghana Heritage Fund). To provide the appropriate context for our discussion, however, we shall first discuss the specific reasons for, or the historical backgrounds to, their establishment as well as their institutional arrangements.

#### 3.1 The Social Security Fund

##### 3.1.1 A Brief Historical Background to Social Security Earmarking in Ghana

Before the introduction of a formal social security system in Ghana, the extended family system provided social security in the traditional setting. Members of the extended family system or even the entire village system were brought up to understand that catering for the elderly, the sick and the needy was an important cultural value. Therefore, each member of the family or village was socially secured against loss of income due to old age, diseases, etc. through the principle of solidarity. However, as formal education and urbanization increased, people adopted Western lifestyles and reduced their commitment to the traditional value system. Additionally, the expensive nature of the new Western lifestyle highlighted the free-rider problem<sup>5</sup> that is inherent in the traditional social security system.

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<sup>5</sup>In economics, the free rider problem occurs where some individuals in a group are able to either consume more than their fair share of common resources, goods or services or pay less than (or even none of) their fair share of the cost involved, leading to the underprovision of the resources, goods or services. Thus, the underprovision of the resources, goods or services is the result of a few individuals contributing to their provision while others enjoy them freely (i.e. have 'free rides').

These factors combined to undermine the traditional social security system, making the people begin to withdraw socially and thus lay more emphasis on the so-called nuclear family, thereby exposing them to social insecurity.

It was against this background that the government embarked upon a quest to provide social security to its workers by first passing the Pension Ordinance of 1946 and instituting a non-contributory pension scheme for officers in the Civil Service and the Armed Forces. This came to be known as CAP 30, in reference to Chapter 30 of the Ordinance. In 1955, the government passed the Teachers' Pension Ordinance to extend the coverage of the 1946 Ordinance to include certified teachers. A crude form of earmarking arrangement with regard to social security began in the early 1960s when a compulsory savings scheme was introduced, whereby compulsory deductions (or tax) were made from salaries of all workers and paid into government coffers. Workers were then paid their savings with interest upon retirement.

### 3.1.2 The Current Social Security Earmarking Scheme and its Process of Development

Social security earmarking in its current form began in 1965 when the government established the social security system (SSS) by passing Act 279. Under the Act, the Social Security Fund (SSF), into which social security tax (âor contribution) was paid and from which social security benefits were provided, was established. Under the scheme, workers were insured, at least in principle, against sickness, invalidity and old age. It also provided benefits for workers' dependents upon death of the worker. The SSF was managed by the State Insurance Company (SIC) and the Department of Pensions. As time passed, the SSF became short of funds as the government utilized money from the Fund for other purposes. Moreover, the managers of the SSF were not given clear guidance to invest money from the Fund to yield returns. To help address these problems and also to reduce government expenditure from general taxation on the CAP 30, the Social Security Decree of 1972 (NRCD 127) was issued. The Decree established the Social Security and National Insurance Trust (SSNIT) and transferred the administration of the Fund to the new institution. With the exception of the Armed Forces, Police Service, Prisons Service, Fire Service, foreigners in Diplomatic Missions, senior members of the universities, and senior members of research institutions who were permitted to remain on the CAP 30 if they so wished, all workers were mandated by the Decree to register with SSNIT starting from January 1, 1972. It should be pointed out that the Police, Prisons and Fire Services opted to migrate to the new scheme despite the option to remain on the CAP 30. It is also important to note that the SSNIT Scheme instituted in 1972 was a provident fund scheme as workers largely received lump-sum payments upon retirement. The government realized that a lot of retired members were unable to profitably invest their lump-sum payments upon retirement due to the country's harsh economic conditions, making the retired members live in abject poverty after their funds were used up. Consequently, in 1991 the government repealed the NLC Decree 127 and replaced it with PNDC Law 247, which converted the SSNIT Provident Fund Scheme to a Pension Scheme by which retired members were paid monthly old age pension benefits.

The reforms instituted by PNDC Law 247 did not fully satisfy workers as they complained that the monthly pension benefit that the average retiree received was too small, which, according to the workers, led to visible poverty upon retirement. Another source of complaint was the large gap that

existed in terms of the benefits enjoyed by retired workers under the Cap 30 and the SSNIT Scheme. The government therefore carried out another pension reform by passing the National Pensions Act, 2008 (Act 766) on 12th December, 2008. The Act incorporated almost all the recommendations offered in March 2006 by the Presidential Commission on Pensions (PCP), which had been set up in July 2004. The National Pensions Act, 2008 replaced the CAP 30 and the SSNIT Pension Scheme with a new one. It made provisions for the establishment of a contributory 3-Tier Pension Scheme and the National Pensions Regulatory Authority (NPRA). The NPRA is charged with the responsibility to regulate and monitor the operation of the Scheme and ensure the effective administration of pensions in the country. The 1st Tier of the new Pension Scheme, which is a mandatory basic National Social Security Scheme, is managed by SSNIT. Tier-2, which is also a mandatory and fully-funded occupational scheme, is privately managed. Tier-3 is, however, a voluntary, fully-funded and privately-managed provident fund and personal pension plan. An 18.5% tax on the basic monthly salaries of workers is used to fund the Scheme (5.5% of the basic monthly salary is deducted from workers' salaries, while the remaining 13% is paid by employers on behalf of workers). On allocation, 2.5% is transferred to the National Health Insurance Fund for health insurance, 5% is transferred to the 2nd Tier Scheme, and the remaining 11% is withheld by SSNIT as the workers' 1st Tier contribution.

### 3.1.3 How Well Has the Social Security Fund (SSF) Been Managed and How Has It Performed?

The social security earmarking arrangement has been of immense benefit to retired workers and has thus served as a source of hope for unretired workers following the virtual collapse of the traditional social security system. The performance of social security in Ghana has been in the right direction, particularly in recent years. For instance, while Ghana's total population cumulatively grew by about 9% from 2009 to 2013, active contributors to SSNIT grew by as much as 27.2% from 880,760 to 1,120,512 during the same period (see Table 1). Total contributions also increased by 73.7% from GH¢667.6 million in 2009 to GH¢1,159.71 million in 2013, while total benefits paid to retired workers increased by a whopping 210% from GH¢223.24 million in 2009 to GH¢692.31 million in 2013. In fact, the average monthly pension benefit paid by SSNIT increased by as much as 60.78% in one year from GH¢392.60 in 2012 to GH¢631.24 in 2013.

**Table 1: Active Contributors, Total Contributions and Total Benefits Paid by SSNIT, 2009–2013**

Year	Contributors	Total Contributions (GH¢'m)	Total Benefits Paid (GH¢'m)
2009	880,760	667.60	223.24
2010	900,332	576.83	310.73
2011	963,619	825.96	355.15
2012	1,051,429	934.13	443.15
2013	1,120,512	1,159.71	692.31

*Source: SSNIT, 2013 Annual Report*

Nevertheless, the management of the Social Security Fund in Ghana has been bedeviled by serious challenges, which implies that the performance of the Fund could have been much better.

First, the Social Security Fund in Ghana has been managed by SSNIT under very high administrative costs. Boon (2007), for instance, finds that the general and administrative expenses of SSNIT as a proportion of members' contributions averaged 23.3% between 1997 and 2004. He further provides evidence to show that until 2002, SSNIT's administrative expenses exceeded total benefits paid to workers. Although progress has been made in cutting down the administrative costs in recent years, it still remains too high. In 2013, for instance, general administration expenses (administration, operational and investment management expenses) of SSNIT stood at GH¢212.84 million, representing 18.4% of total contributions, which was still very high. As a matter of comparison, in the United States, while contributions to the Old-Age, Survivors, and Disability Insurance Trust Fund (OASDI) stood at US\$721 billion in 2013, general administration expenses stood at only US\$6 billion in that year. Thus, general administrative expenses for the US social security fund stood at only 0.8% of total contributions in 2013. SSNIT has also been accused of indulging in spending that does not directly benefit contributors. As an illustration, on September 29, 2015 a contributor, Mr. Seth Abloso, petitioned the National Pensions Regulatory Authority—with copies of the petition sent to organized labour—accusing SSNIT of planning to use contributors' funds on wasteful ventures outside its mandate. This was in respect of SSNIT's advertised plan to construct: (i) 40 Community Police Stations to be distributed among 11 Police Administrative Regions, (ii) an ultra-modern library to help the development of future contributors, and (iii) a sports complex to ignite the passion of sports among Ghanaians.

Second, the real rate of return on investing the Social Security Fund has historically been low. This is largely due to the usually poor macroeconomic environment that prevails in the country as well as the limited nature of available investment opportunities in the country. For instance, the simple average real rate of return on SSNIT's investments from 2004 to 2009 stood at only 3.5% based on data provided by SSNIT in its 2013 Annual Report. It should, however, be pointed out that from 2010 to 2013, the average real rate of return on SSNIT's investments significantly improved to 9.9%. Nevertheless, there is the potential for the real rate of return on SSNIT's investments to see additional substantial improvement if the country's macroeconomic environment can be significantly improved on a sustainable basis.

Third, and most important, benefits paid to retired workers continue to be very low, which has made retirement a period of sadness for the average worker rather than a period of rest and happiness. Although, as pointed out above, in 2013 average monthly pension benefits saw a sharp increase to GH¢631.24, this amount, equivalent to about US\$322.88 at the time, was too small to provide any meaningful standard of living for the average retiree considering the high cost of living in the country. Now, if such is the plight of the average retiree in Ghana, what is the condition of those retirees who receive far below the average pension rate? The low pension payments largely stem from the small nature of average contributions due to the low wages and salaries workers receive, which reflect the low level of output and development in the country. However, the high administrative costs of SSNIT and the low rate of return on investment of the Fund, as explained in the previous paragraphs, are strong contributing factors.

Fourth, the automaticity of revenue transfer that is intended in revenue earmarking is frequently undermined when it comes to social security earmarking in Ghana. Traditionally, there have been delays

in the transfer of social security tax/contributions to the Social Security Fund from both the government and the private sector, thereby hindering the smooth operation of SSNIT and the new Tier-2 Scheme. However, the past three to four years have seen a worsening of this problem on the part of the government. For instance, SSNIT reported in its 2013 Annual Report that public establishments owed it GH¢656.7 million in untransferred contributions. In fact, in January 2015, myjoyonline.com of Joy FM reported that the government had defaulted in the payment of nearly one billion Ghana cedis, representing 15 months of public workers' contributions, to SSNIT. These delays greatly affect SSNIT's ability to pay benefits to retired workers.

Fifth, the management of the Social Security Fund in Ghana has witnessed excessive government interference. For instance, the management board of SSNIT changes whenever there is a change in government, which leads to changes in the direction of SSNIT. This negatively affects the operations of the Fund, thereby undermining its progress.

## **3.2 The District Assemblies Common Fund (DACF)**

### **3.2.1 Reasons for the Establishment of the DACF**

After the government's implementation of economic liberalization programs (the Economic Recovery Program/Structural Adjustment Policies) for almost a decade starting from 1983, poverty in the local communities worsened despite the increase in the rate of economic growth. This was because most social support programs had been cancelled. The introduction of a poverty alleviation program in 1988, the Program of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD), did not provide any significant relief because the funding for the program was very limited, and there was also poor use of funds as about 80% went to the non-poor (Sowa, 2002). The District Assemblies Common Fund (DACF) was therefore established with the aim of speeding up development, raising the standard of living and reducing poverty in the local communities through its guaranteed system of funding. Another reason for the establishment of the DACF was to ensure equitable distribution of resources across Metropolitan, Municipal and District Assemblies (MMDAs), thereby enhancing the decentralization process the country had embarked upon.

### **3.2.2 The Institutional Arrangement of the DACF**

The establishment of the District Assemblies Common Fund (DACF) was provided for by Article 252 of the 1992 Constitution. The Article requires not less than 5% (increased to 7.5% in 2007 by Parliament) of total revenue of the country to be allocated by Parliament to the District Assemblies for development. Monies accruing to the District Assemblies in the Common Fund are further required by the Article to be distributed on the basis of a formula approved by Parliament. It also provided for the appointment of a District Assemblies Common Fund Administrator by the President with the approval of Parliament.

To operationalize the constitutional provisions under Article 252, the government passed the District Assemblies Common Fund Act in 1993 (Act 455). The Act defines total revenue as "all revenue collected by or accruing to the Central Government other than foreign loans, grants, non-tax revenue and revenues already collected by or for District Assemblies under any enactment in force". It also spells out the qualifications of the Administrator as well as his/her tenure of office and functions. In addition to administering and distributing money in the Common Fund among District Assemblies in line with



the formula approved by Parliament, the Administrator was, among other things, required to annually propose the formula for parliamentary approval. Permission was granted by the Act for money in the Fund to be invested.

In 1999, 5% of the DACF began to be lodged in a separate account for the implementation of poverty-reduction projects by Members of Parliament (MPs) in their constituencies. This share of the DACF allocated to the MPs is commonly referred to as MPs Common Fund (MPsCF). The establishment of the MPsCF as part of the DACF was in response to continuous lobbying by MPs, who argued that they needed to play active roles in the development of their constituencies. The constitutionality of the MPs Common Fund has been a subject of debate. According to Professor Kwamena Ahwoi, a former Minister for Local Government and Rural Development, the MPs Common Fund is most likely unconstitutional. Recounting an encounter he had with some MPs with regard to their agitations for a share of the Common Fund during his tenure as the Minister for Local Government and Rural Development, Professor Ahwoi states: *“Owusu Acheampong, who was the Majority Leader from the NDC, and J.H. Mensah, who was Minority Leader from the NPP side, came to us and told us bluntly that the way the DCEs are bluffing with the fund, if we don’t give them some, they won’t approve the formula. It was blatant as that. And I told them that that would be unconstitutional, and they said, ‘yes, we know, but we too need to do some projects in our areas etc.’ ..... It became a big argument, and it was a losing argument, because the battle was being waged by the Majority party, which was my own party, the NDC”.*

### 3.2.3 How Well Has the DACF Been Managed and How Has It Performed?

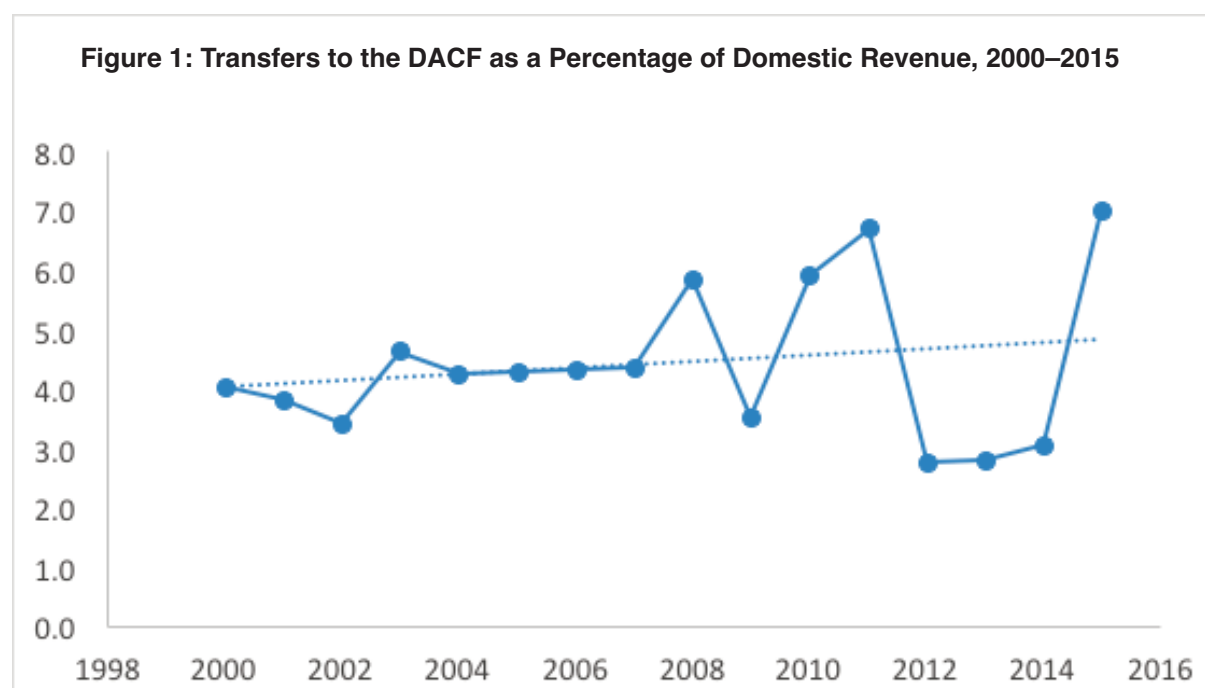
In nominal terms, transfers from the central government to the DACF, according to data from the Ministry of Finance, consistently increased from GH¢19.3 million in 2000 to GH¢252.1 million in 2008 (see Table 2). However, as part of the government’s decision to cut down the fiscal deficit that sharply increased in 2008, transfers to the DACF decreased to GH¢188.6 million in 2009. In 2010 and 2011, however, transfers to the DACF sharply increased to GH¢434.5 million and GH¢738.7 million respectively. The sharp rise in transfers to the DACF in 2011 was not only caused by the government’s decision not to withhold significant portions of DACF transfers, but it was also caused by its decision to settle accumulated arrears in the amount of GH¢116.7 million. Nevertheless, from 2012 to 2014, transfers to the DACF declined again, ranging from GH¢406.5 million in 2012 to GH¢690.5 million in 2014 and thus all falling short of the 2011 figure, despite the government settling a large part of accumulated arrears again amounting to GH¢360.2 million in 2014. This was because the government again failed to fully meet its earmarking obligation and thus withheld portions of the amounts due to the DACF as a deficit management strategy. The IMF’s Extended Credit Facility-supported program that Ghana is currently pursuing requires the government to eliminate all arrears starting from 2015. Therefore, in addition to meeting its current obligation towards the DACF, the government settled arrears due to the DACF amounting to GH¢441.9 million in 2015. Consequently, the total transfer to the DACF increased by a whopping 176.9% to GH¢1,912.3 million in 2015.

As shown by column 3 of Table 2 and Figure 1 below, the behavior of transfers to the DACF as a percentage of domestic revenue was similar to the behavior of the nominal values – 2009, 2012, 2013 and 2014 saw sharp declines. However, though it did not decline as sharply as in these four years, transfers to the DACF as a percentage of domestic revenue went below the trend in 2001 and 2002.

**Table 2: Annual Transfers to the District Assemblies Common Fund, 2000–2015**

Year	Transfers to DACF (GH¢'million)	o/w Arrears Paid (GH¢'million)	Transfers to DACF as a Ratio of Domestic Revenue (%)
2000	19.3	0	4.0
2001	26.3	18.9	3.8
2002	33.2	7.4	3.4
2003	63.6	5.4	4.6
2004	80.3	5.4	4.2
2005	99.3	5.4	4.3
2006	110.1	5.4	4.3
2007	148.4	5.4	4.3
2008	252.1	0	5.8
2009	188.6	35.1	3.5
2010	434.5	24.2	5.9
2011	738.7	116.7	6.7
2012	406.5	0	2.8
2013	498.9	0	2.8
2014	690.5	360.2	3.0
2015	1,912.3	441.9	7.0

Source of Data: Ministry of Finance. Note: o/w stands for 'of which'



Now, in addition to the District Assemblies Common Fund, the Local Government Act of 1993 (Act 462) lists many other sources of revenue for Metropolitan, Municipal and District Assemblies (MMDAs). These are entertainment duty; casino revenue tax; betting tax; business and trade registration charges; gambling tax; levies on crops other than cocoa, coffee, cotton and shea; fees on 15 different items; licenses on 15 specified items; taxes on incomes of 21 categories of self-employed people; and 8 other miscellaneous sources of income. Yet, apart from the DACF, most of these sources of revenue have been left untapped. Most MMDAs therefore depend almost entirely on DACF – in some Districts it covers between 80% and 90% of annual expenditure. Effective management of the DACF is therefore crucially important if the goals of ensuring accelerated development, reducing poverty and enhancing the standard of living in the local communities are to be achieved. Yet, there have been serious deficiencies in the administration, management and utilization of the Fund.

Audit reports on the DACF have shown several common improprieties, including misapplication of funds, non-deduction of 5% withholding tax on contract payments, questionable payments for uncompleted projects, overdue loan repayments, and goods paid for but not delivered (King et al., 2003). The report of the Auditor-General on the management and utilization of the DACF and other Statutory Funds for the year ended December 31, 2013, for example, revealed that weaknesses and deficiencies, such as non-compliance with existing framework and instruments, managerial lapses and weak monitoring procedures at both the ministerial and administrative levels of the assemblies, are pervasive, which created the avenues for some officials to mismanage the DACF and resources of the Assemblies to a financial value of approximately GH¢28.54 million. The report identified lapses and deficiencies in transactions such as cash management, which repeatedly recorded payment cycle irregularities, unsubstantiated payments and misapplication of funds. Sadly, despite repeated findings of improprieties in the management and utilization of the DACF by the Auditor-General, not much has been done about the problem. In a letter accompanying the 2013 audit report on the DACF to Parliament, the Auditor-General expressed his frustrations as follows:

*“However, I wish to reluctantly conclude that the increased and widespread instances of malfeasance and mismanagement of the finances and resources of the Assemblies by public officials as portrayed in my current report under review may be indicative that the Ministry has not significantly implemented the admonitions and recommendations in my previous reports”.*

Another major challenge facing the DACF is frequent delays in releases of funds to the DACF secretariat from the government, causing delays in the disbursement of the Fund to the MMDAs. As an example, in 2001, the government decided to transfer only 35% of the DACF (and Ghana Education Trust Fund) in order to reduce government expenditure, and for that matter the size of the fiscal deficit, thereby contravening the rules governing the funds. The remaining 65% was settled in equal installments over a period of five years. In fact, for the past three to four years, transfers to the DACF have not only seen extended delays but have also been ad hoc and unstructured. Questions have been raised as to why although the Common Fund for two quarters of 2014 had not been released, that for the first quarter of 2015 was released. These delays affect the operations of the Assemblies given that most depend almost exclusively on the Common Fund. Thus, the automaticity of funding that underpinned the establishment of the earmarking arrangement under the DACF is frequently undermined, making it

difficult for the Assemblies to execute their developmental agenda.

Another challenge facing the MMDAs with respect to the District Assemblies Common Fund is that the purpose for the establishment of the Fund is being defeated, to a large extent, by excessive deductions at source. Issue 2 of the Common Fund Newsletter published in December 2014 argues that close to about 40% of the Common Fund, representing Sanitation Improvement Package, Fumigation and other elements, are deducted from source before the money reaches the MMDAs. This, indeed, is unacceptable as local development is being undermined, leading to entrenchment of poverty in the local communities.

The allocation of a share of the DACF for MPs is also posing a challenge with respect to effective management and utilization of the Common Fund. The establishment of the MPs Common Fund has not only been criticized as illegitimate as it is not backed by any Act, it is also creating unnecessary tension between the MPs and the District Chief Executives (DCEs), which poses challenges to transparency, efficiency and accountability in the use of the Fund (Azeem, 2003). Moreover, the management and utilization of the MPsCF have largely been left unscrutinized. Appiah-Agyekum, Danquah and Sakyi (2013) argue that public governance institutions such as the Serious Fraud Office, Commission for Human Rights and Administrative Justice, Public Accounts Committee and the Auditor-General have not undertaken any rigorous audit into procedures for disbursement of the MPsCF and its implications for accountability, good governance and poverty reduction. According to these researchers, civil society organizations, including the vociferous media, have been quiet on problems confronting the management and utilization of the MPsCF. The result of the lack of serious external and internal accountability mechanisms in the management and utilization of the MPsCF is that there is no guarantee that MPs use their share of the Common Fund purely for the purpose of local development and poverty alleviation for the benefit of all. Indeed, at best, MPs use their share of the Common Fund to establish pork barrel projects for political and electoral reasons, which may not necessarily be what the local communities need economically.

### **3.3 The Road Fund**

#### **3.3.1 Reasons for the Establishment of the Road Fund**

The economic deterioration that began in the 1970s, which affected the nation's coffers negatively, impacted the road sector budget. Consequently, the quality of Ghana's road network, which was in a fairly good condition at the time of independence, sharply deteriorated as the roads lacked adequate maintenance and rehabilitation. In 1982 the Ministry of Roads and Highways was established and charged with the responsibility to formulate road sector policies and strategies; co-ordinate, supervise and monitor the performance of the Ghana Highway Authority (GHA), the Department of Feeder Roads (DFR) and the Department of Urban Roads (DUR); and improve the conditions of roads. However, by 1985 no significant improvement to the quality of the road network had been made, because the funding problem remained. The government therefore established the Road Fund in 1985 with the objective to increase funding for road maintenance and thus improve the quality of the road network. In 1997, the Road Fund was restructured and transformed.

### 3.3.2 The Institutional Arrangement of the Road Fund before and after Its Restructuring

Following its establishment in 1985 by the PNDC Government, the Road Fund was managed by the Ministry of Finance, Ministry of Roads and Highways, and the Controller and Accountant General. Revenue sources earmarked for the fund were fuel levies, bridge, road and ferry tolls, and vehicle examination fees. Money from the Fund was allocated to the Ghana Highway Authority (50%), Department of Feeder Roads (30%) and Department of Urban Roads (20%).

Although the Road Fund was established to play an important role, it was unable to achieve much because it was poorly managed. According to Mathur (1999), the Road Fund was basically a mere bank account with no one adequately responsible for its day-to-day management. Although the levy was periodically revised, by 1995 it was realized that the Road Fund was not working, as it was covering less than 50 percent of road maintenance requirements. The Road Fund therefore clearly needed restructuring.

However, the restructuring of the Road Fund in 1997 was not initiated by the government, but was rather the result of the World Bank's decision to commercialize the road sector in all its developing member countries. Having realized that straightforward earmarking from general budget resources in the 1970s and 1980s in Africa and Latin America never worked, the World Bank decided to "bring roads into the market place, put them on a fee-for-service basis, and manage them like a business" (Heggie, 1996). According to the World Bank, there are four main principles which underlie the concept of commercializing the road sector: 1) Road users must pay for usage of roads through an explicit road tariff which must be clearly separated from the government's general taxes; 2) Introduction of the road tariff must not abstract revenues from the consolidated budget; 3) Proceeds from the road tariff are deposited into a road fund managed by a board which includes representatives of road users and the business community. At least half the board members generally come from outside government, are nominated by the organizations they represent, and the chairman is independent; and 4) The board needs to have a small secretariat to manage the funds, there should be published legal regulations governing the way the funds are managed, and there must be independent technical and financial auditing by the Auditor-General's Office, or private sector auditors appointed by the Auditor-General. Ghana's Road Fund was restructured in 1997 along these World Bank guidelines. To help the country carry out the restructuring of the Road Fund and to implement other road sector programs, the World Bank provided Ghana a credit facility in the amount of SDR 68.7 million (equivalent to US\$100 million) under the Bank's Highway Sector Improvement Program (HSIP).

To restructure the Road Fund, Government passed the Road Fund Act, 1997 (Act 536) in line with the World Bank guidelines. The following sources of revenue were earmarked for the Road Fund by the Act: (a) such proportion of government levy on petrol, diesel and refined fuel oil as may be determined by the Cabinet with the approval of Parliament; (b) bridge, ferry and road tolls collected by the Authority; (c) vehicle license and inspection fees; (d) international transit fees collected from foreign vehicles entering the country; and (e) such monies as the Minister responsible for Finance in consultation with the Minister responsible for Roads and Highways may determine with the approval of Parliament. In 2005, the Customs and Excise (Petroleum Taxes and Petroleum Related Levies) Act (Act 685) further earmarked for the Road Fund a road levy imposed on petroleum products payable by persons to whom



petroleum products are supplied.

In line with the World Bank's guidelines, a Road Fund Management Board was established to, among other things, manage and administer the Fund, recommend to the Cabinet after consultation with the Minister for Finance the level of road levy and other road user charges that are paid into the fund, review the annual expenditure programs of the road implementing departments and bodies, and determine how much of the financing of the expenditure programs of the road agencies should come from the Fund. The Board was required to be composed of (a) the Minister for Roads and Transport or his representative who acts as the Chairman of the Board; (b) the Minister for Finance or his representative; (c) the Minister for Mines and Energy or his representative; (d) the Accountant-General or his representative; (e) the Minister for Local Government and Rural Development or his representative; (f) two persons nominated from outside the Ministry of Roads and Transport by the Minister; and (g) one representative from each of the following organizations nominated by the organizations concerned: (i) the Association of Road Contractors; (ii) the Ghana Private Road Transport Union; (iii) the Ghana Private Enterprise Foundation; (iv) the Ghana Road Haulage Association; (v) the Ghana Institute of Engineers; and (vi) the Ghana National Association of Farmers and Fishermen. In addition to routine and periodic maintenance of roads, the role of the Road Fund was expanded by the Act to include upgrading and rehabilitation of roads; road safety activities; selected road safety projects; and such other relevant matters as may be determined by the Board.

### 3.3.3 How Well Has the Road Fund Been Managed and How Has It Performed?

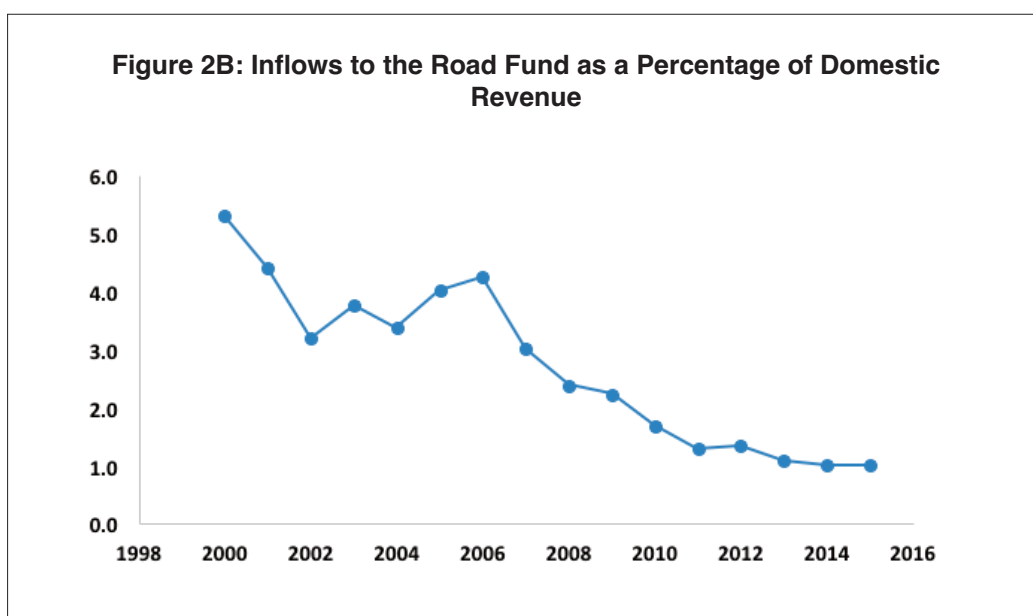
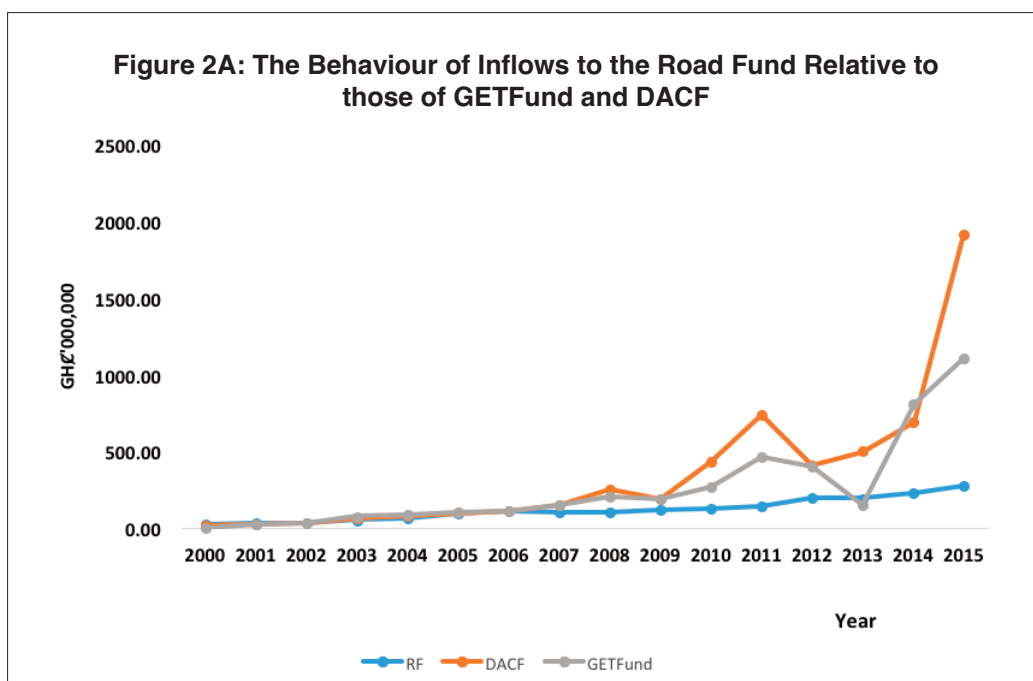
The restructuring of the Road Fund that led to the setting up of the Board has resulted in improved administration of the Fund, in terms of better record keeping and reporting. However, the Board has not been able to overcome the challenges and difficulties the Fund faced before the restructuring, and has thus not been as effective as envisioned.

**Table 3: Annual Inflows to the Road Fund, 2000–2015**

Year	Inflow to the RF (GH¢'million)	Inflow to the RF as a Percentage of Domestic Revenue (%)
2000	25.5	5.3
2001	30.3	4.4
2002	31.2	3.2
2003	51.6	3.8
2004	64.0	3.4
2005	92.7	4.0
2006	108.6	4.2
2007	102.6	3.0
2008	102.9	2.4
2009	119.1	2.2
2010	123.6	1.7
2011	141.1	1.3
2012	195.7	1.3
2013	190.9	1.1
2014	225.0	1.0
2015	272.6	1.0

Source of Data: Ministry of Finance

Revenue inflow to the Road Fund has performed poorly, particularly in recent years, as it has been growing at a very slow pace compared with other earmarked funds. From Figure 2A, we can see that even though inflow to the Road Fund was comparable to those of DACF and GETFund in 2000-2006, with inflow to the Road Fund exceeding those of DACF and GETFund in 2000-2001, it began to significantly lag behind these funds starting from 2007, and by the end of 2015 the gap had widened considerably. While inflow to the Road Fund stood at only GH¢272.6 million in 2015, those to the GETFund and the DACF stood at GH¢1,103.2 million and GH¢1,912.3 million respectively in the same year. Also, from column 3 of Table 3 and Figure 2B, we can see that having largely stabilized in 2002-2006, inflow to the Road Fund as a percentage of domestic revenue has witnessed a sharp declining trend starting from 2007.



This is against the backdrop of the fact that Acts 536 and 685 increased the number of earmarked sources of revenue for the Fund and empowered the Board to periodically propose increases in the level of road levy and other road user charges, as well as to secure other sources of funding. According to the Ministry of Roads and Highways, the Road Fund is able to cover only about 60% of the annual road maintenance needs of the country. This implies that 40% of the road network is left unattended to yearly, which has resulted in a large backlog of unmaintained and very poor roads over time.

A major cause of the insufficient flow of revenue into the Road Fund for road maintenance is the inability of the Board to obtain approvals for increases in the levies, fees and tolls as frequently as needed.

Perhaps a more important reason for the insufficient flow of revenue into the Fund, thereby limiting the level of road maintenance in the country, is weak supervision, control and monitoring of road tolls, vehicle license and inspection fees at DVLA, international transit fees and other sources of revenue for the Fund. According to audit reports of the Auditor-General, there have been several instances of non-payments of collected amounts into the Road Fund, serious delays in paying the collected amounts into the Fund as well as tickets that have not been accounted for. For example, Special Audit of the Revenue of the Road Fund for the Period January 2008 to June 2010 revealed that there were collected monies amounting to GH¢4.4 million that were not paid into the Road Fund by the collecting agencies. The report further revealed an additional amount of GH¢11.2 million in collected revenues that had not yet been transferred to the Road Fund by the end of the period, contrary to provisions of Act 536. Moreover, the audit report found that tickets amounting to GH¢10.0 million were totally unaccounted for. According to the Auditor-General, the Road Fund faces challenges in the areas of cooperation and coordination between the Road Fund management and other agencies, in terms of information sharing and provision of feedback for effective decision making to enhance revenue collection.

Another big challenge facing the Road Fund, which the Management Board has not been able to effectively manage, is indiscipline on the part of the road agencies (Ghana Highway Authority, Department of Feeder Roads and Department of Urban Roads). The road agencies consistently exceed the budget ceilings they agree with the Road Fund Board, since they commit to projects outside their approved budgets without first securing approval from the Board, which contravenes Act 536. As a consequence of this indiscipline, the Road Fund is always overwhelmed by huge commitment arrears. As an example, at the end of the 2014 financial year, the commitment arrears of the Road Fund stood at GH¢230.9 million, which represented 87.1% of the revenue that accrued to the Fund in 2014. In fact, the commitment arrears which stood at the end of 2008 (GH¢136.5 million) exceeded the whole budget of the Road Fund for 2009 (GH¢123.3 million) by 10.7%, which implied that the Road Fund would still be left with extra arrears to pay if the whole of the 2009 budget was directed towards the payment of the commitment arrears carried over from 2008. The Road Fund Board is unable to effectively rein in the road agencies and their spending and contract-awarding sprees largely because of political interference. Nketiah (2009), for instance, states that 75% of the 65 managers of the road agencies he surveyed attributed the budget overruns by the agencies to pressure on the heads of the agencies from political and opinion leaders to commit to projects that are not in the agencies' budgets. And recognizing this political pressure and interference, the Road Fund Board, which is not politically independent, is unable to do much to fix the problem.

The question that arises here is, why is the Road Fund Board so politically dependent and influenced in the discharge of its duties, making it less effective and thus falling short of expectations? The answer lies in how the Board is constituted. Contrary to the World Bank's guideline that at least half of the members of road fund boards in its member countries should come from outside the government, and that the chairman should be independent, Ghana's Road Fund Board is not only dominated by members of the government and their appointees (7 out of the 13 members), it is also chaired by the Minister for Roads and Transport, a government official. This means that the Road Fund Board is largely an extension of the political leadership of the country and is thus not independent. Therefore, Ghana's Road Fund cannot be said to be managed like a private business, contrary to the World Bank's vision. This suggests that the World Bank could not push through all of its ideas and vision when the Ghana Road Fund was being restructured, which has resulted in a lot of inefficiencies in the management of the fund.

### **3.4 The Ghana Education Trust Fund (GETFund)**

#### **3.4.1 Reasons for the Establishment of GETFund**

Ghana's educational standards continued to deteriorate at a fast pace in the first three decades following independence. This was largely the consequence of the economic deterioration that the country witnessed during the period, which affected educational financing. Government of Ghana spending on education declined from 6.4% of GDP in 1976 to 1% in 1985. Despite increasing enrolment spurred by population growth of around 3% per annum, the total expenditure in real terms in 1985 was only about one-third of the late 1970s level. Even more severe was the fact that over 90% of government expenditure on education was absorbed in the payment of wages and salaries to an expanding teaching and non-teaching staff, whose true numbers and positions or responsibilities were unknown even to the Ghana Education Service (World Bank, 1993). The poor economic prospects of the country meant that educational infrastructure continued to deteriorate, thereby posing difficulties for teaching and learning in schools. Schools were also short of adequate learning materials, while the conditions of service of teachers and university lecturers deteriorated. As a consequence of this, the educational sector was affected by out-migration in the 1970s, losing large numbers of trained teachers who were being replaced by untrained teachers.

The government therefore began to restructure and revamp the educational sector by increasing funding, starting from the late 1980s under the Education Sector Adjustment Program. This program formed part of the broader structural reforms program that the country was pursuing under the auspices of the IMF and the World Bank. In the first phase of the Education Sector Adjustment Program which began in 1987, the reform was aimed at shortening pre-university education from 17 years to 12 years, improving pedagogic efficiencies and outcomes, and reducing unit costs borne by the government. The first phase was focused on primary and junior secondary education cycles. The cost of implementing this phase of the reform was financed with a credit facility from the World Bank in the amount of US\$38.3 million. The second phase of the Education Sector Adjustment Program, whose implementation began in 1990, was aimed at (a) completing the restructuring of the school system to a 12-year cycle; (b) extending the reforms to the senior secondary level by simplifying the curriculum, introducing more practical content into it and replenishing necessary basic materials and supplies; (c) consolidating the basic education reforms so that primary and JSS leavers acquire the cognitive skills

needed to take advantage of education offered at higher levels; and (d) ensuring financial sustainability of the new system. The second phase was also financed with a credit facility from the World Bank in the amount of US\$53.2 million. In fact, new educational reform programs/projects were introduced in 1992, 1993 and 1996. The 1992 reform project, Primary School Development Project, which was aimed at increasing learning achievement and enrolment in primary schools throughout the country, was financed by the World Bank to the tune of US\$73.3 million. The 1993 educational reform project, Tertiary Education Project, was aimed at (a) improving teaching and learning; (b) improving management; (c) increasing autonomy with accountability for the universities; and (d) achieving gradual expansion of enrolment. The Tertiary Education Project was also financed with a credit facility from the World Bank in the amount of US\$51.4 million. The 1996 educational reform project, Basic Education Sector Improvement Project, was aimed at 1) improving the teaching process and learning outcomes; 2) strengthening management of the basic education system through better planning, monitoring and evaluation by the Ministry of Education and Ghana Education Service at central, regional and district levels; 3) improving access to basic education, especially of girls, the poor and other disadvantaged segments of the population; and 4) ensuring financial sustainability of the government program for basic education over the long term. This project was also supported with a credit facility from the World Bank in the amount of US\$50 million.

It is clear from the foregoing account that educational reform programs aimed at improving the country's education delivery, which were implemented starting from the late 1980s, were all financed with credit facilities from the World Bank. Domestic resources were still mostly limited to paying wages and salaries of educational workers. This was obviously not sustainable. Therefore, the need for increased domestic funding for educational improvement programs, particularly from the perspective of infrastructure development, received a lot of attention during the second half of the 1990s. But how would this be done given that the government budget had already been overstretched, with high rates of deficits being consistently recorded while students continued to vehemently resist any attempt to institute a meaningful system of cost sharing? Different fora and conferences such as the Tertiary Education Mid-Term Review in 1995 and Akosombo Fora in 1997 and 1998 were therefore held to solicit views on how best domestic financing for education could be improved. An important proposal put forth by the National Union of Ghana Students (NUGS) at the Akosombo Forum was the establishment of education trust funds<sup>6</sup> to be funded from various sources, including an increase in the value added tax. Even though participants such as the Private Enterprise Foundation rejected the idea of imposing another tax on firms to fund the proposed trust fund, the government liked the proposal. In January 1999, President Rawlings incorporated the NUGS proposal into his State of the Nation address to Parliament (Harsch, 2000). After a series of parliamentary debates and deliberations, the Ghana Education Trust Fund Act, 2000 (Act 581) was passed and received presidential assent on 25th August, 2000.

#### 3.4.2 The Institutional Arrangement of GETFund

The Ghana Education Trust Fund (GETFund) was established with the broad objective of providing finance to supplement the provision of education at all levels by the government. Two and a half percent

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<sup>6</sup>The original NUGS proposal involved the establishment of two trust funds, Education Security and Insurance Trust Fund (ESITF) and Tertiary Education Endowment Fund (TEEF).



out of the prevailing rate of the Value Added Tax (VAT) was earmarked for GETFund. To ensure that revenue from VAT for other government expenditures did not go down, the government increased the VAT rate from 10% to 12.5%. It is worthy of note that in addition to the 2.5% of VAT revenue, Act 581 permitted Parliament to allocate additional monies as it deemed fit for the fund. Other sources of revenue for the Fund are monies accruing to the Fund from investments, grants, donations, gifts and other voluntary contributions, as well as other monies or property that may in any manner become lawfully payable to the Fund.

To achieve the broad objective of GETFund, monies accruing to the fund were required to be used to (a) provide financial support to the agencies and institutions under the Ministry of Education for the development and maintenance of essential academic facilities and infrastructure in public educational institutions, particularly in tertiary institutions; (b) provide supplementary funding to the Scholarship Secretariat for the grant of scholarships to gifted but needy students for studies in second-cycle and accredited tertiary institutions in Ghana; (c) contribute towards the operation of student loans schemes in accredited tertiary institutions through loan scheme mechanisms and agencies approved by the Minister of Education; (d) provide, through the National Council on Tertiary Education, grants to tertiary institutions to (i) train brilliant students as members of faculties and (ii) undertake research and other academic programs of relevance to national development; and (e) provide monies to support such other educational activities and programs for the promotion of education as the Minister for Education, in consultation with the Board, may determine. For these reasons, accounts within the Fund in respect of tertiary education, second-cycle education, basic education, investment, and other related aspects of education, such as distance education, school and public libraries and special education, were required to be established. The management of the Fund was required to submit to Parliament for approval a formula for the distribution of monies to the various accounts.

A Board of Trustees to oversee the management and administration of GETFund was established by Act 581. Members of the Board are appointed by the President acting in consultation with the Council of State. There are 17 members of the Board. The Board comprises the Administrator of the Fund and representatives of the Ministry of Finance, religious bodies, Ministry of Education, established financial institutions, Association of Ghana Industries, Ghana Employers Association, National Union of Ghana Students and Ghana National Union of Polytechnic Students in rotation, the National Council of Tertiary Education, Ghana Education Service, etc. To achieve the objectives of the Fund, the Board is charged to, among other things, collect or arrange to be collected monies lawfully due to the Fund, contribute monies from the Fund towards the operation of student loan schemes in tertiary institutions, invest some monies of the Fund in such safe securities as it considers financially beneficial to the Fund, and impose such charges as it considers necessary for services rendered by the secretariat of the Fund. However, the Minister responsible for Education was given the powers to issue general directives in writing to the Board on matters of policy.

The Administrator of the Fund, who serves as the secretary to the Board and is the head of the secretariat of the Fund, is required to be appointed by the President in accordance with the advice of the Board given in consultation with the Public Services Commission. Supported by employees and a Deputy Administrator, the Administrator is responsible for day-to-day management of the Fund and for

ensuring the implementation of decisions of the Board. An internal auditor responsible to the Administrator is also required to be appointed and charged to submit a report of the audit of the Fund every three months to the Chairman of the Board. Additionally, the Board is required to keep books of accounts and proper records in respect of the Fund in such form as the Auditor-General may approve. The Auditor-General or an auditor appointed by him is also required to audit the books of accounts of the Fund within three months after the end of each financial year. The Board is then required to submit to the Minister for Education as soon as practicable, and in any event not more than six months after the end of each financial year, a report on the activities and operation of the Fund during the year to which the report relates, which should include (a) the audited account of the Fund and Auditor-General's report on the account of the fund, and (b) such other information as the Board may consider necessary. The Minister for Education is in turn required to, within two months after the receipt of the annual report, submit it to Parliament with such statement as he considers necessary.

In December 2005, the Student Loan Trust Fund (SLTF) was established, in pursuance of the third sub-objective of the GETFund. The Student Loan Trust Fund Act of 2011, Act 820, has as its main objective the provision of financial resources for the benefit of students of tertiary institutions, to promote and facilitate the national ideals enshrined in Articles 25 and 38 of the 1992 Constitution, and to provide for related matters. The Student Loan Trust Fund was established to replace the previous Student Loan Scheme operated by SSNIT, which had been established in 1988 as part of the then government's cost-sharing approach to tertiary education financing. Thus, the establishment of the Student Loan Trust Fund was necessitated by the problems that bedeviled the SSNIT Student Loan Scheme. Because the government heavily subsidized the interest portion of the SSNIT Loan Scheme but failed to settle the subsidy on time, the government owed SSNIT large sums of money. For instance, in 2001, the government owed SSNIT US\$23.9 million (Rossouw, 2001). Also, the recovery rate of the Student Loan Scheme was very low. It is reported that in 2001, there was over GH¢50 million (equivalent to about US\$70 million at that time) in outstanding debt accrued under the Scheme, putting enormous pressure on the operations of SSNIT, thereby threatening the sustainability of the Scheme.

The newly established Student Loan Trust Fund is governed by a Board of Trustees whose members are appointed by the President. However, the day-to-day administration of the Trust Fund is carried out by a Chief Executive Officer (CEO) who is supported by a team of staff. The sources of funds to the Trust Fund are as follows: (a) money paid into the Fund representing up to ten per cent of the inflows into the Ghana Education Trust Fund, (b) voluntary contributions which are tax-deductible, (c) mobilization of resources from local and international partners interested in the advancement of tertiary education, (d) contributions from the corporate sector that shall be tax-deductible equivalent to 0.3% of the company's annual profit before tax, (e) loans from the Social Security and National Insurance Trust upon terms and conditions as shall be agreed upon, (f) donations, gifts, bequests and other monies from any Ghanaian or individual foreigner, local or foreign entity, (g) money from tax-exempt bonds issued with the approval of the Minister of Finance, (h) money that the Minister may determine, with the approval of Parliament, (i) loan repayments, fees and other money earned by the Fund in the performance of its functions, (j) money that accrues to the Fund from investments made by the Board, (k) one per cent of monies taken from the Communications Service Tax revenue, and (l) any other sources of funding that the Board in consultation with the Minister of Finance may determine.

To achieve the objectives of the Trust Fund, monies from the Fund are required to be applied to the relevant activities that the Board may determine, which include (a) the provision of financial support to tertiary level students of accredited tertiary institutions pursuing accredited tertiary programs, and (b) the provision of money to support other activities related to the promotion of programs and relevant courses in tertiary institutions, as determined by the Board in consultation with the Minister for Education.

### 3.4.3 How Well Has GETFund Been Managed and How Has It Performed?

Undoubtedly, GETFund was established at a time in the country's history when increased domestic financing for education was critically needed. GETFund has succeeded, to a large extent, in getting increasing amounts of money for educational financing in Ghana since its establishment. We can see from Table 4 that apart from 2009, 2012 and 2013<sup>7</sup>, the nominal value of annual transfers to GETFund has seen sharp increases. Also, apart from 2012 and 2013, transfer to GETFund as a percentage of domestic revenue has been quite stable, ranging from 3.4% to 4.7% from 2001 to 2015. Amounts flowing into GETFund increased from GH¢3.5 million or 0.7% of domestic revenue in 2000 to GH¢204.1 million or 4.7% of domestic revenue in 2008, and to GH¢1,103.2 million or 4.0% of domestic revenue in 2015.

Many analysts and experts in education have praised GETFund as having significantly contributed to educational improvement in the country, particularly with regard to tertiary education. Effah (2003) describes GETFund as a "landmark policy" in Ghana. Atuahene (2009) trumpets the successes of GETFund as follows:

*"The GETFund is having a remarkable and robust impact on the development of universities and polytechnics in the country, particularly in the area of infrastructure, which has over the years remained a huge challenge for institutions. Available figures from the 2008 education sector report of the Ministry of Education revealed the GETFund as the second major source of finance to the education sector, contributing 10 per cent and 12.9 per cent to government expenditure in 2006 and 2007 respectively. Universities are undergoing a period of renaissance and rapid reconstruction. Infrastructure, faculty research and development, and the promotion of postgraduate studies are among the key focus of the management of the Fund. The provision of financial support to the government scholarship scheme and the establishment of the new Student Loan Trust fund are marked examples of GETFund's success".*

Perhaps the success story of GETFund relative to the other earmarked funds can largely be attributed to the way the Management Board is constituted. Although the President appoints the members of the Board in consultation with the Council of State, most of them represent the interest of independent bodies and professional organizations that have a great interest and stake in educational improvement in the country, as we saw earlier. Also, the advocacy role played by students in checking the activities of the Fund cannot be overemphasized.

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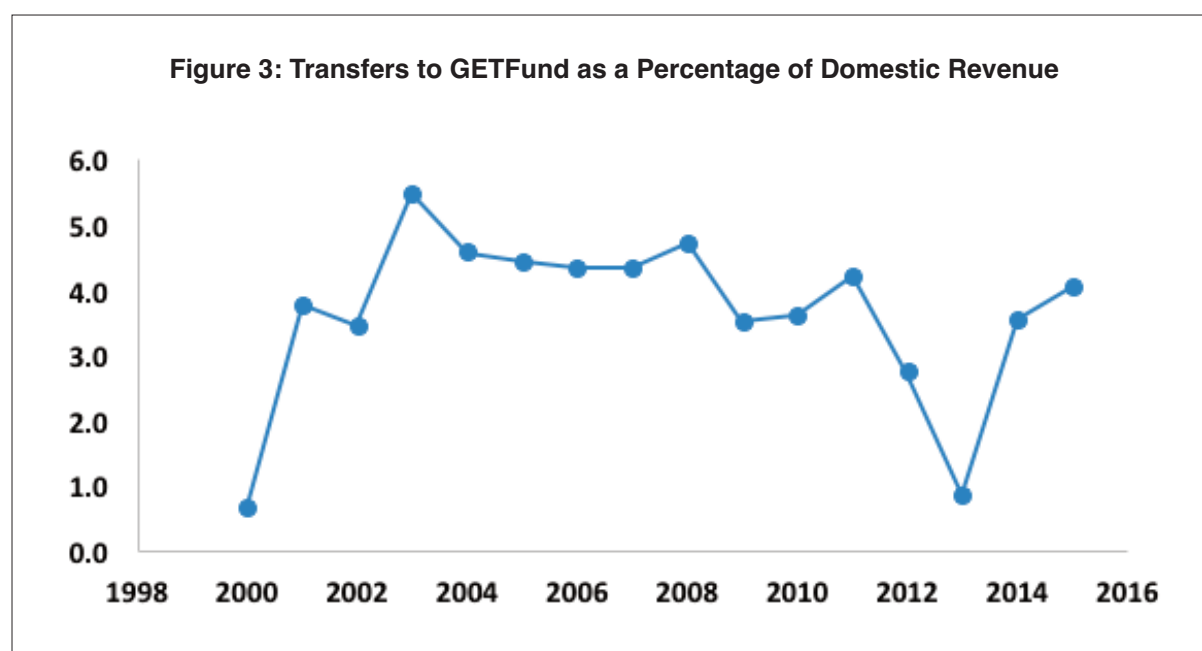
<sup>7</sup>As was discussed under the DACF, the reduction in inflows to GETFund (and some other earmarked funds) in 2009, 2012 and 2014 was used by the government as a strategy to help reduce the fiscal deficit, even though this contradicts the principles of earmarking.

However, despite these proclaimed successes of GETFund, it has not been without problems, challenges and limitations.

**Table 4: Annual Transfers to GETFund, 2000–2015**

Year	Transfers to GETFund (GH¢'million)	o/w arrears Paid (GH¢'million)	Transfers as a Ratio of Domestic Revenue (%)
2000	3.5	0	0.7
2001	26.0	12.0	3.8
2002	33.7	17.2	3.4
2003	75.1	4.3	5.5
2004	86.7	4.3	4.6
2005	102.3	4.3	4.4
2006	110.6	4.3	4.3
2007	147.7	4.3	4.3
2008	204.1	0	4.7
2009	188.2	49.2	3.5
2010	263.8	20.0	3.6
2011	462.4	141.8	4.2
2012	401.6	38.8	2.7
2013	151.1	0	0.8
2014	804.9	476.1	3.5
2015	1,103.2	180.1	4.0

Source of Data: Ministry of Finance Note: o/w stands for 'of which'.



Releases of monies from the central government to GETFund have largely been characterized by delays. For instance, as was pointed out under DACF, in its quest to reduce the budget deficit, the NPP government intentionally delayed the payment of 65% of money due to GETFund in 2001. This angered the leadership of NUGS, making the President of NUGS file a legal suit against the government in 2004 for lack of transparency in the transmission of the 2.5% of VAT receipts from the Internal Revenue Office to GETFund, even though in the 2003 budget statement the government had stated its plan to pay the debt due to GETFund (and DACF) in five yearly installments (Atuahene, 2009). In 2009, 2012 and 2013 the government withheld large portions of monies due to GETFund. We can see from Table 4 that because the government withheld large sums of money due to GETFund in 2013, transfers to the Fund decreased by as much as 62.4% from GH¢401.6 million in 2012 to only GH¢151.1 million in 2013. Also, transfers to GETFund as a percentage of domestic revenue, which averaged 4.1% from 2001 to 2012, reduced to only 0.8% in 2013. By such delays, the government interferes in the running of GETFund. This again means that the automaticity of revenue transfer that was intended to be achieved by earmarking under the GETFund is frequently undermined by the government.

Another challenge facing GETFund and limiting its success is cost overruns in its infrastructure projects due to late completion of projects. This issue has been raised by many stakeholders and interest groups. For instance, in a press release on 3rd August 2008, the president of the National Union of Ghana Students (NUGS) argued that the cost overruns in GETFund-funded projects were due to late completion of projects and diversion of funds by beneficiary institutions into other projects. In a report on the performance audit of GETFund-funded infrastructural projects in public tertiary institutions carried out by the Auditor-General and submitted to Parliament on 18th March 2013, it was found that GETFund and the National Council on Tertiary Education (NCTE) did not ensure that projects were adequately planned and due diligence carried out before commencement, thereby resulting in delays in completion and cost overruns due to variations which could have been minimized. The report moreover found that although allocations were made to the institutions based on a formula approved by Parliament, poor payment schedules from GETFund, coupled with the institutions undertaking several projects simultaneously, resulted in delayed payment for works done, which affected project progress, resulting in fluctuations and the payment of interest to contractors that caused cost overruns.

GETFund has also been faulted for having a poor or no monitoring system in place to ensure quality execution of projects by the institutions involved. Again, in the report of the performance audit on GETFund, the Auditor-General finds that the Technical Unit of GETFund and the National Council on Tertiary Education largely depend on the institutions to monitor and ensure project quality. Consequently, project quality is not always guaranteed, and GETFund has no means of knowing this because there is no formal reporting required by GETFund from the consultants.

Accusations have also been made against GETFund for awarding scholarships to students of rich and influential persons in society, and not the needy and brilliant students. This is both unfair and unproductive as it does little to promote educational development and national advancement. However, it is argued that some of these issues emanate from technical difficulties such as lack of adequate data on household incomes, thereby making it difficult for GETFund to be able to identify the poor and the needy who are otherwise bright students and thus eligible for scholarships. Nevertheless, this excuse

cannot justify the tilting of scholarship awards in favour of the children of the rich, which tends to widen the already large gap between the rich and the poor, thereby endangering social cohesion and retarding economic growth.

### **3.5 The National Health Insurance Fund (NHIF)**

#### **3.5.1 Background to the Establishment of the NHIF**

Health care in Ghana was totally funded from general taxation during the first decade after independence, implying that Ghanaians accessed health services without having to directly pay for them. However, this complete state-funded health care system was soon found to be unsustainable owing to the economic deterioration that began in the 1970s, which negatively affected resources available to the government. Thus, the health sector began to suffer a serious financing gap, which resulted in deterioration of health infrastructure as well as shortage of medicines and other supplies. As a result of this, Ghanaians were made to pay some user charges to cover part of the health care cost. However, because the user charges were quite low due to affordability and political reasons, the health sector continued to suffer financing challenges.

In the late 1980s and 1990s, the government sought to improve health financing through a series of credit facilities from the donor community. For instance, in January 1986, the government contracted a credit facility in the amount of US\$15 million from the World Bank, under the Health and Education Rehabilitation Project, to address the most urgent needs in the health and education sectors. On December 13, 1990, an amount of US\$27 million was again approved for Ghana by the World Bank under the Second Health and Population Project (HPP) to improve (a) the quality and coverage of health services, and (b) increase the availability and accessibility of family planning services. Also, supporting the government's Medium-Term Health Strategy "Towards Vision 2020" and the Program of Work 1997-2001, the World Bank approved for Ghana a credit facility amounting to US\$35 million on October 27, 1997. While these financing arrangements helped to replenish essential supplies including medicines, and also helped to restructure Ghana's health care system, it could not fill the large financing gap that existed. Consequently, the government expanded the user charges and fees starting from 1985, making Ghanaians financially responsible for almost their entire health care costs. This became known as the "cash and carry" system, which was very unpopular despite the government introducing an exemption system targeted at children under age 5, prenatal care, the indigent, and the elderly. This is because the exemption system was poorly funded and implemented, as many of those eligible for exemptions did not receive them.

The difficulties associated with the "cash and carry" system and the poorly implemented exemptions policy prompted some hospitals, particularly the mission ones, to introduce mutual health insurance schemes managed jointly by the hospitals and the communities concerned. By 2003, there were 168 Mutual Health Organizations covering about 1% of the Ghanaian population (Gobah and Liang, 2011).

Also, the unpopularity of the "cash and carry" system, resulting from the financial burden it placed on the average Ghanaian with respect to health care cost, made the main opposition party, the New Patriotic Party (NPP), use health care financing as a major campaign issue. The party proposed a state-sponsored health insurance system as its solution to the country's health financing difficulties. Therefore,



upon winning the December 2000 general elections and assuming power in January 2001, the new government set up an Inter-Ministerial Task Team comprising the Ministry of Health as the lead ministry, the Ministry of Finance, the Ministry of Local Government, the Ministry of Information, and the Ministry of Employment and Social Welfare to harness ideas from stakeholders including organized labour, civic society and professional organizations. After developing a policy framework in 2002 based on the ideas gathered, a bill was drafted by the Attorney General's Office, which, after going through executive deliberations and parliamentary processes, was passed in 2003 (Act 650), leading to the setting up of the National Health Insurance Fund (NHIF) and the associated National Health Insurance Scheme (NHIS). The Scheme was first piloted in 45 districts in 2003, and after the passage of the National Health Insurance Regulations, 2004 (L.I. 1809), claims payments started in 2005. In October 2012, the National Health Insurance Act, 2012 (Act 852) was passed to replace Act 650.

### 3.5.2 The Institutional Arrangement of the NHIF

The National Health Insurance Fund (NHIF) was set up by Act 650 with the objective of providing finance to subsidize the cost of provision of health care services to members of district mutual health insurance schemes. However, instead of subsidizing the cost of provision of health care services to members of the district mutual health insurance schemes, the NHIF was reprogrammed by Act 852 to pay for the cost of provision of health care services for members of the National Health Insurance Scheme.

Sources of revenue for the NHIF are (a) the National Health Insurance Levy, which is basically 2.5% VAT on goods and services; (b) 2.5% of each person's contribution to the Basic National Social Security Scheme; (c) monies that may be allocated by Parliament to the Fund; (d) monies that accrue to the Fund from investments; (e) grants, donations, gifts and any other voluntary contributions made to the Fund; (f) fees charged by the Authority in the performance of its functions; (g) contributions made by members of the Scheme; and (h) monies accruing under section 198 of the Insurance Act, 2006 (Act 742), which is a percentage of the emergency motor insurance premium. The National Health Insurance Levy and the 2.5% of each person's contribution to the Basic National Social Security Scheme represent the earmarked revenue sources to the Fund from the central government, which together constitute more than 90% of revenue to the NHIF.

To achieve the objective of the NHIF, monies from the Fund are required to be expended as follows: (a) to pay for the health care costs of members of the National Health Insurance Scheme; (b) to pay for approved administrative expenses in relation to the running of the National Health Insurance Scheme; (c) to facilitate provision of access to health care service; and (d) to invest in any other facilitating program to promote access to health service, as determined by the Minister for Health in consultation with the Board. Act 852 capped expenditure on non-core activities (i.e. functions other than (a) and (b) at 10% of the annual funding amount.

When first established by Act 650, the NHIF was managed by the National Health Insurance Council (NHIC). However, in 2012, the council was transformed into an authority, the National Health Insurance Authority (NHIA), by Act 852. In addition to managing the National Health Insurance Fund with the objective of providing access to health care services to the persons covered by the National Health

Insurance Scheme, as well as attaining universal health insurance coverage in relation to (a) persons resident in the country, and (b) persons not resident but who are on a visit to the country, the NHIA was charged to perform a number of other functions relevant to health insurance in Ghana. Among these functions are determining in consultation with the Minister for Health contributions that should be made by members of the National Health Insurance Scheme, registering and supervising private health insurance schemes, granting credentials to health care providers and facilities that provide health care services to members of the National Health Insurance Scheme, making proposals to the Minister for Health for the formulation of policies on health insurance, undertaking programs that further the sustainability of the National Health Insurance Scheme, and protecting the interest of members of private health insurance schemes (i.e. private mutual health insurance schemes and private commercial health insurance schemes). The Authority is governed by a Board consisting of a chairperson and 16 other members who are all appointed by the President in accordance with Article 70 of the Constitution. The day-to-day administration of the affairs of the Authority is the responsibility of the Chief Executive of the Authority, who is appointed by the President in accordance with Article 195 of the Constitution and who also serves as a member of the Board. The Chief Executive of the National Health Insurance Authority is assisted by other staff and 3 Deputy Chief Executives responsible for (a) Finance and Investment, (b) Administration and Human Resources, and (c) Operations.

### 3.5.3 How Well Has the NHIF Been Managed and How Has It Performed?

With the exception of 2006, 2008 and 2009, which saw declines in its values, transfers to the NHIF (the sum of NHIL and SSNIT contributions) have seen sharp increases since its inception in 2005. Transfers to the NHIF increased from GH¢98.5 million in 2005 to GH¢351.2 million in 2010 and to as much as GH¢1,132.0 million in 2015 (see Table 5). Also, with the exception of 2006, 2009, and 2011, annual transfers to the NHIF as ratios of domestic revenue have ranged from 4.0% to 8.5%.

**Table 5: Annual Transfers to the National Health Insurance Fund (NHIF), 2005–2015**

Year	Transfers to NHIF (GH¢'million)	Transfers to NHIF as Ratios of Domestic Revenue (%)
2005	98.5	4.3
2006	60.7	2.4
2007	291.8	8.5
2008	256.5	5.9
2009	153.8	2.9
2010	351.2	4.8
2011	377.0	3.4
2012	587.2	4.0
2013	752.8	4.2
2014	947.2	4.2
2015	1,132.0	4.1

Source of Data: Ministry of Finance

Note: Transfers to NHIF in 2009, 2010, 2011 and 2012 include arrears payments in the amounts of GH¢100.0 million, GH¢82.2 million, GH¢115.8 million and 127.9 million respectively. Arrears amounts for the other years were not available to the writer.

The National Health Insurance Fund continues to provide expanded coverage for the National Health Insurance Scheme, which has resulted in increased accessibility and utilization of health care services in the country. According to the National Health Insurance Authority, active membership of the NHIS increased by 7 times from 1.3 million in 2005 to 8.9 million in 2012. This represented about 34% of the country's population, which is a huge improvement over the 1% of the population that was covered by health insurance before the establishment of the National Health Insurance Fund and its associated institutions. Outpatient utilization of NHIS also increased by 40 times from 598,000 in 2005 to 23.9 million in 2012, while inpatient utilization increased by 48 times from 29,000 in 2005 to 1.4 million in 2012. Furthermore, claims payment increased by 81 times from GH¢7.6 million in 2005 to GH¢616 million in 2012.

The NHIS has been found to have had substantial positive effects on several aspects of health care delivery in Ghana. After just three years since it began operations, the proportion of patients who consulted skilled health care providers increased by 17%, from 45% in 2005 to 62% in 2008, because of increased health insurance coverage due to the NHIS (NDPC 2009). Also, babies delivered with the assistance of skilled personnel increased from 50% in 2005 to 72% in 2008, suggesting that the NHIS has significantly improved access to health care by pregnant women, with positive implications for maternal mortality and complications associated with child birth.

However, despite these results, the NHIF faces serious management challenges, especially since the past few years, which have greatly limited the performance of the Fund and the Scheme it funds.

A major challenge facing the NHIF is that its sustainability has come under serious threat. The rapid expansion in membership of the Scheme, resulting in increased outpatient and inpatient utilization of health care services as discussed above, has put enormous pressure on the Fund, since premiums remain very low due to the Scheme's social intervention orientation. Thus, as was pointed out earlier, the National Health Insurance Levy and the 2.5% of each person's contribution to the Basic National Social Security Scheme, which do not vary with the size of enrolment and utilization, constitute over 90% of revenue flow into the NHIF, with the variable revenue sources (health insurance premiums and registration fees) constituting less than 5%.

Another important factor draining the NHIF and thus affecting its sustainability is fraudulent activities on the part of health care providers. According to the NHIA, a number of audits conducted by the Authority have found several cases where health care providers use names of subscribers in good standing, forge claims and submit them for payments. Audits have further found several claims by providers for subscribers visiting two or three health facilities at the same time. Moreover, some providers share data and by doing so inflate their claims. Audit teams have found several instances, according to the Authority, where information on hospital folders do not tally with claim forms of the service providers. What makes these fraudulent activities more worrisome is that they began to be detected at the early stage of the implementation of the NHIS, yet the National Health Insurance Authority seems incapable of meaningfully addressing them, thereby making these fraudulent activities continue to drain the Fund and thus pose risks to the Scheme's sustainability. Thus, measures instituted by the Authority to check these fraudulent activities, such as the establishment of a Consolidated

Premium Account (CPA), the strengthening of the Clinical and Internal Audit Divisions, the linking of treatment to diagnosis, the use of a new prescription form, the establishment of Claims Processing Centers (CPCs) and the introduction of capitation as an additional provider payment mechanism beginning with a pilot in the Ashanti Region, have not been enough. In fact, the Audit Service has found that monitoring of health service providers by the NHIA is done on an ad hoc basis.

Now, because of the funding challenge, the Authority has proposed to the government to increase the Health Insurance Levy, allocate into the NHIF 5% of the Road Fund, put an additional levy on tobacco and alcoholic drinks and allocate the proceeds to the NHIF, and apportion to the Fund 20% of the Communications Service Tax (CST). However, the government has not responded favourably to these proposals because all the sectors of the economy direly need additional financial boosts due to the weak performance of the economy in recent years.

Ensuring effective claims management is another big challenge facing the NHIA, which is undermining confidence in the NHIS. Payments of claims to health care providers have long seen delays. In the past few years, however, several reports have emerged to show that these delays have been quite prolonged. Part of this problem is due to claim managers not being able to finish vetting the claims on time, since, according to the Auditor-General, some claim officers lack requisite skills and knowledge. However, the major reason for the long delays in payment of claims is because the NHIA does not release funds for the payment of claims on time, due largely to the financial challenges the Authority is facing. It is, however, fair to point out that the Authority charges that some service providers also delay in submitting claims for payment. Because of the delays in the payment of claims, many service providers, especially the pharmacies, have begun to be hesitant to accept the National Health Insurance cards as a means for accessing services by subscribers. And where services are provided, poor service delivery by the health care providers to the NHIS subscribers because of the delays in payment of claims have been widely detected, which frustrates subscribers. To receive better services, subscribers are usually made to pay what the Universal Access to Health Care Campaign (UHCC) calls "illegal fees". Another issue with respect to claims management is that irregularities have been identified in the claims vetting process because of weak internal controls. The weak internal controls, according to the Auditor-General, result from the absence of strong internal audit units and segregation of duties.

Like the other earmarked funds, the NHIF is facing the challenge of political interference. The two main political parties have used the NHIS as a political campaign tool, thereby overstressing the NHIF. For instance, in the heat of the 2008 general elections campaign, the then ruling NPP government introduced in July 2008 the policy of free maternal care for all pregnant women by the NHIS. Also, the main opposition party at the time, the NDC, promised introducing a one-time premium payment for NHIS subscribers, which it has not implemented since winning the elections and taking office in January 2009. While it cannot be denied that these policies could be of benefit to the poor, their non-targeted nature and their use as campaign messages clearly point to political motivations behind them. Indeed, if the NHIS continues to be used as a political tool in this fashion, it would not be long before it completely collapses, as the Fund would be woefully insufficient to support the Scheme.

### **3.6 The Ghana Petroleum Funds (GPFs)**

#### **3.6.1 Reasons for the Establishment of the GPFs**

The discovery of oil in commercial quantities in 2007 and its extraction starting from December 2010 brought a great deal of hope for the government and the people of Ghana, as the oil was poised to provide an additional source of revenue for the country's development. However, seeing that a number of countries in the developing world in general, and sub-Saharan Africa in particular, rather witnessed economic stagnation or in some cases economic retardation following the discovery and extraction of oil resources, because of the mismanagement of the oil revenue (the Oil Curse), the government of Ghana resolved to put the necessary system in place to ensure effective management of the oil revenue so that the discovery and extraction of oil become a blessing for the country rather than a curse. The government therefore passed the Petroleum Revenue Management Act (PRMA), 2011 (Act 815). The Act was designed to provide the framework for collection, allocation and management of petroleum revenue in a responsible, transparent, accountable and sustainable manner for the benefit of the citizens of Ghana in accordance with Article 36 of the constitution and related matters. In pursuit of this objective, the PRMA established the Ghana Petroleum Funds, which are the Ghana Stabilization Fund (GSF) and the Ghana Heritage Fund (GHF).

#### **3.6.2 The Institutional Arrangement of the GPFs**

The Ghana Petroleum Funds are managed by the Bank of Ghana within the framework of the operational and management strategy provided by the Minister of Finance, who is also advised by an advisory committee, the Investment Advisory Committee (IAC), established by the PRMA. A Public Interest and Accountability Committee (PIAC) has also been established to monitor and evaluate compliance with the PRMA by the government and other relevant institutions in the management and use of the petroleum revenue. The committee is also charged to provide space and platform for public debate with respect to the management of the petroleum revenue.

Petroleum revenues in excess of Annual Budget Funding Amounts (ABFA) are required to be deposited into these funds. The ABFA from petroleum revenue is required by the Act not to exceed 70% of the Benchmark Petroleum Revenue. Of the amount to be transferred into the Ghana Petroleum Funds, not less than 30% is required to be transferred into the Ghana Heritage Fund and the balance transferred into the Ghana Stabilization Fund. The Benchmark Petroleum Revenue is required to be estimated and certified by the Minister of Finance not later than 1st September each year. The Annual Benchmark Revenue from petroleum is further required to be calculated on the basis of actual and expected average unit price for crude oil and natural gas derived from a seven-year moving average, the seven years being the four years immediately preceding the current financial year, the current financial year itself, and two years immediately following the current financial year. Also, the quantity to be used for the estimation of the Benchmark Revenue from petroleum is required to be calculated on the basis of expected average government take in gross oil over a three-year horizon, the three years being the immediately preceding year, the current financial year, and the one year forward projection following the current financial year.

The Ghana Heritage Fund was established with the objective of providing an endowment to support the development of future generations when the petroleum reserves have been depleted, while the

Ghana Stabilization Fund was established by the Act with the objective of cushioning the impact on or sustaining public expenditure capacity during periods of unanticipated petroleum revenue shortfalls. Therefore, when there is a shortfall in petroleum revenue due to, say, a fall in actual petroleum price below the price used to calculate the Benchmark Revenue, withdrawals may be made from the Ghana Stabilization Fund to make up for the shortfall in order not to throw overboard the government's spending program, thereby helping to mitigate the negative impact of the petroleum price fall. As for the Ghana Heritage Fund, withdrawals from it cannot be made until the depletion of the country's oil reserves.

After implementing the PRMA for four years, a number of limitations were encountered. Prominent among them was that transfers into the Ghana Petroleum Funds were subject to the actual petroleum revenue exceeding the Annual Budget Funding Amounts (ABFAs). Therefore, if the government was unable to meet its petroleum revenue targets due to overestimation, nothing got transferred to the Ghana Petroleum Funds. Another significant limitation was that the PRMA did not make provisions for the review of the Benchmark Petroleum Revenue once determined, certified and approved by Parliament, irrespective of the movement of the actual petroleum prices, thereby generating an artificial budgetary imbalance, which encouraged the government to withdraw from the stabilization fund. As an example, having estimated the Benchmark Petroleum Revenue for the 2015 budget using a projected price of US\$99.38 based on the pre-determined formula given by the Act, it was ascertained even before the 2015 budget began to be implemented that the actual price of crude oil was going to stay below US\$60 in 2015. Yet, because it could not review the Benchmark Revenue and thus possibly make adjustments to expenditure, the government withdrew an amount of US\$53.69 million from the Ghana Stabilization Fund in the first quarter of 2015 to help cover the budgetary imbalance that emerged. Another issue identified with the Petroleum Revenue Management Act of 2011 was that a number of inconsistencies and typographical errors were found in the Act. The Petroleum Revenue Management Act of 2011 was therefore amended in July 2015 by passing the Petroleum Revenue Management (Amendment) Act, 2015 (Act 893) to address the limitations, inconsistencies and errors. It is, however, important to point out that one of the main reasons for the amendment was to permit the allocation of part of the Annual Budget Funding Amount into the Ghana Infrastructure Investment Fund, which had been established in 2014 for the purpose of infrastructure development. To this end, Section 21 of Act 815 was amended to provide for the allocation of a maximum of 25% of the public investment expenditure component of the ABFA (which is 70% of the ABFA) into the Ghana Infrastructure Investment Fund.

### 3.6.3 How Well Have the GPFs Been Managed and How Have They Performed?

The closing book value of the Ghana Stabilization Fund (GSF) increased sharply by 309.3% from US\$71.90 million in 2012 to US\$319.03 million in 2013 (See Table 6) owing to a sharp increase in oil revenue inflow into the Fund in 2013, from US\$16.9 million in 2012 to US\$247.7 million in 2013. However, although the oil revenue inflow into the Ghana Stabilization Fund further increased to US\$275.8 million in 2014, the Fund's closing book value decreased by 10.2% to US\$286.64 million in 2014. The reason was that US\$17.4 million and US\$288.3 million were transferred from the GSF into the newly established Contingency Fund and the Debt Service Account for Debt Repayment respectively. In fact, by the end of September 2015, the closing book value of the Ghana Stabilization Fund had further decreased by



14.5% to US\$245.02 million due to the sharp drop in crude oil price, which caused oil revenue inflow into the GSF to stand at only US\$11.6 million from Jan-Sep 2015, while the government at the same time withdrew US\$53.7 million from the GSF to cover shortfalls in budgetary revenue.

**Table 6: The Closing Book Values of the Ghana Petroleum Funds (US\$)**

	2012	2013	2014	2015 (Jan–Sep)
GSF	71,898,588	319,034,153	286,644,044	245,020,291
GHF	21,694,221	128,125,943	248,915,220	257,159,312
COMBINED	93,592,809	447,160,096	535,559,264	502,179,603

*Source: Adapted from the 2015 Annual Report on the Petroleum Funds prepared by the Ministry of Finance.*

For Ghana Heritage Fund (GHF), because withdrawals and transfers cannot be made from it, it continuously saw increases with respect to its closing book value from 2012 to September 2015. The closing book value of the GHF increased by a whopping 490.3% from US\$21.7 million in 2012 to US\$128.1 million in 2013 and further by 94.3% to US\$248.9 million in 2014. However, because of the sharp decline in crude oil price, which caused the amount of oil revenue inflow into the GHF to decrease from US\$116.5 million in 2014 to only US\$4.98 million from Jan-Sep 2015, the closing book value of the GHF only increased by 3.3% to US\$257.2 million by the end of September 2015.

Because of the sharp increases in both the GSF and GHF in 2013, the combined fund increased by 377.8% in 2013 from US\$93.6 million in 2012 to US\$447.2 million. In 2014, however, the combined fund recorded an increase rate of only 19.8% to stand at US\$535.56 million due to the decrease in the GSF resulting from the transfers to the Contingency Fund and the Debt Service Account for Debt Repayment. By the end of September 2015, the closing book value of the combined fund had declined by 6.2% to stand at US\$502.18 million in response to the further decline in the closing book value of the GSF, which outweighed the increase in the closing book value of the GHF.

The discussion in the previous subsection clearly shows that having discovered oil in commercial quantities in 2007, Ghana did very well by putting in place a transparent system to ensure effective management of the oil revenue. The Ghana Petroleum Funds set up by the PRMA have been praised by many analysts as providing an effective and transparent mechanism for managing the oil revenue, as they provide well-defined means of national savings and fiscal stabilization. For instance, the Revenue Watch Institute argued in a report released in 2014 that the Ghana Petroleum Funds are well governed as they have clear deposit, withdrawal and investment rules with effective oversight and other essential attributes of good governance, which should prevent mismanagement. The report further revealed that the Ghana Petroleum Funds met 13 out of 16 good governance fundamentals and that it is the best in Africa. According to the Auditor-General, distribution of the oil revenues to the Petroleum Funds and for other uses has practically been in line with the PRMA.

However, the use of the Ghana Petroleum Funds as a means of managing the oil revenue has been criticized because the Funds have too high opportunity costs. The reason is that the GPFs attract too

little rates of return (see Table 7). In fact, since 2012, the highest net rate of return the combined fund has attracted is 1.1% in 2014. In 2012, the combined fund attracted only 0.28% as the net rate of return. On average, the net rate of return of the combined fund from 2012 to September 2015 stood at only 0.67%.

**Table 7: Return on the Ghana Petroleum Funds (combined)**

	2012	2013	2014	Jan–Sep 2015
<b>Closing Book Value (US\$)</b>	93,592,809	447,160,096	535,559,264	502,179,603
<b>Net Return (US\$)</b>	262,207	2,519,142	5,851,350	3,702,998
Investment Income (US\$)	274,258	2,540,105	5,881,040	3,719,428
Less Bank Charges (US\$)	(12,051)	(20,963)	(29,691)	(16,431)
<b>Net Rate of Return (%)</b>	0.28	0.57	1.10	0.74

*Note: Net Return was deducted from the Closing Book Value before calculating the Net Rate of Return.*

*Source: Adapted from the 2015 Annual Report on the Petroleum Funds prepared by the Ministry of Finance.*

Yet, the state of the country's infrastructure in all forms is very poor, implying that the foundation on which the economy of Ghana stands is very weak. Some people have therefore argued that rather than establishing the Ghana Petroleum Funds as saving mechanisms overseas with very low rates of returns, it would have been better if the country had directed the amounts towards the development of the country's infrastructure and thus help provide a more solid foundation for the economy to stand on. This would not only help to propel the economy to grow and develop at faster rates for the benefit of both the current and future generations, but it would also make the economy more resilient to shocks.

What makes the use of the Ghana Petroleum Funds as a means of managing the oil revenue more worrisome in the face of the huge infrastructure deficit is that the country continues to borrow at very high rates of interest for infrastructure development, while part of the oil revenue continues to be kept in savings attracting insignificant rates of return. For instance, the government borrowed US\$1 billion in 2015 for infrastructure development at an interest rate of 10.75%, while the country had a little over US\$0.5 billion in the Petroleum Funds attracting a mere 0.74% rate of return, which is 14.5 times lower. Is this a good bargain? Indeed, after the discovery of the oil it was feared that allowing all the oil revenue to flow into the hands of politicians in the name of infrastructure development could be too costly for the nation because of the perceived corruption in government, which was one of the main reasons for the establishment of the Ghana Petroleum Funds. Yet, if the country has been able to develop strong transparency mechanisms to govern the Ghana Petroleum Funds, couldn't it have been able to do same with respect to the use of the funds for infrastructure development, and thus help lay a stronger foundation for present and future development while minimizing the amount and cost of borrowing?

## 4.0 Discussion of the Main Findings and the Key Issues Raised

Undeniably, the reasons for the establishment of the various earmarked funds in Ghana are quite plausible. The earmarked funds have been established to play important roles in the socioeconomic development of the country. According to the government, it is the crucial nature of these roles that has necessitated the making of the funding process automatic and thus devoid of political and administrative wrangling. To ensure that the earmarked funds are able to play these roles effectively, the government, through the underlying acts, has for the most part established standard frameworks to govern the administration and management of each fund. Accountability mechanisms have also been put in place to ensure that bad practices, both at the governmental and administrative levels, are minimized. Therefore, one could argue that the earmarked funds in Ghana have been given what is necessary for them to succeed.

Nevertheless, as we saw from the analyses in Section 3, the earmarked funds have generally performed poorly and have largely failed to pass the first two “usefulness” criteria we mentioned in Section 2, which are (a) the automaticity of funds transfer criterion, and (b) the administrative/managerial effectiveness/efficiency criterion.

The central government has repeatedly flouted the earmarking principle of automaticity of funds transfer despite the various underlying acts clearly forbidding so – the acts establishing these funds have all set rules spelling out clear timelines for the transfer of the earmarked revenues to the management boards. As pointed out in Section 3, the government has been using delays in the transfers of the earmarked revenues to the various boards as a deficit-management strategy. Whenever the government finds itself in a tight fiscal corner following excessive spending leading to fiscal slippages, particularly in election years, one of its first recourses is to withhold large portions of the earmarked funds. With the exception of the Petroleum Funds, all the earmarked funds suffer from this problem. This is the reason why the government is almost always having arrears to pay with respect to these funds.

The deliberate and rampant withholding of the earmarked revenues for long periods of time, and thus the flouting of the automaticity principle of earmarking, are defeating the purpose of earmarking in Ghana. Why should the government bother itself to set up earmarking arrangements by establishing management boards, putting in place administrative structures, passing statutes dictating the amount of revenues to transfer to the boards, and setting revenue transfer timelines but go ahead to disregard the timelines it has itself set? Definitely, the government cannot expect to achieve its earmarking objectives, however lofty they may be, if the automaticity of funds transfer that is intended in revenue earmarking continues to be flouted by directing large sums of earmarked revenues for other purposes.

The causes of the administrative ineffectiveness/inefficiency with regard to the earmarked funds in Ghana are many. Prominent among them are high administrative costs, corruption and administrative malpractices, political interference, and political expediency.

One reason for the high administrative costs is that, relative to the economy’s average income and salaries of other public sector workers such as workers in the civil service, salaries and allowances

paid to the boards of directors and officers of the earmarked funds are very high. For instance, in 2002 the Executive Secretary of Civil Servants Association, Mr. Smart Chigabatia, described the monthly salaries of the Director-General and the Deputy Director-General of the Social Security and National Insurance Trust (SSNIT) as preposterous. This was because while Ghana's annual per-capita GDP stood at only US\$306.6 in 2002 according to data from the World Bank, the Director-General of SSNIT and his deputy received monthly salaries of US\$12,500 and US\$8,500 respectively. Another reason for the large administrative costs of the earmarked funds is that the managers are fond of engaging in extravagant and ostentatious spending as if they are unaware of the core mandates of the funds. As an example, while public universities and other educational institutions in the country continue to lack adequate infrastructural facilities, thereby affecting educational delivery in Ghana, Ghana Education Trust Fund (GETFund) in 2015 budgeted to allocate GH¢10 million for the construction of an office complex. In the same year, GETFund budgeted to support the Ministry of Education and subvented agencies to the tune of GH¢15 million, mainly for the acquisition of vehicles and monitoring of projects (Business and Financial Times, April 13, 2015). The high administrative costs of the earmarked funds due to the high salaries and allowances paid to directors and officers as well as the extravagant use of monies from the funds are undermining their performance with respect to the roles they have been assigned to play in the country's socioeconomic development, thereby contributing to defeat the purpose of revenue earmarking in Ghana.

As we clearly saw in Section 3, managers and administrators of many of the earmarked funds in Ghana have repeatedly been cited in the Auditor-General's Reports as having engaged in administrative malpractices and corruption. Sadly, most of these culprits do not get prosecuted, which is in turn entrenching the culture of corruption in the management and administration of the funds. As we learnt in Section 2, one reason used by supporters to justify the setting up of revenue earmarking is the need to circumvent political corruption so as to ensure effective utilization of national resources. Now, with this widespread and entrenched corruption and administrative malpractices in the management of the earmarked funds, what the nation basically keeps on doing by continuously setting up earmarking arrangements is complicating the fight against corruption, as the fight is now on two sets of fronts – the national/political front and the agencies managing the earmarked funds. Administrative malpractices and corruption are therefore undermining the usefulness of revenue earmarking in Ghana and thus posing more challenges with regard to the effective utilization of national resources.

From the formulation of politically-motivated policies for the earmarked funds through the appointment of new management boards whenever there is a change in government to direct interference in the funds' management and administrative decisions for political gains, political interference and expediency are posing serious challenges to the effective management and administration of the earmarked funds in Ghana, thus undermining the usefulness of revenue earmarking in the country. Even though most of the earmarked funds suffer from these political problems as demonstrated in Section 3, the Road Fund seems to be affected the most. Due to political expediency road tolls and other sources of revenue for the Road Fund are not reviewed as frequently as necessary, while due to political interference the Road Fund is always overwhelmed by arrears. It is therefore not surprising that relative to the other earmarked funds, the Road Fund has been performing very badly with regard to revenue, as depicted by Figure 2A and Figure 2B in Subsection 3.3.

## 5.0 Policy Recommendations

It has been demonstrated in this paper that despite the important roles earmarked funds in Ghana have been assigned to play, most of them have not performed as effectively as expected due to a number of problems, which are quite entrenched. The usefulness of revenue earmarking in Ghana is clearly undermined by these problems. Therefore, unless there is clear evidence that an earmarking arrangement is essential, setting up more in Ghana cannot be justified. How can the government continue to establish new earmarking arrangements while, apart from a handful, the existing ones have not been as useful as expected and nothing meaningful is done to put an end to the problems hindering their performance? The government should, therefore, put an end to the current practice of setting up a new earmarking arrangement every couple of years, if the existing circumstances do not change. It is important for the government to recognize that it does not have to establish an earmarked fund before it can successfully implement important programs.

The existing earmarked funds should also be reviewed. Those that are performing poorly and can be closed down and the monies involved incorporated into the general budgeting process without negative consequences should be closed down. It is important, however, to note that if the government does not improve upon the degree of transparency with which it manages the country's fiscal affairs and thus do away with corruption in government, it will find it difficult to get public support for the closure of some of these funds, if even clear evidence exists to show that nothing will be lost if they are incorporated into the general budget. After all, what would be the gain if one form of poor management is transformed into another?

To ensure that the earmarked funds are able to effectively play their assigned roles and thus make them more useful in the management of the country's fiscal resources, the government ought to find ways to solve the management challenges that are hindering their effective performance. In this regard, the government should itself follow the rules governing the earmarked funds. How can the government that is required to enforce the rules governing the funds fail to obey them? Transfers to the earmarked funds should therefore be made in accordance with the timelines set by the various underlying acts. This will not only ensure the smooth operations of the earmarked funds for improved performance, but it will also provide the justification for the continuous existence of the funds, since the very essence of revenue earmarking is having an automatic system of transfer of the earmarked revenue to the agencies involved.

As at the end of 2013 about 35% of all government revenues were earmarked. Effective and efficient management of the earmarked funds by the management boards is therefore essential. To achieve greater management efficiency, the government does not only have to ensure that the management boards of all the earmarked funds sign strong performance contracts, the contracts have to be taken seriously and the provisions therein enforced to the letter by the government. Appropriate measures have to be taken by the boards to minimize costs, with cost minimization serving as one of the performance assessment measures in the performance contracts. Salaries and allowances of the board members and officers of the funds have to be streamlined and rationalized to reflect the country's low income levels and in accordance with the broader public sector pay structure. This will ensure that

allowances and salaries paid to the board members and officers of the earmarked funds do not eat too much into the earmarked revenues meant for developmental purposes or any other purpose for which the funds were established. Frivolity and extravagance in spending the earmarked funds should also not be tolerated by the government. In fact, all these will be meaningful if, as part of the provisions in the performance contracts, serious periodic reviews are instituted by which the operational affairs of the funds will be critically examined.

Given again that a significant proportion of total government revenue is currently earmarked, corruption and malpractices with respect to the management and use of the earmarked funds should be given high priority and seriously addressed. Strong sanction mechanisms should be instituted to deter corrupt practices and inappropriate use of the earmarked funds. The government should not shy away from prosecuting board members and officers of the earmarked funds who are identified to have been involved in corruption and malpractices. This should be done without any consideration for party or tribal affiliation.

By establishing earmarked funds the government has decided to delegate part of its fiscal functions to the management boards. Therefore, the boards have to be allowed to discharge their functions responsibly and in the interest of the people. But how can the boards be expected to function in a more responsible and efficient manner if the government keeps on interfering in the operational affairs of the boards for political gains? Unnecessary and unproductive political interference in the day-to-day operations of the earmarked funds must therefore stop. Also, general policy guidelines adopted by the government to guide the operations of the earmarked funds should be based solely on economic reasons and not political expediency. Indeed, if the government does not do away with political expediency and unproductive interference, earmarked funds like the Road Fund that has been found to be highly underperforming cannot be expected to improve their performance.

Overall, it should be emphasized that the poor performance of most of the earmarked funds in Ghana is the result of the fact that rules governing them are not totally followed by both the government and the funds' managers. Strict enforcement of the existing rules governing the earmarked funds is therefore essential if the government wants the performance of the funds to improve to justify their continuous existence.

## 6.0 Conclusion

Since the beginning of the Fourth Republic, Ghana has increasingly been using revenue earmarking as a fiscal practice. Currently, the country has 11 active earmarking arrangements with one more in the pipeline. Before the Fourth Republic, Ghana had only two revenue earmarking arrangements. The establishment of the District Assemblies Common Fund by the 1992 constitution and its success in providing continuous funding for local development without political wrangling has served as a catalyst for the proliferation of revenue earmarking.

Earmarking has its advantages and disadvantages. However, for earmarking to be useful as a budgeting practice, the funds involved have to be well managed, the government should allow the



earmarked revenues to flow into the programs concerned in an automatic manner, and earmarking should not lead to fiscal complications and difficulties.

After critically examining 7 earmarked funds in Ghana, it was found that most of the funds have been managed inefficiently, performed poorly and failed to fully pass the usefulness criteria. With the exception of the GPFs, transfers to the earmarked funds have been largely non-automatic as large amounts of monies due to the funds are withheld by the government for other purposes for long periods of time, thereby making the government usually owe the earmarked funds large arrears. High overhead costs, corruption and management/administrative malpractices and political interference and expediency have been the major factors limiting the efficiency and effectiveness of the earmarked funds.

Due to the entrenched nature of these problems and the fact that there are no signs that something concrete is being done to solve them, the government should put an end to the establishment of new earmarked funds unless they have been found to be absolutely essential. The existing earmarked funds should also be reviewed so that those that are found to be doing very badly and that can be incorporated into the general budget process without problems should be incorporated. To ensure that the existing earmarked funds are able to play their assigned roles effectively and thus justify their continuous existence, the government should not only ensure that the automaticity of funds transfer principle of earmarking is observed, but it should also find ways to solve the problems hindering the effective performance of the funds. Ways have to be found to reduce costs, and do away with corruption and management malpractices. Unnecessary interference in the operations of the earmarked funds for political gains should also be avoided.

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