Does the 2018 Budget and Economic Policy Address the Critical Challenges Facing Ghana?

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January 2018

The Institute for Fiscal Studies (IFS) is a politically independent non-profit think-tank devoted to providing economic policy advice, advocacy and world-class training in Ghana and other African countries. The Occasional Paper is a publication of the IFS. Views expressed in this paper are the views of IFS. Soft copies of all IFS publications are available for free download at www.ifsghana.org.

Abstract

Ghana is currently facing three critical economic challenges, namely a slowdown of economic growth, rising unemployment and a surging public debt. The broad agenda of the government in 2018 is to guide the economy to grow and create more job opportunities to deal with the surging unemployment by reversing the abysmal performance of the agriculture sector and reviving the ailing manufacturing sub-sector. This is to be achieved by a number of flagship programs and projects. The government also plans to reduce the country's fiscal deficit in 2018 and over the medium term to bring the public debt on a declining path to eliminate the risk of debt distress and strengthen the country's debt sustainability. The budget appears well conceptualized, seeking to achieve a prudent compromise between fiscal consolidation and the acceleration of the country's economic growth, rising unemployment and unsustainable public debt. Details of some of the policies and programs, however, are yet to be revealed, making their ability to fully address the challeges difficult to establish.

It is the view of the IFS that the future prosperity of Ghana requires a faster economic growth that will create more jobs and a sustainable fiscal plan that will halt the rising public debt and bring its trajectory down over the medium term. Pursuing the three goals of growth, job creation and debt sustainability is possible, provided the ongoing fiscal adjustment is sustained as part of a credible multi-year fiscal plan that seeks to change the government's expenditure composition by reducing current outlays and increasing investment spending and enhance revenue mobilization through a movement away from direct to indirect taxation. The fiscal adjustment must also be part of wider structural reforms that support economic growth. This, however, will require a bi-partisan cooperation because of the nature of the multi-party environment in which we find ourselves today.

Contents

Sections	Page
Abstract	1
1.0 Introduction	4
2.0 The Critical Economic Challenges Facing Ghana	4
2.1 Declining Economic Growth	4
2.2 Rising Unemployment	6
2.3 Rising Public Debt	8
3.0 The 2018 Budget Responses to the Economic Challenges	9
3.1 Reversing the Declining Economic Growth	9
3.2 Addressing the Unemployment Challenge	12
3.3 Dealing with the Rising Public Debt	13
4.0 Comments from the IFS	14
4.1 Reversing the Declining Economic Growth	14
4.2 Job Creation	20
4.3 Dealing with the Debt Albatross	22
5.0 Conclusion	24
0.6 References	26

Tables **Page**

1	Ghana: Pubic Debt and Debt-Servicing Cost	23

Figures **Page**

1	Ghana: Real GDP Growth, 2009-2017	5
2	Ghana: Sectoral Growth Rates	5
3	Ghana Trends in Public Debt	9

1.0 Introduction

On Wednesday, 15 November 2018, the Minister of Finance presented the 2018 Budget Statement and Economic Policy of the government to Parliament for consideration and approval. The theme of the Budget is “Putting Ghana Back to Work”. This theme suggests that the objective of the government is to move from the macroeconomic stability achieved so far to higher economic growth to create jobs for the unemployed. To the government therefore, the issues are economic growth and job creation. It is the view of the Institute for Fiscal Studies (IFS) that, the issues go beyond stimulating economic growth and job creation to addressing the surge in public debt stock and its implications for effective fiscal management. These are the major economic challenges confronting the country, requiring the 2018 Budget and Economic Policy of the government to address.

The IFS has reviewed the 2018 Budget and Economic Policy with the view to assessing the extent to which the policies and programs outlined by the government address these three critical issues. The Institute’s findings are presented in this paper, which are organized as follows. Following this introductory section is section two which presents the three critical economic challenges confronting the country. Section three reviews the government’s 2018 Budget responses to the three critical issues. Section four presents the views of the IFS on the government’s responses to the issues. Section 5 concludes the review with some policy recommendations.

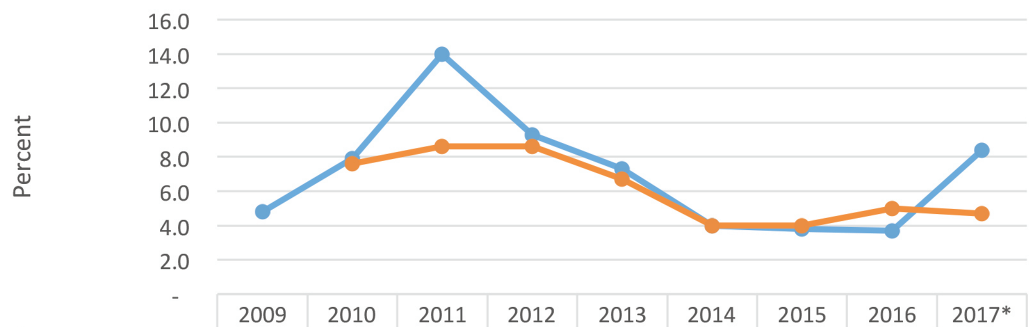
2.0 The Critical Economic Challenges Facing Ghana

2.1 Declining Economic Growth

Ghana’s economic growth has been fairly resilient in the face of the global recession, though the growth of the non-oil sector began to decline after 2012. Real GDP growth reached 14% in 2011 on the back of the coming on stream of oil production and exports, making the economy one of the fastest growing in the world during the period. Economic growth began to assume a sharp downward trend thereafter, reaching 3.7% in 2016, the lowest recorded since 1990. Oil production contributed 5.4% to real GDP growth in 2011, but thereafter the contribution dropped very sharply to reach zero in 2014 and negative in 2016 (see Graph 1). This indicates that the positive effect of the oil find on the country’s economic growth faded out after 2011, making the non-oil GDP growth to move closer to the overall GDP growth. The economy appeared to have bounced back in 2017, with an overall growth of 7.9% projected for 2017 and 6.8% in 2018 on the back of increases in oil and gas production.

Agriculture, the key sector of Ghana’s economy, which together with the manufacturing sector are considered to have high labour absorption capacity in the country, witnessed a declining trend since 2013 when it registered a growth of 5.7%. The sector’s growth rate dropped to 2.5% in 2015 and managed only 3.0% in 2016. During the third quarter of 2017, the sector grew by 10% (see Figure 2) and the provisional figures from the Ghana Statistical Service indicate that the sector will grow at 4.3% in 2017. It is projected that the sector will grow by 4.5% in 2018. Agriculture sector performance was even more disappointing when it comes to its contribution to GDP, which dropped from 30.4% in 2006 to 18.9% in 2016. The sector is expected to contribute 17.7% to GDP in 2017 and 17.9% in 2018.

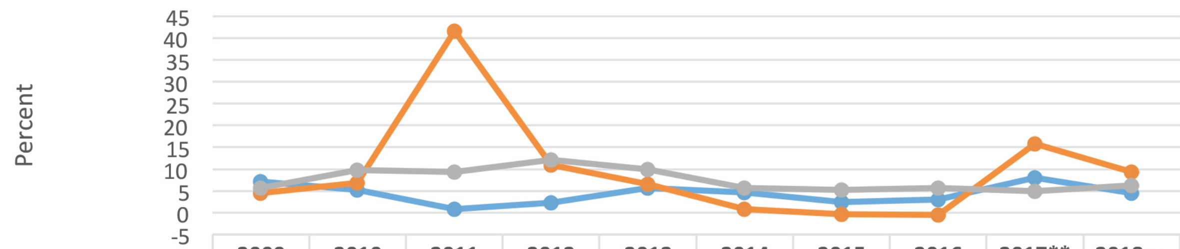
Figure 1. Ghana: Real GDP Growth, 2009-2017



	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Total GDP	4.8	7.9	14.0	9.3	7.3	4.0	3.8	3.7	8.4
Non-oil GDP		7.6	8.6	8.6	6.7	4.0	4.0	5.0	4.7

'*First 3 quarters estimates

Figure 2: Ghana: Sectoral Growth Rates



	2009	2010	2011	2012	2013	2014	2015	2016	2017**	2018++
Agriculture	**7.2**	**5.3**	**0.8**	**2.3**	**5.7**	**4.6**	**2.5**	**3**	**8.0**	**4.5**
Industry	**4.5**	**6.9**	**41.6**	**11**	**6.6**	**0.8**	**-0.3**	**-0.5**	**15.8**	**9.4**
Services	**5.6**	**9.8**	**9.4**	**12.1**	**10**	**5.6**	**5.2**	**5.7**	**4.9**	**6.2**

** First 3 quarters estimates

++ Projections

The abysmal performance of the agricultural sector is caused largely by financial constraints as lenders, especially banks, consider it high risk to lend to players in the sector. The absence of modern tools and technology for farmers and poor soil conditions has also been another bane of the sector. Many farmers continue to employ outmoded farming methods, such as weeding with cutlasses and hoes instead of tractors, and harvesting manually, rather than using combine harvesters due to poor market incentives and inaccessibility to the relevant inputs. Most farmers continue to rely on low and poor distribution of rainfall for their farming activities. Low level of mechanization in production and processing; high post-harvest losses resulting from poor post-harvest management; poor extension services resulting from institutional and structural inefficiencies; and inadequate markets and processing facilities continue to characterize agribusiness in the country.

There is also the aging farmer population yet the sector is unable to attract the youth. High illiteracy among farmers means a constant need for facilitating their access to information on new approaches, technologies, opportunities and policies. As a result of the constraints facing agriculture and limiting its growth, Ghana has become a net importer of agricultural products, including mainly consumer-led commodities such as rice, wheat, sugar and poultry.

The performance of the industrial sector has also been discouraging since 2012 when a growth rate of 41.6% was recorded, on account of a stronger growth of mining (mainly oil production) and construction. From 2011, the growth of the industrial sector began to decline very sharply, reaching a negative growth of 0.5% in 2016 before recovering to record an impressive growth of 16.6% in the third quarter of 2017. Consequently, the contribution of the industrial sector to GDP dropped from 25.6% in 2011 to 22.7% in 2016. The mining sub-sector grew by an annual average of 62.1% in 2010-2012, attributed largely to the coming on stream of oil production and exports while the construction sub-sector recorded an average annual growth of 11.5% during the period. Between 2013 and 2016, the construction sub-sector's growth dropped to an annual average of 3.4%, while mining just managed with a growth of 1.2%. The poor performance of the industrial sector was driven largely by the low performance of the manufacturing sub-sector, which growth crashed from 17% in 2011 to a negative 0.8% in 2014, before recovering to 2.7% in 2016. As a result, the contribution of manufacturing to GDP dropped from 6.9% in 2011 to 4.3% in 2016 and 5.2% in the third quarter of 2017 (GSS, 2017). The slow growth of the manufacturing sector was due to a number of factors, including high cost of capital, limited access to financing, unreliable supply and high cost of power, limited access to land for industrial activity, and weak infrastructure and logistical support.

In contrast to agriculture and industry, the performance of the services sector in the recent past was encouraging, both in terms of growth and contribution to GDP. The sector grew by 9.2% on average in each year of 2009-2012 but the growth rate dropped to 6.6% in 2013-2016, due mainly to the poor performance of transport and storage subsector, which growth dropped to 1.2% in 2013-2016 from 10.7% in 2009-2012. The services sector recorded a growth of 5.7% during the third quarter of 2017. Financial intermediation and information and communication subsectors experienced a rise in growth of 13.3% and 26.5%, respectively, in 2013-2016. In terms of contribution to GDP, the services sector's share increased from 49.6% in 2009-2012 to 52% in 2013-2016 (see Figure 2), making it the largest contributor to the country's GDP, even though productivity and incomes continued to be low in the sector compared to agriculture and manufacturing.

2.2 Rising Unemployment

As indicated earlier, Ghana's economic growth reached its highest level in 2011 on the back of the coming on stream of commercial production of oil, making it one of the fastest growing economies globally during that year. However, the inability of the country to sustain this growth momentum after 2012 and, more importantly, the failure of the strong growth performance to translate into the creation of more decent jobs, improved incomes and livelihoods of the majority of Ghanaians is a major concern.According to Aryeetey and Baah-Boateng (2016), Ghana's employment growth lags behind economic growth, with an estimated employment elasticity of output of 0.47, suggesting that every 1% of annual economic growth yields 0.47% growth of total employment.

The structure of the economy has continued to remain highly informal, with a shift in the country's national output composition from agriculture to low-value service activities in the informal sector. The commencement of commercial production of oil raised the share of the industrial sector in national output. However, the continuous decline in manufacturing value-added undermines the country's economic transformation effort to generate employment opportunities, high incomes, and improve the livelihoods of the people. Also the low level and quality of human resources not only diverts the economy from its structural transformation path of development but also makes it difficult for the benefits of growth to be spread through the creation of gainful and productive employment.

The high growth rate of urbanization in the country without the commensurate creation of jobs, coupled with the relatively high growth rate of the population, has also contributed to making unemployment extremely high. According to the Ghana Statistical Service (GSS) 2015 Labor Force Report, the estimated workforce in the country was 10.5 million in 2013, of which 1.3 million or 11.9% were estimated to be unemployed. Nearly 733,522 or 58.6% of the unemployed people were located in the urban areas and 517,391 or 41.4% in the rural areas. The Report indicates that the overwhelming majority of the unemployed, about 68.8%, were young people of between 15-34 years of age. Majority of the employed, about 91.8% were in the private sector, of which 90% of them were in informal sector employment. Again, some 73.7% of the employed people were in vulnerable employment with about six million of them, constituting 64.6%, being self-employed. The unemployment rate is also higher for those with secondary education than those with middle school leaving certificates or basic education certificates. Those with tertiary education have the lowest unemployment rate within the education sector.

The inability of the formal sector to generate enough jobs has pushed many Ghanaians into the informal sector, consisting of small to medium-scale enterprises (SMEs), even though they find it unattractive. These SMEs are made up of irregular employees, casual workers, family workers and predominantly people engaged in own-account work such as traders, sellers, artisans, tailors, hairdressers, wayside mechanics, farmers, etc. The earnings gap between the formal and informal sector is huge, likewise the standard of living, resulting in many informal workers living in abject poverty. The high incidence of poverty among informal economy workers is primarily due to lack of access to productive resources, skills, technology and especially capital.

The informal sector is known for its low productivity because of the use of outdated tools and labour-intensive technologies. Informal private sector workers escape the regulation of government and as a result suffers neglect of policy makers. They are exposed to bad environmental and risky conditions, lacking occupational health and safety regulations. There is also lack of job security and social protection like paid sick leave, pension, maternity leave, health benefits and retirement savings. Ghana cannot boast of any social protection policy that can alleviate the financial burden of the many working age population in the informal sector. For that reason, many graduates see the informal sector as unattractive.

No doubt, the biggest challenge facing Ghana is how to create decent jobs for the millions of young Ghanaians who are currently unemployed or in vulnerable employment.

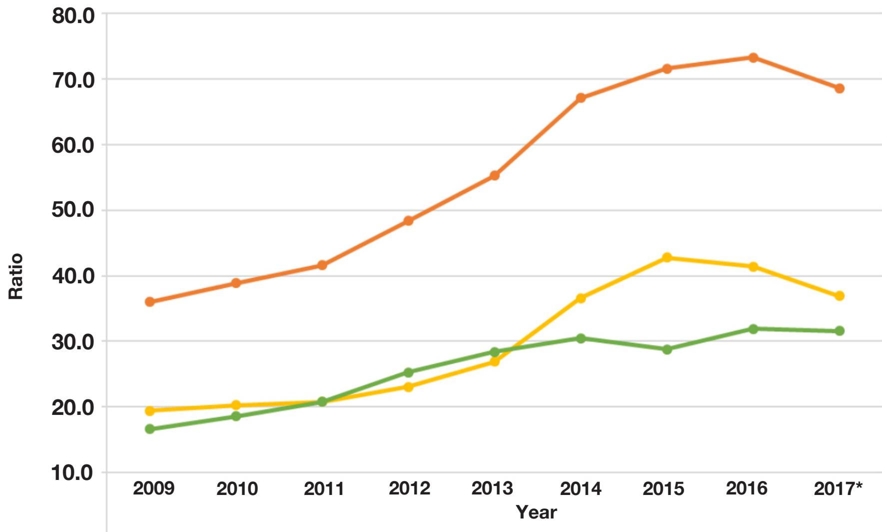
Information from the National Accreditation Board (2017) shows that currently the country has 89 accredited public and private degree-awarding universities, 8 technical universities, 2 polytechnics and a number of diploma awarding institutions. In all, there are 210 tertiary[4] institutions in the country, with an estimated annual graduate turnover of 300,000 students. Approximately, 5000 students graduate from University of Ghana every year. And where are the jobs for these graduates? Available information from the Institute of Statistical, Social and Economic Research (ISSER) reveals that only 10% of graduates find jobs after their national service and sometimes it can take up to 10 years for a large number of them to secure employment. Why are these graduates not setting up their own businesses? This is due to varied reasons, including unavailability of funding capital for entrepreneurship, unattractiveness of farming to young graduates, lack of policies that focus on improving the flows into work for people leaving school as well as the low capacity of industry to absorb the huge numbers. The public sector continues to employ a large number of the formal sector workforce, consisting predominantly of graduates. However, since 2010, government has placed a ban on the public sector employment in all ministries, departments and agencies (MDAs) except for education and health, mainly due to the rising public sector wages and salaries cost.

The agricultural sector provides a critical[5] source of employment for a large portion of new workers who enter the labor force each year. The economy's fastest-growing sector, viz. the extractive industries, is highly capital intensive and employs only a small fraction of unskilled workers. By contrast, agriculture employs a huge number of unskilled workers and provides livelihoods for the overwhelming majority of the rural population and is likely to continue to contribute to net job growth over the medium term. In this context, the agricultural sector's slowing growth rate raises development policy concerns that extend well beyond its immediate macroeconomic impact.

2.3 Rising Public Debt

Ghana's debt stock has increased significantly over the last couple of years with serious implications for effective fiscal management. Total public debt stood at GH¢35.1 billion, or 48.4% of GDP at end-2012. By end-2016, the debt stock had reached GH¢122.6 billion, or 73.3% of GDP. This means that the total public debt increased by about GH¢87.5 billion between end-2012 and end-2016. By June 2017, the debt stock had reached GH¢138.6 billion, equivalent to 68.6% of the projected GDP for the year (see Figure 3). Adding the ESLA Plc. GH¢4.7 billion bond issued in late October and sale of GH¢5.3 billion long-term bonds at the end of November 2017, of which nearly half consisted of fresh borrowing and the other half treasury bills that were restructured into long-term bonds, brought the provisional total public debt to GH¢151.2 billion, or 74.1% of GDP. This made the public debt to increase by about GH¢28.6 billion in one year. The government also plans to borrow GH¢10.9 billion to finance the projected 2018 deficit of 4.5% of GDP, which will raise the public debt/GDP ratio further if none of the maturing debt is paid during the year, with serious consequences for government interest payment obligations.

Figure 3. Ghana: Trends in Public Debt (%)



	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Total Public Debt/GDP	36.0	38.9	41.6	48.4	55.3	67.1	71.6	73.3	68.6
External Debt/GDP	19.4	20.3	20.8	23.1	26.9	36.6	42.8	41.4	36.9
Domestic Debt/GDP	16.6	18.6	20.8	25.3	28.4	30.5	28.8	31.9	31.6

3.0 The 2018 Budget Responses to the Economic Challenges

3.1 Reversing the Declining Economic Growth

The broad agenda of the government in 2018 is to translate the stability expected to be achieved in 2017 into a shared growth. This includes guiding the economy to grow at 6.8% in 2018. This boost in growth will come mainly from the oil and gas sub-sector rather than the non-oil sector, which is projected to remain more subdued at 5.4% over the forecast horizon, held back by fiscal consolidation pressures and subdued real credit growth. The target growth rate for 2018 take into account the anticipated reduction in petroleum production as a result of planned maintenance works on the FPSO scheduled for the year.

3.1.1 The Marshall Plan for Agriculture

To address the problem of poor agriculture performance, restore the sector to a path of high and sustainable growth and take it back to its rightful position as the backbone of the economy, the 2018 Budget unveiled the much-anticipated Marshall Plan for Agriculture (MPA). This plan aims at revamping Ghana's abysmally performing agriculture sector to make it the true backbone of the economy. It seeks to tackle all systemic challenges that have confronted the agriculture sector and inhibiting the sector's contribution to the economy. The flagship initiative under the Plan is the "Planting for Food and Jobs" (PFJ) program which was launched in April 2017 by the government. The main goal of the PFJ is to contribute to the modernization of the agriculture sector that will lead to structural transformation of the national economy through food security, creation of employment opportunities and reduced poverty. The program has three main objectives, viz. (i) to ensure immediate and adequate availability of selected crops in Ghana through improved productivity and intensification of food crops, and extended support to private sector service providers; (ii) to provide job opportunities for the teeming unemployed youth in the agriculture and allied sectors, and (iii) to create general awareness for all formal workers to engage in part-time farming or establish backyard gardens where land is not available and/or accessible.

The PFJ program is expected to be rolled out in all the 216 districts across the country and is estimated to cost GH¢3.3 billion over four years, with GH¢149.8 million and GH¢691.4 million expected to be spent in 2017 and 2018, respectively. Funding for the program is expected from three main sources: (i) government's annual budget allocation, leveraging on existing investments from public programs; (ii) development partners and private investors; and (iii) mobilizing bilateral, multilateral and private resources to fill the remaining gaps. A GH¢400 million Fund is also planned to be established under the Akuffo-Addo Program for Economic Transformation (AAPET) to de-risk agriculture and agribusiness sector through sustainable agriculture financing and crop insurance schemes (Ministry of Food and Agriculture, 2017).

Supporting the PFJ program is the "One Village One Village Dam" initiative, under which the government plans to construct a dam in every village in the northern part of the country to provide all-year-round irrigation to farmers to support agricultural growth. In 2018, the government plans to construct 50 small dams and dugouts, making available an additional 147 hectares of irrigable land for crop production.

3.1.2 Industrialization

The government considers industrialization as one of the drivers of its economic growth and job creation agenda, under which is the flagship program "One District One Factory" (1D1F). The 1D1F program is expected to be a vehicle to revive the country's ailing manufacturing sub-sector and add value to agriculture. Under this program, at least, one commercially viable factory is to be established in each of the 216 districts of the country to transform the economy from a service-based to a more industry-focused economy where there will be abundant production of commodities for both local and international markets. The program is expected to add value to the natural resources of each district and exploit the economic potential of each district based on their comparative advantage; and ensure even and spatial spread of industries, thereby stimulating economic activity and growth in all parts of the country.

The 1D1F program targets five groups of businesses: (i) existing businesses that are ready to move to the districts and expand their operations; (ii) new businesses that seek to operate within the districts and have the capability of sourcing for raw materials and employing 5-25 people from the district through their operations; (iii) businesses that have the capability of enhancing the operations of input providers and suppliers towards the demand of factories in the districts; (iv) businesses whose operations focus on distribution and market access for goods produced in the districts; and (v) district-level businesses which have the potential to grow but need technical support, long term investment, standardization to meet competition, brand improvement and market access.

According to the government, as many as 191 companies have been identified for the 1D1F program in 102 districts, of which 104 would be operating in the agribusiness sector; 20 in the meat and poultry sector; 40 in the construction and building materials sub-sector; and the remaining 27 are businesses in the cosmetics and pharmaceuticals sectors. The implementation plan indicates that a minimum of 40 factories will be commissioned in 2017, 60 each in 2018 and 2019 and 66 in 2020.

Investment required to set up a district factory ranges between US$50,000 for micro-scale enterprises to US$5.0 million for large-scale enterprises. Financing for the 1D1F is expected to come from promoters' equity, private financial institutions, local private equity companies, and development partners. Government is expected to provide financial and regulatory support for the initiative. The 2018 budget has allocated a minimum of GH¢2.0 million to each district to support the implementation of the program.

Establishment of industrial parks is an aspect of the government's industrialization program. This is designed to facilitate access to (a) dedicated and litigation-free lands for accelerated industrial development; (b) critical infrastructure, such as road network, railway, telecommunication for industrialization; (c) reliable energy and other utilities required for industrial production; (d) significant amount of FDI needed for the creation of decent jobs to drastically minimize unemployment; and (e) bridge the imbalance in socio-economic development among the regions of the country through accelerated industrialization. The plan is to establish, at least, one industrial park in each of the 10 regions of the country, including multi-purpose (for two or more sectors) and sector specific industrial parks with the requisite infrastructure and utilities.

In support of the 1D1F program, the government intends to provide modern storage facilities through the "One-District-One Warehouse" (1D1W) policy, under which a warehouse will be constructed in every district of the country to ensure proper storage of surplus food produced under the PFJ program to prevent post-harvest losses (Ministry of Trade and Industry, 2017).

3.1.3 Other Initiatives

Other initiatives to support the government's industrialization agenda include the National Industrial Revitalization Program (NIRP), National Entrepreneurship and Innovation Plan (NEIP), and the Infrastructure for Poverty Eradication Program (IPEP). The NIRP) aims at (i) developing strategic anchor industries; (ii) providing technical and 201financial support to existing companies currently under distress or facing operational challenges, but are deemed to be viable to benefit from stimulus package which will bring them back into operation in the shortest possible time; and (iii) creating access to markets for these industries. Under the program, the government plans to establish a quick disbursing Stimulus Fund of up to US$200 million. The government has also identified 10 strategic industries which would be developed as part of the broader scheme of the NIRP. The list includes iron and steel, industrial salt, oil palm, machines and machine components, vehicle assembling, petrochemicals, integrated aluminum, pharmaceuticals, industrial starch, and garments and textiles. The NEIP is expected to be a primary vehicle for providing an integrated support for early stage (start-ups and small) businesses. It focuses on the provision of business development services, business incubators, and funding for youth-owned businesses. The plan is expected to enable new businesses to emerge and give them the space to grow, position them to attract financing, and provide business development support services. The program will assist these businesses to secure markets and tap into a wide supply chain and network during their growth years. The IPEP is aimed at improving basic infrastructure at the constituency level, especially in rural and deprived communities. It will be designed to direct government's capital expenditure towards local, constituency-level specific infrastructure and economic development priorities, with particular emphasis on rural and deprived communities.

Under the program, each one of the 275 constituencies will be allocated the equivalent of US$1 million annually to support projects to be selected from one of the following categories: (a) One District One Factory; (b) One Village One Dam; (c) Small Business Development; (d) Supply of Agricultural Inputs (including equipment); (e) Water for All projects; and (f) Sanitation Projects.

The 2018 Budget also spelt out a number of initiatives to support the building of a strong and efficient financial sector to provide innovative and long-term financing instruments to support inclusive growth and job creation. They include: (i) strengthening the Ghana Infrastructure Investment Fund (GIIF) to enable it mobilize foreign private capital to fund critical infrastructure development; (ii) a plan to launch a new national development bank with a seed money of US$500 million and a capacity to mobilize private capital towards agricultural and industrial transformation; and (iii). Bank of Ghana's Incentive-Based Risk Sharing System for Agricultural Lending. Many development partners have also declared their intention to support the government's agricultural transformation and industrialization programs while others have committed funds to support the initiatives.

3.2 Addressing the Unemployment Challenge

The government's agenda for 2018 and beyond is to create opportunity for all Ghanaians to help address poverty and unemployment challenges facing the country. To the government, the fight against poverty and unemployment is not optional, it is a national security issue. Government policies, such the 'One District, One Factory', and 'Planting for Food and Jobs', "Nations Builders Corp (NBC)" and the various modules of the existing Youth Employment Agency (YEA), among others, have therefore been designed to create jobs for the teeming youth and university graduates. The PFJ program is expected to register 500,000 farmers by end-2018, recruit 2,700 extension officers to support it, create 2,810,507 jobs in four years and add GH¢1.4 billion to the rural economy. The 1D1F program is expected to create massive employment, particularly for the youth in rural and peri-rural communities, thereby improving income levels and standard of living, and reducing rural-urban migration. According to the National Coordinator of the 1D1F Secretariat, the program is expected to facilitate the creation of 7,000-15,000 jobs in each district and 1.5-3.2 million jobs nationwide by the end of 2010. The NBC initiative is intended to reverse the growing trend of joblessness among university graduates. Providing jobs for 100,000 graduates in 2018, the program is the most direct government initiative announced to address graduate unemployment in the country. Under the program, graduates will be trained, equipped with the necessary work tools, and deployed in the country to be engaged in assisting public service delivery in health, education, agriculture, sanitation, and revenue collection. Each of the 216 districts is expected to employ, train and equip 462 graduates to participate in the five modules of the program.

The government has also launched the "Agriculture Management System (AMS)" Initiative, an innovative end-to-end solution and a Virtual Farmer Program (VFP). The AMS is a fully automated solution developed in the agriculture sector to seamlessly manage the entire supply chain by transferring technical know-how to farmers to help develop their capacity to boost food production and also providing investment packages for their projects. The Scheme also aims at attracting those working in the formal sector to earn additional income whilst increasing productivity in agriculture. It gives workers the opportunity to buy shares in existing farms and become farmers.

The program is expected to provide employment to about 33,000 unemployed youth, increase food supply and export earnings, and minimize rural-urban migration. A Youth Development Authority has also been established to harmonize and coordinate all government sponsored youth initiatives and policies. The Authority will refocus and rebrand the Youth Enterprises Support into National Enterprise and Innovation Program to provide funding and business development services for businesses owned by young entrepreneurs, especially start-ups. Tax incentives to young entrepreneurs to encourage them to initiate start-ups and other incentives for companies that hire young graduates from tertiary institutions are also parts of the plan.

3.3 Dealing with the Rising Public Debt

The government plans to reduce Ghana's fiscal deficit from 6.3% in 2017 to 3.8% in 2018 and, over the medium term, generate primary surpluses sufficient to eliminate potential risks of debt distress and strengthen the country's debt sustainability. The strategy also involves a re-profiling of the debt stock to bring down the cost of debt servicing and minimizing refinancing risks. This involves borrowing at less expensive rates to refinance more expensive debt at longer tenor in addition to maintaining a buffer system in accordance with its medium term debt management strategy (MTDMS). To this end, the government issued a new 15-year callable bond, together with a second 7-year bond in April 2017. The proceeds were used mainly to re-profile maturing 91-Day and 182-Day Treasury bills. This consequently led to a change in the short and medium to long-term debt mix, thereby reducing the pressure on the monthly gross financing requirement. According to the government, this liability management program was not expected to add to the public debt stock beyond the net financing requirement for the year. The government maintains that this debt management strategy has improved the country's debt outlook, restored the debt trajectory to a sustainable path and has been instrumental for macroeconomic stability. A major impact of the re-profiling operations has also been a reduction in interest rates and normalization of the domestic yield curve. Also, as it improves on its domestic revenue mobilization and push the primary balance to a higher surplus, the growth of the public debt would decline over time.

According to the government, its debt management strategy for 2018 is consistent with the 2017-2019 MTDMS, which supports a continuation of a fiscal consolidation and monetary tightening policy regime, with a financing mix that minimizes cost and addresses portfolio risks. The development of a vibrant domestic capital market, a top priority of government, will also support domestic financing of the 2018 budget. To this end, the government will develop the secondary capital market by creating benchmark securities and operationalizing securities lending, short-term sale and repurchase agreements to improve liquidity of debt instruments in the market. In view of the refinancing risk associated with repayment of large benchmark securities, the government plans to utilize liability management operations, including switches, buy-backs and reverse-auctions to ensure orderly redemption of these benchmark securities. Attaining debt sustainability is the key objective of the government's debt management policy. According to the government, a gradual pick-up in the real sector will ensure that growth in the near term would improve significantly to affect the solvency ratios in the debt sustainability analysis. The recognizes, however, that moving along the path of sustainable debt levels will require fiscal consolidation measures to generate primary budget surpluses and measures to smoothen bullet payments in the country's debt portfolio.

4.0 Comments from the IFS

4.1 Reversing the Declining Economic Growth

The inability of the Ghanaian economy to sustain its growth momentum since 2011 is worrisome, although the falling growth rates were not exclusive to the country. Even though advanced economies appear to be emerging from their economic doldrums, the world economy generally suffered from the global economic and financial crisis with far–reaching consequences, especially for emerging and middle–income economies. The concern, however, is that Ghana's continued falling growth in recent past appears to be in contrast with that of the global economy, which growth actually improved slightly in 2013 and 2014. The major concern is that economic growth has been driven largely by the extractive sub-sector, which is known to have limited job creation impact, while manufacturing and agriculture with relatively better employment-generation effect continue to record slower growth. To bring the economic back to high and sustainable growth path, a number of issues will need to be addressed, including the following:

4.1.1 Agricultural Transformation

It is expected that the various initiatives outlined by the government to reinvigorate the agricultural sector will be translated into concrete actions to achieve their intended objectives. The initiatives need to be tailored to support the large pool of small-scale peasant farmers who have remained the backbone of the agricultural sector in the country but whose output has been inhibited by low yields or low productivity, thereby leaving them financially-deprived. In the context of the country's fiscal consolidation, the transformation of the agricultural sector presents a major opportunity to boost growth through better government expenditure targeting to spur productivity growth. This brings to the fore the urgent need to promote agribusiness, including agriculture and downstream processing activities, which accounts for 25% of GDP, employs nearly 50% of the workforce and produces 35% of exports. The agribusiness sector has also been growing at more than 5% annually since 2008. The unfortunate thing is that the increasing economic prominence of the oil industry and the rapid expansion of the service-based urban economy threaten to distract the attention of policymakers away from agribusiness development. Consequently, government spending on agricultural development has been low and declining. Public investment on projects in the sector tends to be extremely modest and structural deficiencies in the project cycles diminish their effectiveness. Significant investment and a vibrant local entrepreneurial class of actors are yet to enter the country's agribusiness sector despite its vast opportunities. The focus on developing agribusiness as part of the agriculture transformation agenda by the government is therefore a step in the right direction. However, some critical issues remain to be addressed.

Improving agribusinesses competitiveness will require serious attention to productivity growth. Expansion in agricultural production in the country has come largely from expansion of cultivated land and less so from productivity gains. The low agricultural productivity in the country is attributed to a number of factors, some of which have been discussed earlier. In respect of raising productivity, the technology in many cases exists but farmers are yet to fully exploit the opportunities. Technology delivery has been hampered by ineffective delivery systems. Adoption is low because of the disconnection between research and extension system, and access to critical complementary inputs. In some cases, farmers lack the incentive to make productive investments.

Refocusing the sector's resources on commercialization of smallholder farming and integrating smallholder farmers into agricultural value chain would significantly boost the sector's production. Efforts to link smallholder farmers to markets or to aggregate production through Out-growers Schemes could accelerate rural income growth, while eliminating price distortions that discourage investment in the sector could boost agricultural production and exports. A new strategy for agricultural investment and policy reform that effectively targets these bottlenecks is required to deliver major gains in productivity, employment growth, poverty reduction, and food security at a relatively low fiscal cost (World Bank, 2017). In addition, a more diverse system of delivery, using public-private partnerships needs to be developed to cater for the more complex needs of the entire commodity chain needed for successful development of high value crops and livestock products.

Government action in favour of agricultural development remains vital. This is because agriculture lies at the heart of the economic growth-employment nexus and will be required to meet the employment needs of the country for the next couple of years until the sector-activity ratios change and the growth of the working-age population begins to decline. The current pressure on international prices for agricultural products creates an auspicious moment in time and an opportunity for more investment in the agricultural sector that should not be missed. This action requires a close attention of government and the international community, particularly development partners. It is high time to address the country's growth and development challenges by repositioning agriculture at the heart of the country's economic transformation, based on policy choices that are conducive to inclusive growth and create work opportunities for the unemployed.

4.1.2 Land Issues

A major challenge to the successful implementation of the government's MPA and its flagship PFJ program has to do with land. Land markets have played a fundamental role in facilitating agricultural revolutions. Unfortunately, access to land for large agriculture investment continues to be a core constraint in Ghana because of the country's complex land administration and governance system, which is time-consuming, costly and exposes investors to substantial risks. Insecurity of tenure is widespread, largely because of customary land tenure systems in which there are no legal titles. Land boundaries are unclear in many cases, and communal ownership invests rights in all but gives responsibility for management to none. Insecurity of land rights limits investment, and is a threat to livelihoods of migrant people in farming communities and sustainable use of land through intensification. Some recent estimates suggest that as much as 80% of Ghana's arable land is uncultivated, in part due to insecure property rights. Reform of land tenure systems under customary tenure is a sensitive issue and poses a serious challenge to agricultural transformation. Land policies and land administration projects that seek to address land issues comprehensively in the country have been implemented by previous governments. These have included proposals for improving access to land, ensuring security of tenure and protection of land rights, and ensuring planned land use. The policy strategies include the establishment of land banks to enhance access, enforcing title registration to assure tenure security, and developing and implementing land use plans at the district, regional and national levels. Customary land secretariats have also been established to facilitate traditional land administration (MOFA, 2007).

Despite these initiatives, security of land tenure continues to be a constraint to agricultural investment, both for small and commercial farmers. There is therefore an urgent need for the government to speed up the pace of land reform in the country in a pro-agriculture policy way.

4.1.3 The Growing Competition between Mining & Agriculture

The expanding mining sector has contributed to strong economic growth in Ghana but has also affected agriculture in many rural areas that must be urgently addressed. The heart of the issue is that mining activities, especially illegal mining popularly referred to as galamsey, have come into direct competition with small-scale agriculture, the predominant means of economic growth and job creation in rural areas. Tensions over control and use of land and, more importantly, water have led to community protests and violent conflict.

Both mining and agriculture are drivers of economic growth. Unfortunately, the compatibility between these two growth and development paths, which take place in the same rural areas, is at best questionable. Mining generates externalities, such as water pollution, that can have direct negative impact on agricultural production. Mining also requires large tracks of land that could otherwise be used for agricultural production. This sets up a direct competition with small-scale agriculture for control and use of land. Reconciling these two important growth drivers has become a critical governance issue. The intervention by the government to place an embargo on illicit mining to allow a reconciliation between these two economic activities to reduce conflicts and ensure that both mining and agriculture benefits contribute to growth and development of the rural economies is commendable.

4.1.4 Industrialization

It is important for the government to consider the merits of the 1D1F program based on 216 small-to medium-sized factories across the country as against the alternative approach based on creating large industrial parks, estates, or clusters, (like the Silicon Valleys), that can be easily supported by the right infrastructure and inputs to enable the industries leverage economies of scale and be able to maximize output and jobs. The choices that the country makes should also be informed by the history of its past industrialization. It will be recalled that the early post-independence approach to industrialization was based largely on reliance on import-substituting state-owned industrial policy without much attention paid to issues of comparative advantage and availability of necessary supply chains. Subsequent approaches involved wholesale privatization of the previous state-owned industries which forced a closure of many others. Both models failed and left the country de-industrialized and heavily dependent on imports. It is important therefore for Ghanaians to engage in a national discussion and to learn from the past industrialization lessons so that we do not repeat past mistakes. In so doing, more details on the 1D1F program should be provided by the government, including the types of industries to be set up, costs involved, sources of funding, and ownership and management structures, to enable the program to be fully assessed.

Another major obstacle to the government's 1D1F program will be financing. Currently there are many entrepreneurs with viable projects but do not have funds to finance the ventures. Banks and other financial institutions are also reluctant to inject capital into businesses for a number of reasons. Banks complain that many of business ventures are not well structured, too risky to invest in, and lack track record, etc.

The mode of financing the establishment of the district factories therefore needs to be looked at very carefully. This has led sometimes to arrears being created on the blind side of the Ministry of Finance. Oftentimes, without a comprehensive compilation or audit, it is difficult to put a finger on the actual size of arrears.

4.1.5 Growth-Supporting Infrastructure

One important problem with the government' agricultural and industrial transformation agenda is the country's infrastructure deficit. Ghana is yet to adjust its infrastructure to accommodate the needs of the agricultural and industrial sectors, and the situation will be compounded with the coming on stream of additional 216 factories scattered around the whole country. Shortages of electricity, water and rural roads are possibly the most pressing. Until recently, electricity blackouts were being experienced on a fairly regular basis across the country, sometimes for prolonged stretches of time. Road and transport infrastructure for the movement of agricultural commodities and inputs are inadequate. This constraint particularly limits the development of agriculture in high potential areas such as the Afram Plains and some areas in the Western Region. The poor rural infrastructural facilities aggravate farmers' time constraints and hinder their productive work. Lack of good feeder roads linking farms and villages means that farm produce has to be head-loaded to the buying centers. Physical markets for farm produce are characterized by decrepit infrastructure, lack of suitable commodity-specific storage facilities and unhygienic premises. Without addressing the infrastructure constraints in the countryside, the PFJ and 1D1F programs will suffer the same fate as the rural banking program and would have no significant impact on growth and job creation. Government should therefore invest massively in productive infrastructure, especially electricity, roads, schools, health centers, shops etc. in the farming areas and rural industrial centers as well as ensuring the application of science, technology and innovation to support the agricultural transformation and industrialization programs. The program should also target young Ghanaians who wish to start small businesses and support them with workspaces, equipment, incubation facilities, warehouses and basic services such as electricity and water. The experience with the rural banking program clearly shows that without the supporting infrastructure young Ghanaians and their family members would be reluctant to relocate to the rural areas to establish businesses and/or take up employment.

4.1.6 ICT Transformation

ICT is a new driver of growth, offering unprecedented opportunities for investment and job creation. Unfortunately, ICT transformation has not been given the attention it deserves in the government's growth and job creation agenda. According to the GSS, the information and communication sub-sector contributed 3.3% of GDP in 2016, from 2.7% in 2006. Average annual growth of the ICT sector in 2009-2014, however, was 24.9%, which was led by the revolution in mobile voice telephony. While ICT infrastructure is adequate in the country, with five submarine cable landing stations and black spots. The government is investing further in fiber optic backbone projects along the eastern and western corridors, and in data centers in Accra and Kumasi. For rural and underserved areas, such as the Northern Region, the Ghana Infrastructure Fund for Electronic Communications (GIFEC) is a key player. The private sector has also been active in deploying mobile solutions to rural areas.

Nonetheless, while broadband is growing in the country, it has not yet triggered a digital transformation on a broader economy-wide level.

Despite increases in the provision of lower-priced internet bandwidth, Ghanaians have not yet fully adopted ICT into their daily lives or business operations. One reason is the insufficient provision of broadband internet. In 2015, less than 1% of households had access to fixed broadband services. While mobile coverage is good, broadband access is largely unavailable in rural areas, which means fewer opportunities in those areas. While not directly a large provider of employment, it is estimated that for each ICT job, up to eight jobs may be created. The ICT sector is yet to realize its potential in job creation. However, the shift towards a digital economy has been slowed by many constraints, from the cost of access to data infrastructure, an underdeveloped regulatory framework to gaps in some skills, and lack of market opportunities to scale up. For full digital transformation to take place, a number of issues, such as the capacity to transform information technology innovations into viable market solutions, or the need for more competitive and market-efficient data infrastructure provision have to be addressed. By building the required infrastructure, skills, ecosystem and regulatory framework, the government can support private actors in the information and communication sector to deliver transformative effects. Government and private sector strategic actions may therefore have to proceed in a complementary fashion, with the government as the enabler and the private sector as the actor in the market.

4.1.7 Financing

Financing is a major challenge facing agribusinesses in the country, especially for small, medium and micro-businesses. In addition to equity funds, operators in the agriculture sector source funds from formal and informal financial institutions to finance their activities. Financial institutions however are reluctant to provide financing to the sector due to perceived and actual risks. While funds from informal sources are more easily accessible, they tend to be inadequate with limited scope and are short term. Government expenditure on agriculture has also been low, both by regional and international standards, and declining in recent years. A large share of agricultural spending also supports the Ministry of Food and Agriculture's (MOFA's) routine operating expenses, such as wages, salaries, goods and services, leaving a very modest envelope for investment spending. Government spending on agriculture is also poorly targeted. Major initiatives such as the Agricultural Mechanization Program, the Block Farming Program, the National Food Buffer Stock Company, and the Fertilizer Subsidy Program have all produced mixed results. Moreover, these programs tend to crowd out investment in proven strategies for promoting sustainable long-term productivity growth, such as encouraging the use of improved seeds and fertilizers and expanding irrigation networks. Investment in irrigation development is especially low as the Ghana Irrigation Development Authority receives no budget for capital spending from the government, which provides financing for salaries only.

The decision of the government to establish a new development bank to provide long-term financing to agriculture and industry needs reconsideration as this has the potential to lead to duplication of services and possible waste of resources. Ghana already has two development banks, National Investment Bank (NIB) and the Agriculture Development Bank (ADB). The ADB was originally established to support agriculture and agribusiness development and NIB for industrial promotion. The two development banks have the ability to deliver on their mandates if they are adequately resourced, their activities are strengthened and enforced, and political interference in their management and operations is removed. Government should therefore focus on restructuring and resourcing ADB and NIB in such a way that they can fulfil the purposes for which they were established. The decision of the government to operationalize the Commodities Exchange in 2018 to support agriculture transformation, including the 'Planting for Food and Jobs' initiative is commendable. This is because when the private sector has money to spend, businesses will grow and job creation will be strengthened, all of which will contribute to growing the economy. In the face of chronic agriculture underinvestment, enhancing efficiency of the sector's spending is critical as this would generate substantial gains in productivity, employment, and rural poverty reduction.

4.1.8 Fiscal Consolidation & Economic Growth

The projected 6.8% growth rate for 2018 is encouraging but not robust. The concern here is that the non-oil GDP is projected to grow at 5.4% in 2018, from 4.8% expected in 2017, implying a projected increase of just 0.6 percentage point. With the economy fairly stabilized and most of the macroeconomic indicators moving in the right direction, and investor confidence is rising, it is difficult to understand why the non-oil GDP growth is targeted to increase by just 0.6 percentage point in 2018. Given the expected favorable conditions and the plethora of agricultural and industrial policies and program outlined in the Budget, one would have expected the government to target a more robust growth in 2018. Unfortunately, this is not so because the budget is focusing more attention on reducing the fiscal deficit than articulating strategies to use government investment spending to stimulate private sector-led growth and job creation.

Fiscal consolidation programs implemented in Ghana since 2015 have had strong negative impact on economic growth because the adjustment fell more on capital expenditure and the 2018 Budget is not an exception. The 2018 Budget is very rigid despite the capping of allocations to the statutory funds. The bulk of government spending will still go into non-discretionary recurrent expenditure, notably compensation of employees and interest payments, leaving very little for discretionary spending on programs announced in the Budget to turn the country's economic fortunes around. If cuts become necessary as they were in 2017, then most of the key policy initiatives, such as 1D1F and PFJ, NIEP, etc., will all be underfunded and growth will be subdued.

The rush by the government to reduce the fiscal deficit to below 5% in 2018, although very necessary to sustain macroeconomic stability and contain debt escalation, may have serious negative implications for the country's economic growth. This is because the consolidation may involve deep cuts of government investment spending, as has happened in 2017. Studies have shown that the negative short-term impact of fiscal consolidation on growth is lower when the adjustment is gradual, focusing on both revenue and expenditure and supported by strong fiscal institutions and structural reforms (see Alesina and others, 2016; IMF, 2013). In Ghana's, large front-loaded fiscal consolidation efforts since 2015 have had strong negative impact on growth because the adjustment fell more on capital expenditure. The retrenchment of government investment spending has worked to drag down economic growth and dampen job creation. The fact is that the 2018 Budget is very rigid despite the capping of allocations to the statutory funds. While the fiscal adjustment efforts have focused on a mix of expenditure and revenue measures, the emphasis on revenue generation has been relatively modest. At the same time, the bulk of the resource allocation still goes into non-discretionary recurrent expenditure, notably compensation of employees and interest payments, leaving very little for discretionary spending on programs announced in the Budget to turn the country's economic fortunes around.

Most of the key policy initiatives aimed at private sector growth such as 1D1F and PFJ, provision of venture capital and economic stimulus packages for distressed yet viable enterprises are likely to be underfunded in 2018. This means that the private sector will have reduced spendable money to invest to expand businesses and create job opportunities, with negative impact on economic growth. Unfortunately, capital expenditure and (essential) goods and services have been bearing the brunt of fiscal consolidation alongside accumulation of arrears, with detrimental effects on economic growth. The problem has been compounded by strict adherence by government to policy initiatives and promises in the face of inadequate revenues encumbered by statutory payments in the form of earmarked funds, salaries and debt service. Addressing macroeconomic vulnerabilities and undertaking a comprehensive reprioritization of government expenditure, with a view to reducing recurrent spending to sustainably expand the fiscal space for capital spending, will be pivotal to the achievement of the country's broad-based economic growth[12], job creation, and its development objectives.

4.2 Job Creation

4.2.1 Government's Job Creation Initiatives

Government initiatives for creating jobs to address the unemployment challenge seem well-intentioned. The PFJ seeks to provide support to existing farmers and to mobilize new ones, especially the youth and women to engage in extensive food planting. It is not clear, however, where the over 2.8 million jobs expected to be created by the PFJ program will come from. More direct policy measures are needed to address the underlying structural and demographic issues of unemployment. Government may have to intensify the idea of selective industrial programs involving agriculture-based manufacturing, such as happened in countries like Brazil, China, Chile and Malaysia. The Planting for Food and Jobs program and One Village One Dam, One District One Factory and One District One Warehouse policies are critical initiatives that if properly packaged, adequately funded and effectively implemented will transform agriculture to serve as backward linkage to manufacturing and together create job opportunities to address the youth unemployment problem currently confronting the country.

There is a rising deep anxiety about the rapid increase in the rate of graduate unemployment in Ghana. The reality of the job market has sent many graduates back to school and the rest are left to wonder how to get a foothold in the job market. The number of job openings and vacancies are limited, making the labour market supply of graduates to outgrown the labour demand. The surge in graduate unemployment in the country is attributed to a number of causes, including: (i) increase in educational attainment; (ii) low job creation attributed mainly to the progressive collapse of industries; and (iii) lack of policy focus on improving the flows into the job market for people leaving school, i.e., the mismatch between educational attainment and labour market requirements.

Providing jobs for 100,000 graduates, the NBC is an interesting initiative to address graduate unemployment in the country, but like many other programs mentioned in the Budget, details of the Initiative are yet to be unveiled. The legal, institutional, financial and operational framework that would provide the administrative processes and procedures and direction for the implementation and monitoring of the program are not known. Consequently, a number of critical questions and issues related the program remain unexplained.

Issues like whether the program is going to be one year like the current National Service Scheme or not and why 100,000 graduates are to be engaged in 2018 remain to be addressed. Whether the government has a database for unemployed graduates from which their backgrounds, in terms of institutions attended, courses of study, years of completion, and current whereabouts can be picked to support the formulation of operational and administrative processes and procedures is unknown? Given that the majority of university graduates these days study liberal arts as opposed to science and technology-based courses, how is the government going to train and equip them with the necessary tools so that they can be deployed to effectively assist in service delivery in the selected five areas? Will the 100,000 graduates that will be employed in 2018 at some point transit into the mainstream labor market so that others can also benefit from the program? The issue of funding of the NBC Initiative on sustainable basis is yet to be addressed by the government. In its current form, the NBC initiative seems to provide an ad hoc solution to the problem of graduate unemployment in the country.

A more sustainable approach to addressing graduate unemployment and, indeed, the mass of unemployed school certificate holders is to review the educational system alongside market reforms that encourage and support businesses to take on more workers. The problem of graduate unemployment in the country is due in part to the educational structure where students do not get the right skills and vocational training to prepare them for the labour market. Consequently, students are faced with a myriad of challenges when looking for jobs after graduation. To solve the graduate unemployment problem, create sustainable employment opportunities and promote skills development, there is the need to restructure the education system to make high-quality science and technology education more accessible to students and shaping higher education courses to fit the skills needed by the jobs market, including combining classroom work with vocational or industrial attachment. As a matter of policy, all tertiary institutions should be made to incorporate industrial attachment or internship as part of their academic curricula. The objective here is to expose students to how businesses are set up and operate, understand industrial practices, enable them to acquire some skills and experience, learn about work ethics and discipline, and how people and organizations relate in the real world (Fatau-Kakeem, 2016). The challenge though is that many organizations and companies may be reluctant to accept students for internship, making it difficult for the policy to achieve its intended objective. Government should therefore support business entities (including public organizations) to create employment and income generating opportunities for students and graduates coming out from the various educational institutions. This can take the form of setting up a special fund to support business entities that employ fresh graduates and interns from polytechnics and universities to help them offset the cost of hiring them. Business entities that employ graduates can also be granted subsidies, tax credits and other non-financial incentives.

Government may also have to consider resuscitating and resourcing the Skills Development Fund (SDF), a government reform program set up in 2011 with funding from the World Bank and DANIDA, to provide solutions to some of the pressing challenges facing the development of industry skills and technology. This will require a legislative action to mainstream the instrument for it to be supported by in the government's budget framework. The Micro Finance and Small Loans Center and its Job Enterprise Fund (JEF) created by the government to equip the youth with entrepreneurial skills and access to funds to establish businesses and/or expand existing ones also has to be critically restructured and resourced to enable it support young entrepreneurs desiring to set up business ventures. Visibility of the SDF and JEF have to be enhanced to make them known to the unemployed so that they can take advantage of them.

The Government must also develop a database of the unemployed to help in policy formulation, design of action plans to deal with the problem, and assist in monitoring outcomes.

The YEA and NBC initiatives seem to represent public works program, which will have to be carefully planned and managed so that they do not become a huge albatross on the budget. The two programs also seem to have similar objectives. It is therefore important to package the two initiatives in such a way as to avoid creating wasteful duplicative systems, targeting and implementation. Implementation of large-scale public works programs in the early post-independence period proved inefficient, costly and wasteful. Ghana should avoid repeating such mistakes.

4.2.3 Informal Sector Regulation

As indicated earlier, the majority of the country's workforce are engaged in the informal sector. As is the nature of this sector, there are no regulations or coherent policies guiding activities in the sector and there is very little official information on the sector's value generation. The range of activities in this sector is very wide, typical ones include unskilled worker assistants, small shops and street vendors, household assistants and cleaners, and similar lines of work often related to the services sector. The problems that informal sector employment poses are obvious. Not only is informal employment fairly inefficient, but they rarely contribute to the national budget by way of paying taxes. Furthermore, with no official recognition of their jobs, workers in the informal sector rarely have any pension fund or other social security benefits. The informal sector must therefore be regulated well in terms of compliance to laws, operations and adherence to standards in order to attract graduates. By doing so, they would be recognized as strategic pathways to creating jobs, promoting growth and reducing poverty. The Digital Addressing System and National ID Project currently being undertaken by the government will help tremendously in resolving many of the informal sector issues, and therefore need to be properly and effectively implemented.

4.3 Dealing with Ghana's Public Debt Albatross

Ghana's current debt level is far higher than that of its peers, both as a percentage of GDP and a percentage of revenue. Not only that but also the country's medium-term debt trajectories are on an upward trend, with serious consequences for private sector credit and government interest payment obligations. An analysis of Ghana's debt sustainability by the IMF in August 2017 indicates that the country is at high risk of external debt shocks. The thresholds for the present value of Ghana's external public and publicly guaranteed debt-to-GDP and the present value-to-revenue ratios would be breached for five and two years, respectively. The country's debt service-to-revenue ratio is also projected to stay well above the threshold with an upward shift. Ghana is also vulnerable to one-time exchange rate depreciation and a decline in exports, pointing to the need to diversify the economy and increase its resiliency to external shocks. Contingent liabilities, especially from state-owned enterprises and domestic payment arrears also present additional risks to the country's debt sustainability.

Table 1. Ghana: Pubic Debt and Debt-Servicing Cost

Item	2012	2013	2014	2015	2016	2017*
Public Debt (GH₵' million)	35.08	53.42	79.54	98.91	122.6	151.2
Changes in Public Debt (GH' million)	11.37	18.34	26.12	19.37	23.69	28.60
Tax Revenue (GH₵' million)	12.52	14.31	19.23	23.13	25.73	31.79
Interest Payment (GH₵' million)	2.44	4.40	7.08	9.30	10.70	13.28
Public Debt/GDP (%)	48.4	57.2	70.2	72.2	73.3	74.1
Tax Revenue/GDP (%)	17.0	16.3	17.7	17.6	16.6	15.6
Interest Payment/GDP (%)	3.5	4.7	6.2	6.8	6.4	6.5
Interest Payment/Total Expenditure (%)	11.8	16.0	22.0	24.1	21.2	25.8
Interest Payment/Tax Revenue (%)	19.5	30.7	36.8	40.2	38.6	41.8

Source: Budget Statement (various Issues). *provisional

Ghana seems to have fallen into a debt trap as real interest rates continue to surpass GDP growth rates. Interest payment on government debt has increased significantly in the last few years due to increased borrowing, posing a serious problem for fiscal management. As shown in Table 1, interest payment increased from GH₵2.44 billion in 2012 to a provisional figure of GH₵13.28 billion in 2017, representing an increase of 444.3% during the period. Interest payments is projected to increase to GH₵14.9 billion in 2018, which will represent an increase of GH₵12.46 billion or 510.1% from end 2012. Interest payment on public debt alone will consume 37.4% of tax revenue in 2018 down from 41.8% in 2017. Interest payment will also account for 24.6% of total government expenditure in 2018, from 25.8% in 2017. In fact, 2017 was the fourth successive year that total interest payments was larger than total government capital expenditure. This suggests that interest payments will probably be financed through additions to public debt or at the expense of other key government expenditures. According to Fitch Ratings (2015), the country's interest burden is the highest amongst its peers in sub-Saharan Africa while many analysts describe as worrying the escalating interest on the country's debts.

The prospect of Ghana's public debt growing faster than the national economy creates a serious concern since this will reduce consumer and investor confidence, raise a threat of high future interest rates and high debt service. The attendant rising interest cost cannot be stemmed through debt re-profiling as the government's debt management strategy seems to suggest. The biggest gain to the re-profiling of the public debt is the extension of the maturity periods which would give the country a breathing space to mobilize funds to pay the debts. Interest gain, if any, will depend on the rates and maturity periods of the debts before and after the re-profiling exercise since the size of the debt itself would remain the same. Proactive debt management strategy is therefore necessary to reduce interest payments and mitigate risks to the public debt profile. This may include the need to formulate an annual borrowing plan, improve treasury management and forecasting, enhance debt reporting, and strengthen operational risk management. To attenuate the risk of contingent liabilities, the government must monitor closely all debt issued by the state agencies, subnational authorities, and state-owned enterprises.

Implementation of interest rate hedging which would allow for enhanced predictability of debt-service will also help in stemming the rising interest costs.

Ghana's large debt financing needs represent a key source of vulnerability, especially on the external front. The large share of foreign currency debt in total public debt at non-concessional terms exposes the country's debt dynamics to foreign exchange shocks and also to a tightening of external liquidity conditions. Given the increasing share of nonresidents' investors in the domestic debt market, restoring and maintaining debt sustainability is hinged on credible and sustained fiscal consolidation to anchor investors' confidence in the economy. This will need to be supported by appropriate debt management strategy and broad structural reforms to ensure higher and inclusive growth. A gradual fiscal adjustment will help improve the public debt outlook, without protracted breaches of the public debt benchmarks. On the revenue side, there is the need to broaden the revenue base to include the informal sector, review the extractive industry fiscal regime, and strengthen the machinery of tax collection and administration. The collection, use and accountability of internally generated funds by public institutions and agencies should be given serious attention. The assessment, collection, use and accounting for oil revenues must also be subjected to regular public accountability. On the expenditure side, strengthening the wage bill control measures to address the ghost names payroll fraud albatross is required. The starting point is to deal seriously with the revelations of misappropriation, waste and embezzlement uncovered in the Auditor-General's reports. Further reviewing the statutory funds to allow for realignment to priority must also continue as serious questions about the funds accountability, priorities for spending and administrative outlays continue to exist. Extravagant spending on goods and services by MDAs, especially on vehicles, must also be stopped. A realistic fiscal plan that seeks to clean up the government's accounts and build confidence in sound management is what is required.

5.0 Conclusion

The 2018 Budget and Economic Policy of the government seeks to transform agriculture and promote industrialization to address the problem of slow growth and rising unemployment. This agenda is to be driven by a number of flagship programs and projects announced by the government. The budget appears well conceptualized, seeking to achieve a compromise between fiscal consolidation and the acceleration of the country's faltering economic growth and rising unemployment. The government also plans to reduce the country's fiscal deficit in 2018 and over the medium term to bring the public debt on a declining path to eliminate the risk of debt distress and strengthen the country's debt sustainability.

The issue is that Ghana's debt/GDP ratio has exceeded 70% since 2014, pushing the country into a serious debt distress and making the country to continue committing more tax revenue in settling debts rather than for infrastructure projects and meeting the needs of the people. Indeed, in the revised 2017 budget, the government set aside GH¢13.3 billion, equal to 41.8% of tax revenue for interest payments. The 2018 budget also makes a provision of GH¢14.9 billion, equal to 37.4% of the projected tax revenue for interest payments. Financing the country's maturing debt and interest on the debt therefore calls for a serious fiscal policy adjustments involving a comprehensive reprioritization of government expenditure away from current outlays to more productive spending and strong domestic revenue mobilization supported by structural reforms and a slowdown of public borrowing.

Creating an enabling environment for the private sector to invest heavily in agribusiness and manufacturing to create the much needed jobs is not well articulated in the budget. To achieve this will require creating a conducive environment for the private sector to lead the growth and job creation agenda, supported by availability of land, provision of growth supporting infrastructure and a well-designed government-backed financing and incentive schemes.

To ensure that the programs and plans outlined in the 2018 Budget do not suffer the same faith as those implemented in the country in the past few decades and were abandoned, the government needs to pursue policies of inclusiveness, with the objective of ensuring sustainable economic growth and human development. This should include an employment-centered economic growth strategy that ensures that employment expands along with production and that the benefits of growth are widely shared through better job opportunities and enhanced incomes, particularly for the growing unemployed youth, irrespective of political affiliations.

Finally, Ghana seems to have fallen into a debt trap as real interest rates continue to surpass GDP growth rates. It is the view of the IFS that future prosperity of Ghana requires (a) faster economic growth that will create more jobs; and (b) a sustainable fiscal plan that will halt the rising debt/GDP ratio and bring its trajectory down within a medium term. The IFS believes that, these are critical economic challenges facing Ghana which requires urgent attention. The truth of the matter is that, weak economic growth will reduce revenue and make it much harder to reduce or even stabilize the debt/GDP ratio. This is because any sustainable fiscal solution will involve revenue increases. Clearly, the two roles reinforce each other and neither one can be achieved without the other. Achieving the two goals simultaneously will put the national budget on a sustainable path and reduce or stabilize the debt/GDP ratio.

Pursuing the two goals of growth with job creation and debt stabilization is possible, provided we get the timing right. Whilst there would be the need to avoid excessive austerity now, we should take immediate steps to slow the growth of entitlement spending in the future and raise more revenues through a more progressive and pro-growth tax system. But this will require a bi-partisan cooperation because of the multi-party environment in which we find ourselves today.

The IFS is concerned about the prospect of our public debt growing faster than the national economy since this will reduce consumer and investor confidence, raise a threat of high future interest rates and high debt service. Naturally, all these will lead to reduction of national prosperity and make Ghanaians poorer. Therefore, to ensure the future prosperity, the only option left to us as a nation, will be to grow the economy faster, create more jobs and stabilize our public debt.

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