

REVENUE EARMARKING IN GHANA: MANAGEMENT AND PERFORMANCE ISSUES

Leslie Dwight Mensah
Institute for Fiscal Studies
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Introduction

- Revenue earmarking 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.
- The main goal 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.***
- Types: Constitutional or Statutory, Partial or Full, Strong or Weak
- >30% of Ghana government revenue and grants earmarked

Earmarking in Ghana

□ Historical Development

- Not common before Fourth Republic: Had only Social Security and Road Fund
- Increasingly practiced in the Fourth Republic
- 10 more major earmarking arrangements instituted since 1992, but 2 have been abolished, leaving 8 that are operational

□ Earmarking Arrangements since 1992

- District Assemblies Common Fund (DACF)
- Ghana Education Trust Fund (GETFund)
- National Health Insurance Fund (NHIF)
- Petroleum-Related Funds

Earmarking Arrangements since 1992

- MDAs Retention of Internally Generated Funds
- Ghana Petroleum Funds
 - Ghana Stabilization Fund
 - Ghana Heritage Fund
- Earmarked Transfers to the Ghana National Petroleum Corporation (GNPC)
- Ghana Infrastructure Investment Fund (GIIF)

Earmarking as a Budgeting Practice

The Arguments

- In Favour
 - Guarantees funding, leading to better planning
 - Ensures lower cost and speedy completion of projects
 - Overcomes resistance to tax increases
 - Satisfies the benefit approach to equity in taxation
- Against
 - Generates budget rigidities
 - Receives less review or scrutiny
 - Leads to misallocation of resources
 - Infringes on the government's discretionary powers
- The Common Ground
 - Earmarked funds should be effectively and efficiently managed
 - Automaticity of funding that is intended should not be tampered with
 - Earmarking should not lead to fiscal complications

Performance and Management of Earmarked Funds in Ghana

Social Security Fund

- ❑ Social security earmarking in its current form began in 1965 under Act 279, which established the Social Security Fund
- ❑ Currently known as Tier 1 of the Three-Tier Pension Scheme
- ❑ The SSF receives mandatory contributions from workers, which are invested to fund retirement benefits

Active Contributors, Total Contributions and Total Benefits Paid by SSNIT, 2009-2013

Year	Number of 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
2014	1,189,168	1,784.43	941.27

Source: SSNIT, 2013 and 2014 Annual Reports

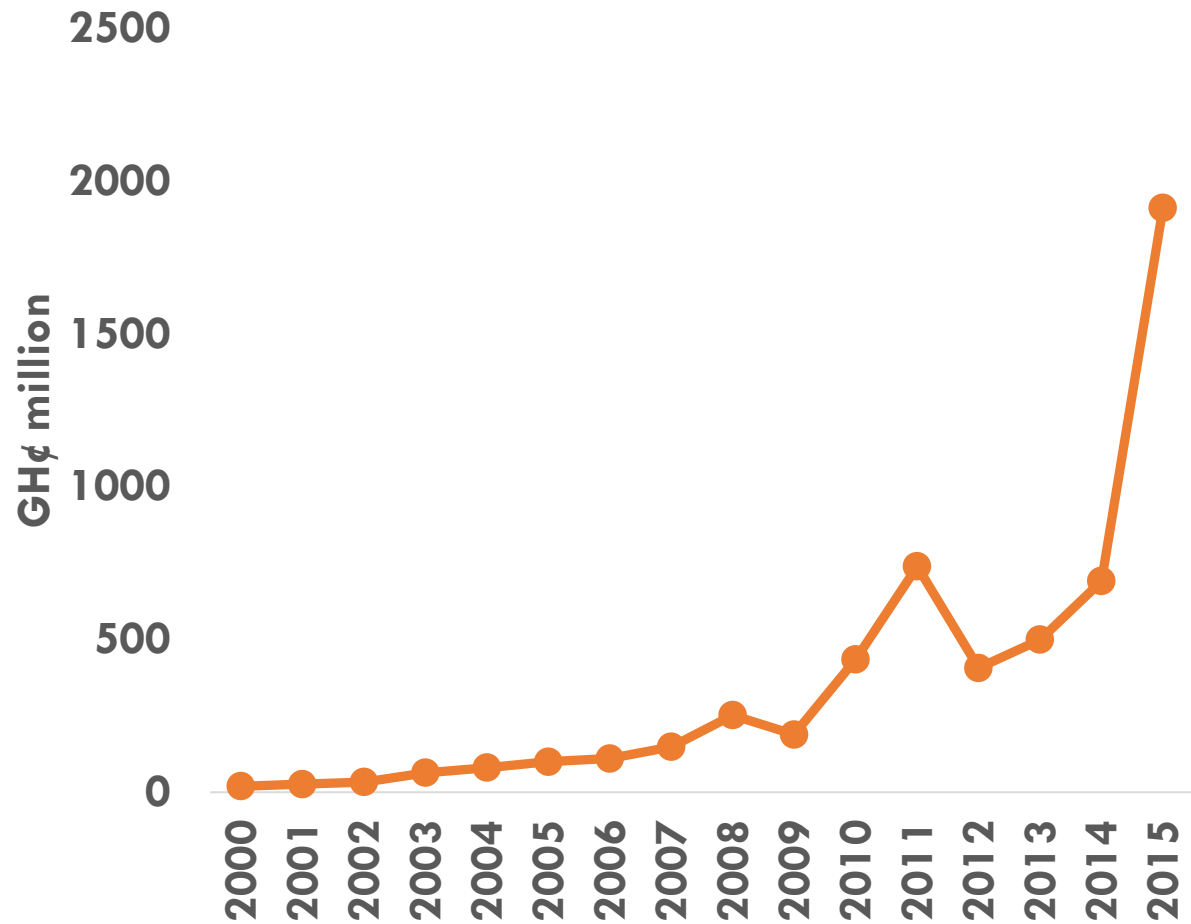
Challenges of the Social Security Fund

- ❑ Very high administrative costs
- ❑ Low historical real rates of return
- ❑ Low benefits (monthly pensions) paid to retired workers
- ❑ Automaticity of revenue transfer is frequently undermined by delayed transfers

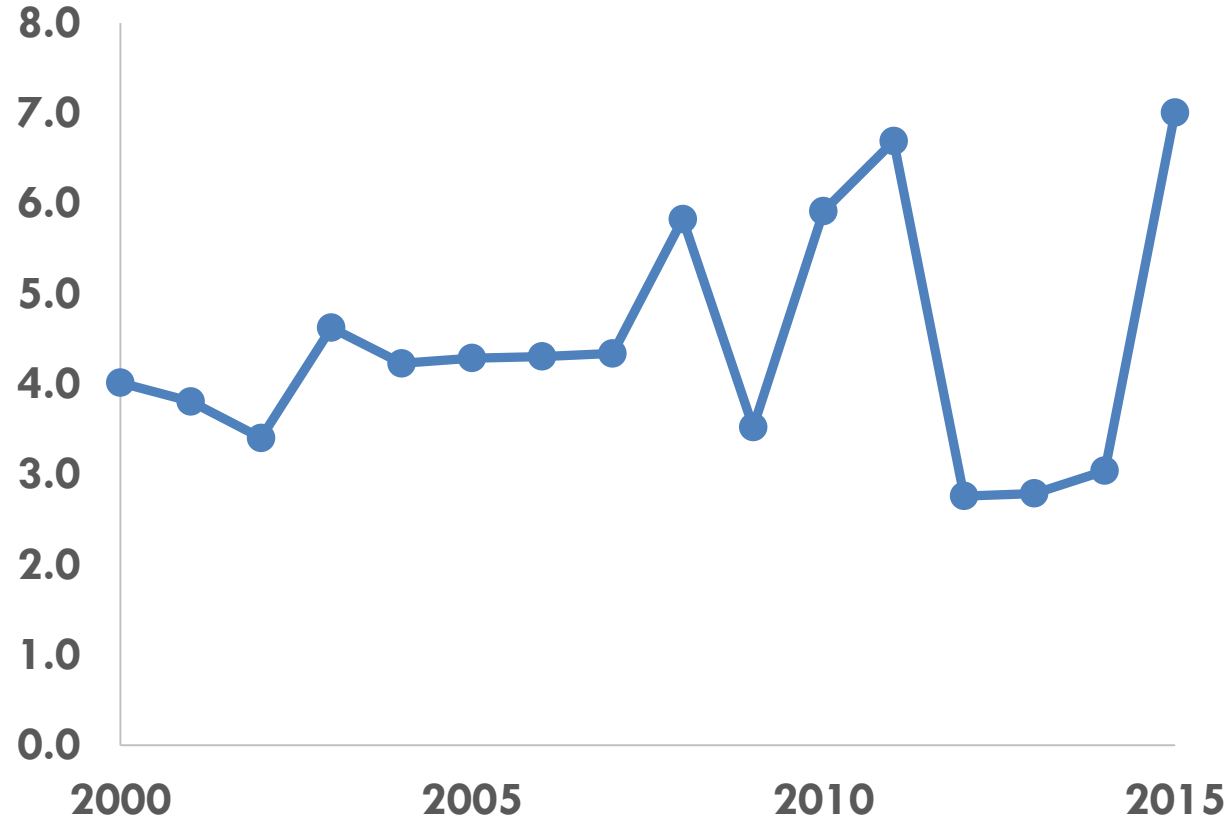
District Assemblies Common Fund (DACF)

- ❑ Established under 1992 Constitution, which requires not less than 5% of national revenue to be allocated to District Assemblies for development
- ❑ Objectives
 - *To speed up development, raise the standard of living and reduce poverty in local communities through a guaranteed system of funding*
 - *To ensure equitable distribution of resources across Metropolitan, Municipal and District Assemblies (MMDAs), thereby enhancing the decentralization process*
- ❑ Inflows to DACF distributed on the basis of a formula approved by Parliament

Transfers to the DACF, 2000-2015



Transfers to the DACF as a Percentage of Domestic Revenue, 2000-2015



Challenges of the DACF

- According to the Auditor-General, malfeasance and mismanagement are widespread in the management of the DACF

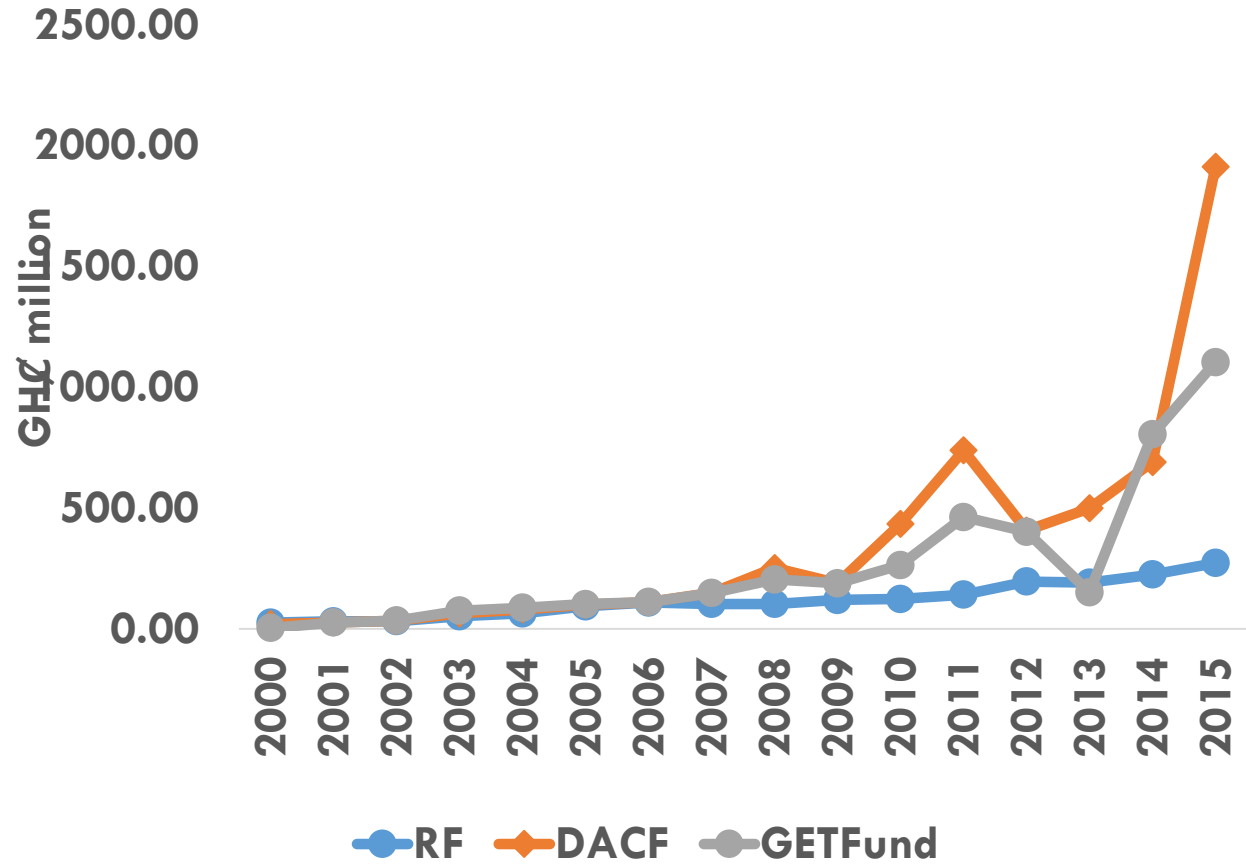
“However, I wish to reluctantly conclude that the increased and widespread instances of malfeasance and mismanagement of the finances and resources of the Assemblies by public officials, as portrayed in my current report under review, may be indicative that the Ministry has not significantly implemented the admonitions and recommendations in my previous reports” (Auditor-General, 2013)

- Automaticity of transfer is frequently undermined by delays and accumulation of arrears
- Defeat of DACF objectives through excessive deductions at source

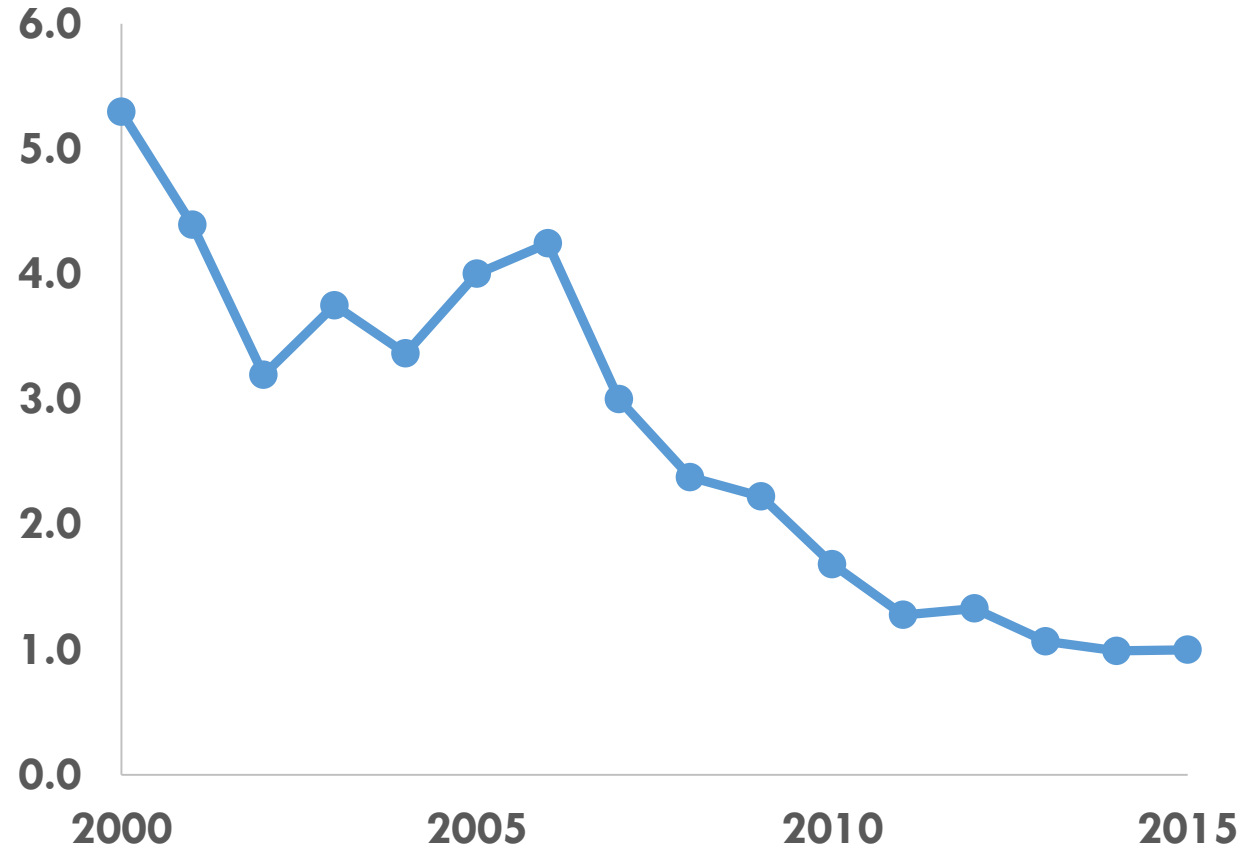
Road Fund

- ❑ Established in 1985 and restructured in 1997
- ❑ Fund's responsibilities are road maintenance, road upgrading and rehabilitation, and road safety activities, with objective of improving quality of road network
- ❑ Revenue earmarked for the Fund: (a) a proportion of levy on petrol, diesel and refined fuel oil; (b) bridge, ferry and road tolls; (c) vehicle license and inspection fees; (d) international transit fees collected from foreign vehicles entering the country; and (e) in 2005 a road levy on petroleum products.

Inflows to Road Fund Relative to GETFund and DACF



Inflows to the Road Fund as a Percentage of Domestic Revenue



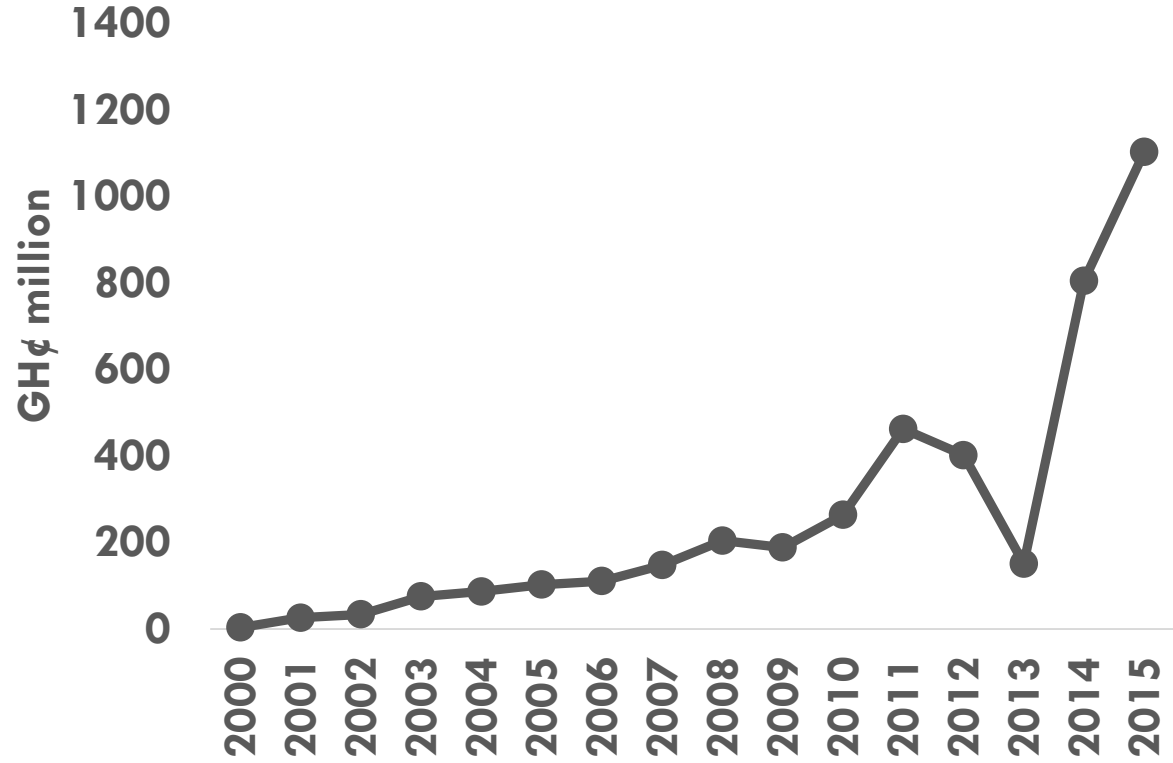
Challenges of the Road Fund

- ❑ Poor inflows to the Road Fund
- ❑ Weak supervision, control and monitoring of revenue
- ❑ Indiscipline on the part of road agencies
- ❑ Political interference

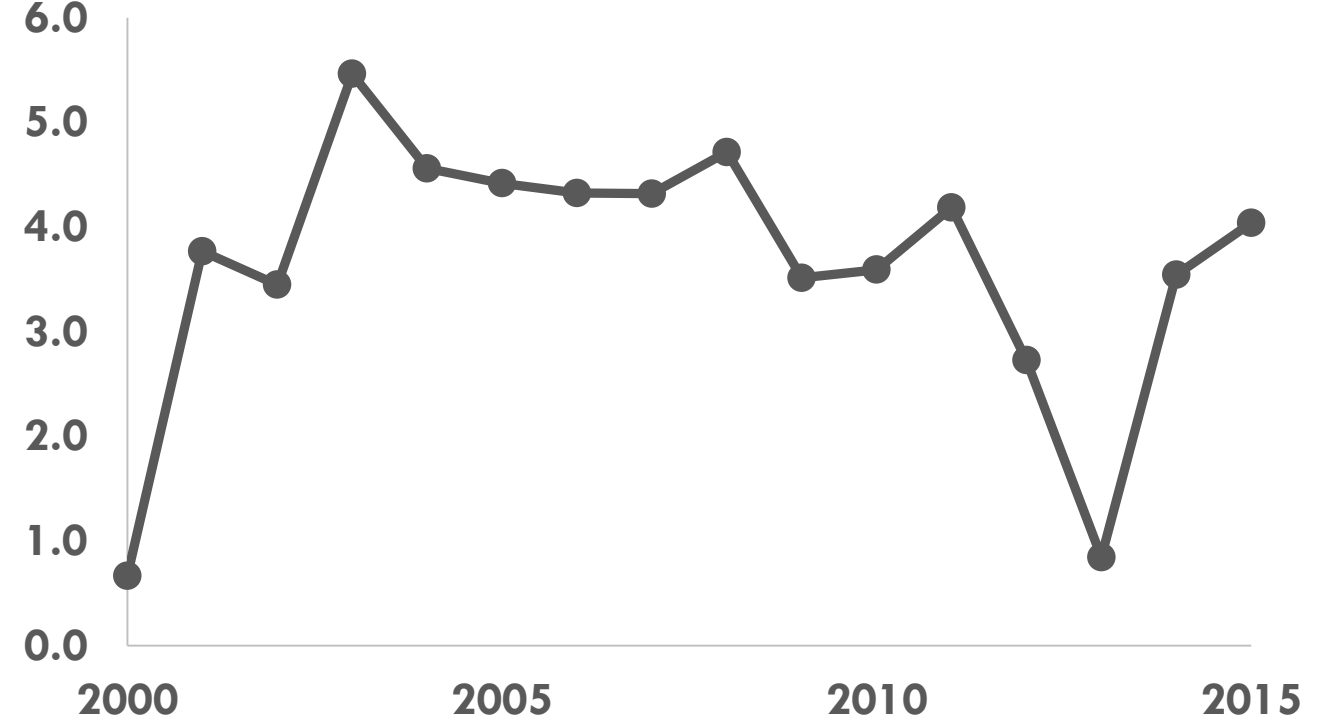
Ghana Education Trust Fund (GETFund)

- ❑ Established in 2000 under Act 581
- ❑ **Objective: to provide finance to supplement the provision of education at all levels by the government**
 - Provide financial support to develop and maintain educational infrastructure, especially in tertiary institutions
 - Provide supplementary funding to the Scholarship Secretariat for scholarships
 - Support student loan schemes for tertiary education
 - Provide grants to tertiary institutions for scholarships and research activities
- ❑ Funded by earmarking 2.5% of VAT (which was raised from 10% to 12.5% when the Fund was established).
- ❑ Part of GETFund inflows (10% each) is transferred to the Student Loans Trust Fund and the Youth Employment Agency

Transfers to GETFund, 2000-2015



Transfers to GETFund as a Percentage of Domestic Revenue, 2000-2015



Challenges of GETFund

- ❑ Automaticity of revenue transfer is frequently undermined by delayed transfers (arrears)
- ❑ Delayed projects and cost overruns
- ❑ Poor monitoring affecting project quality
- ❑ Poor means-testing of GETFund scholarship beneficiaries

National Health Insurance Fund (NHIF)

- ❑ Established in 2003 under Act 650 as the funding vehicle for the National Health Insurance Scheme (NHIS)
- ❑ **Objective: to pay for the cost of provision of health care services for members of the National Health Insurance Scheme**
- ❑ Revenue earmarked for the fund are the National Health Insurance Levy (NHIL), which is basically a 2.5% VAT on goods and services, and 2.5% of each worker's basic social security contribution

Annual Transfers to the NHIF, 2005-2015

Year	Transfers to NHIF (GH¢'million)	o/w Arrears Paid (GH¢'million)	Transfers as a Ratio 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	100.0	2.9
2010	351.2	82.2	4.8
2011	377.0	115.8	3.4
2012	587.2	127.9	4.0
2013	752.8	-	4.2
2014	947.2	-	4.2
2015	1,132.0	-	4.1

Source of Data: Ministry of Finance

Challenges of the NHIF

First, Ghana has benefitted much from the NHIF and its associated NHIS. The scheme's major impact is **increased accessibility and utilization of health care services**.

- ❖ Active membership increased 7 times from 1.3m in 2005 to 8.9m in 2012. Population covered by health insurance was 34% in 2012 compared with 1% before the NHIS.
- ❖ Proportion of patients consulting skilled health care providers increased from 45% in 2005 to 62% in 2008, while babies delivered by skilled personnel increased from 50% to 72% in the period, implying improved access for pregnant women, enhanced mortality and reduced complications.

However, it faces serious management issues.

- ❑ Funding gap threatening sustainability
 - Growing membership, increased utilization, and wide coverage of conditions have increased costs relative to revenue.
- ❑ Delayed releases of earmarked revenue (breach of automaticity principle)
- ❑ Fraudulent activities draining the Fund
- ❑ Challenges in claims management

Ghana Petroleum Funds

- ❑ Ghana Stabilization Fund (GSF) and Ghana Heritage Fund (GHF)
- ❑ Funded by at least 30% of Benchmark Oil Revenue, of which at most 70% goes into Stabilization Fund and 30% into Heritage Fund
- ❑ GSF Objective
 - “Cushion the impact on or sustain public expenditure capacity during periods of unanticipated petroleum revenue shortfalls”*
- ❑ GHF Objective
 - “Provide an endowment to support the development of future generations when the petroleum reserves have been depleted”*
- ❑ Sub-funds of GSF are Sinking Fund and Contingency Fund

Performance of GPFs

Table A: 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

Table B: Return on the Ghana Petroleum Funds (Combined)

	2012	2013	2014	Jan-Sep 2015
Closing Book Value (US\$)	93,592,809	447,160,096	535,559,264	502,179,603
Net Return (US\$)	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)
Net Rate of Return (%)	0.28	0.57	1.10	0.74

Source: Adapted from the 2015 Annual Report on the Petroleum Funds

Challenges of GPFs

- Although GPFs have contributed to effective and transparent management of oil revenue, they have high opportunity costs of investment
- Meanwhile, large infrastructure gap and rising borrowing
 - For instance, 2015 Eurobond of US\$1bn cost 10.75% while GPFs had US\$0.5bn earning 0.74%
- Should seek higher returns on GPFs, particularly the Heritage Fund, which is a long-term fund

Does Earmarking in Ghana Satisfy the Identified Criteria?

- ❑ Automaticity of funds transfer is continuously violated
- ❑ Administrative ineffectiveness and inefficiencies are rampant, which means value for money is not being derived from the earmarked expenditure

Conclusion

- ❑ More than 30% of government revenue and grants is earmarked
- ❑ However, earmarking faces challenges in Ghana, including management ineffectiveness and inefficiencies
- ❑ This implies value for money is not being derived from the earmarked expenditure
- ❑ At the same time, earmarking has made the budget inflexible to manage
- ❑ So what should be done?
- ❑ Stay tuned for next presentation

Thank You