




Africa



The Republic of Ghana: A Success Story?

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Learning Objectives

- Know and understand how to assess development in a developing country.
- Know and understand fiscal federalism and how it applies to Ghana.
- Know and understand the proliferation of fiscal decentralization and local government reform and its affects on Ghana.
- Know and understanding the elements of good fiscal decentralization.
- Know and understand how to assess the fine line between international loans, expectations, and budget reforms.
- Understand the devolution of power and prosperity.

Introduction

Ghana has often been described as a success story of African independence. According to The World Bank (2009), “Ghana’s political rights, civil liberties, and freedom of press rankings are not only amongst the best in Africa, but are compared to those

recorded by countries at much higher levels of income.”¹ Ghana was the first sub-Saharan colonized country to seize its independence from the United Kingdom on March 6, 1957. While experiencing a series of political and economic ups and downs through its brief history, Ghana is positioning itself to be a leader on the continent. Country assessments put Ghana at the top of the rankings in Africa, and the country’s leadership seeks to achieve middle-income status by 2015 (World Bank, 2009).

Despite the optimism surrounding Ghana, concerns about its future remain. The country’s future depends on achieving some ambitious goals, including lowering poverty, managing its internal and external debt, oil exploration, fiscal discipline, and continued political stability. Interestingly, many of the country’s goals and those that donor organizations have for Ghana are linked to fiscal and political decentralization. What exactly that decentralized model looks like remains to be determined. This chapter begins with an examination of the governing structure and demographic profile of Ghana. Then, I analyze the current and future economic outlook for the country by closely examining World Bank reports. Last, I assess important issues such as budget structure, debt management, fiscal accountability, and decentralization.

Governing Structure

The central government of the Republic of Ghana is a constitutional democracy consisting of an executive (president and cabinet), legislative (unicameral national assembly), and a judicial branch (supreme court). The parliament of Ghana is unicameral and dominated by two parties, the New Patriotic Party and the National Democratic Congress. The most recent presidential election took place in December 2008. One of the more politically stable countries in the region, Ghana’s presidential election experienced few problems and in a runoff, John Atta Mills of the National Democratic Congress defeated Akufo-Addo of the New Patriotic Party.

Since 1957, Ghana has operated under four constitutions. The previous three were suspended following military coups. These include military removal of its founding leader, Kwame Nkrumah in 1966 and a military coup in 1979. Approved in 1992, the current constitution has lasted longer than any of the previous three. Now with political and economic stability, Ghana may be poised for the growth envisioned years ago.

Demographics

Ghana’s population is 23 million (2007 estimate), many of whom are concentrated along the coast and in the principle cities of Accra (the capital city) and Kumasi (US Department of State, 2010). While the official language is English, Ghanaians speak more than 50 languages and dialects (US Department of State). Some of the larger ethnic groups are the Akans, which consist of the Fantis along the coast and the Ashantis in the forest region north of the coast; the Guans, on the plains of the Volta River; the Ga and Ewe people of the south and southeast; and the Moshi-Dagomba tribes of the northern and upper regions (US Department of State).

One of the concerns expressed in a recent report by the World Bank is the growing urbanization of Ghana and the limited resources available to meet the basic infrastructure needs caused by such an influx (World Bank, 2008). In 1970, Ghana's population was 8.9 million and 29% of the population lived in urban areas (p. 2). By 1990, the country's population nearly doubled to 15.5 million with 36.5% living in urban areas. By 2010, Ghana's population is projected to reach 24.3 million and over half (51.5%) of the population will be living in urban areas (World Bank, 2008). The trend is projected to continue through 2030 when the country is estimated to have 33 million inhabitants, 64.8% of whom will be living in urban areas (World Bank, 2008).

The areas most affected by the urban immigration are and will be Accra and Kumasi. Between 1970 and 2015, the World Bank estimates Kumasi's population will grow from 349,000 to 2.1 million (World Bank, 2008). Similarly, Accra's population is projected to grow from 631,000 to 2.7 million during the same years (World Bank, 2008). These growth rates are putting pressure on these urban areas in terms of land ownership and use, housing, basic infrastructure (e.g., water and garbage collection services), and employment opportunities, among other concerns. As a result, poverty rates, particularly in the urban areas, have become a growing concern (World Bank, 2008).

Economy

Ghana's economy is driven by agriculture and natural resources. Its major exports include cocoa, gold, timber, diamonds, and manganese. Important imports include petroleum, food, industrial raw materials, machinery, and equipment (US Department of State, 2010). Its major trading partners include Nigeria, China, the United States, the United Kingdom, Germany, Togo, France, Netherlands, and Spain (US Department of State). Recent discoveries of petroleum could have a significant impact on Ghana's current trade imbalance.

Ghana's recent economic prosperity is probably the single most important reason it has experienced political stability over the past couple of decades. Since the 1990s, Ghana has sustained real GDP growth of more than 4% and per capita growth of approximately 2% (World Bank, 2009). According to the World Bank (2009):

Economic growth has averaged over 5% since 2001 and reached 6% in 2005–2006. This strong growth nearly halved the poverty rate in Ghana—the proportion of the population below the country's poverty line—from approximately 52% at the beginning of the 1990s to 28.6% in 2005–2006.

The recent economic growth experienced by Ghana places it among the three strongest, low-income African countries, alongside Tanzania and Uganda (World Bank, 2009). While impressive, concerns about economic development in Ghana remain. According to the World Bank (2009):

- Despite these gains, income inequality across regions and between men and women remains high and has increased during this period of accelerated growth. These inequities remain potent sources of political and social tensions. While all main income groups—from the poorest

to the richest—have benefited from the economic expansion since the beginning of the 1990s, the gains by the poorest were much lower than those of the rest of society. Despite their major role benefiting the society, women continue to earn much less than men, and poor women are the most economically vulnerable. While all regions saw gains in incomes and a reduction in poverty, these gains and poverty reduction were much less pronounced in the north of Ghana.

- Productivity remains low, especially in agriculture. Ghana’s aggregate productivity is improving, but the level remains below the most productive African economies, such as Mauritius and Botswana, and way behind the rapidly growing Asian countries. With irrigation almost nonexistent, Ghana’s agriculture still depends largely on weather. Recently, productivity has begun to increase but the use of modern agricultural techniques remains limited. The success stories in Ghana’s agriculture, such as cocoa and horticulture (pineapple), provide lessons on how to strengthen the rest of agriculture.
- While improving, several aspects of the business and investment climate remain weak. These constraints hold back Ghanaian firms from investing, expanding output, and hiring more workers as well as becoming more productive. The most important constraints relate to electricity and access to finance, especially for small and medium-size enterprises.
- Addressing infrastructure bottlenecks will also help raise productivity in the economy, especially in agriculture. Without water supply and electricity, there is no refrigeration; and without refrigeration, there is no vibrant commercial fishing industry and associated food chains. Productivity is fundamental to long-term growth. Some new technologies, such as cellular and IT offer opportunities to leapfrog into higher and more productive, new economic sectors that offer promises of new jobs, investments, and growth. Additional opportunities beyond infrastructure must be sought to sustainably enhance productivity in sectors important to the well-being of Ghanaians, such as in agriculture. The most important sources of Ghana’s future productivity improvements are likely to be through the competitive entry of new and more productive enterprises, as well as the growth of existing firms, and through increasing the available skilled labor. To these ends, policy efforts should focus on:
 - Eliminating infrastructure bottlenecks and widening the use of technology and ICT.
 - Transferring to other agriculture sectors the lessons of recent productivity gains in the cocoa sector as a result of disease control, fertilizers, and better product varieties. The last shows that aggressive productivity-enhancing measures on privately owned farms can have major impacts on productivity and output.
 - Introducing in the public sector a new value-for-money and productivity-enhancing mindset that will lead to better use of resources and wider space for private sector innovation in the new technology-intensive sectors that offer opportunities for leapfrogging.

Ghana's 2008 Budget

Ghana's fiscal year is the same as the calendar year. Their currency is the cedi (¢), which currently exchanges US\$1 for approximately GH¢13,800. Marking the country's 50th anniversary, the 2008 budget was named "Brighter Future" by President John Kufuor. Spending in 2008 was estimated at GH¢7.1 billion (see Table 2-1). These expenditures are divided into two broad categories: statutory (GH¢1.7 billion) and

Table 2-1					
Ghana's Budget					
	2006	2007	2008	2009	2010
Total payments	4,307.5	6,153.8	7,107.2	7,208.4	7,858.7
Statutory payments	1,248.6	1,548.6	1,728.9	1,895.9	2,078.9
External debt service	325.4	354.8	293.2	248.3	218.2
Domestic interest	303.1	242.7	352.3	306.9	292.3
District assembly common fund	104.7	146.2	234.3	277.1	321.8
Transfers to households	236.9	274.8	318.0	437.2	508.2
Pensions	92.6	105.2	127.4	171.1	198.9
Gratuities	46.6	51.2	58.0	95.0	110.5
Social security	97.7	118.5	132.7	171.1	198.9
National Health Fund (NHF)	60.7	255.3	235.4	276.6	324.3
Educational trust fund	106.3	150.5	163.0	195.2	232.8
Road fund	108.6	111.4	129.2	150.6	176.8
Petroleum-related fund	3.0	3.0	3.5	4.1	4.4
Discretionary funds	3,058.8	4,605.2	5,378.2	5,312.5	5,779.7
Ministries	1,859.0	2,217.3	2,811.9	2,702.9	3,142.1
Net lending	0.7	0.2	-2.0	-2.0	-2.0
Foreign-financing investment	527.9	553.2	1,000.2	1,292.7	993.0
Tax refunds	14.1	21.3	37.0	43.1	50.2
Outstanding commitments	48.8	77.7	42.7	0.0	0.0
Utility price subsidies	267.3	21.4	0.0	0.0	0.0
w/o Tema Oil Refinery's under-recovery	177.4	3.7	0.0	0.0	0.0
Other transfers	37.2	104.7	13.4	22.0	22.0
Retention of internally generated funds	0.0	213.9	299.2	368.5	490.1
Safety net for petroleum					
Deregulation	37.2	104.7	13.4	22.0	22.0
Lifeline consumers of electronics	0.0	1.3	10.0	10.0	10.0
Tax expenditures (exemptions)	0.0	339.5	356.6	341.4	405.1
Reserve fund	0.0	160.8	243.7	0.0	0.0
HIPC-financed expenditures	179.2	176.9	127.6	134.2	128.4
MDRI-financed expenditures	124.6	159.9	55.6	59.1	63.7
Repayment of domestic debt	0.0	557.0	382.4	239.6	477.1

Source: Republic of Ghana, Ministry of Finance and Economic Planning.

discretionary (GH¢5.4 billion). Statutory payments consist of external debt service (GH¢293 million), payments to individuals and organizations that purchased government bills (GH¢352.3 million), transfers to the District Assembly Common Fund (GH¢234.3 million), the Ghana Education Trust Fund (GH¢1.63 billion) and the Road Fund (GH¢129 million).

Trends in statutory payments between 2006 and 2010 reveal sizable shifts in the country's priorities. External debt service represents 24.3% of statutory payments in 2006; it is estimated that in 2010, they will drop to 10.5%. Similarly, in 2006, domestic interest payments were 24.3% of statutory payments, and in 2010, they are projected to account for 14.1%. Conversely, funding for local government (DA's Common Fund) will nearly double between 2006 and 2010 as a percent of statutory payments (8.4% to 15.5%). The National Fund experienced a sizable increase in funding between 2006 and 2007, and the support remains in 2010 at about 15%.

Discretionary spending makes up over 70% of Ghana's expenditures. In broad terms, these expenses can be divided into three categories: ministries, foreign-financed investment, transfers and repayment of domestic debt, the sum of which account for approximately 80% of discretionary spending. Ministry expenditures are divided among 38 central government ministries, which are presented in three broad categories: Private Sector Competitiveness, Human Resource Development, and Good Governance. Private Sector Competitiveness consists of 11 ministries, the most sizable (budgetary) in 2008 are the Ministry of Energy (GH¢365 million), Ministry of Transportation (GH¢184 million), and Ministry of Harbors and Railways (GH¢60 million). While only consisting of four ministries, the Human Resources Development category comprises over 40% of total ministry discretionary expenses. The Ministry of Education, Science and Sports, and Ministry of Health assume the bulk of Human Resources Development expenses (GH¢880 million and GH¢269 million). Finally, under the third and final category, Good Governance contains 23 ministries, the largest of which were Ministry of Interior (GH¢156 million), Ministry of Defense (GH¢117 million), and Ministry of Foreign Affairs, Regional Cooperation and NEPAD (GH¢69 million).

Between 2006 and 2010, significant policy shifts are revealed by comparing change in ministry allocations. One of these changes is the sizable drop in funding for the Ministry of Energy from GH¢365 million in 2006, to GH¢10 million in 2010. This is largely attributable to the sizable foreign investment for oil exploration, up from 12% of discretionary spending in 2007, to 26% in 2009.

REVENUES

The central government expected to receive GH¢7.1 million in 2008, GH¢7.2 million in 2009, and GH¢7.9 million in 2010 (see Table 2-2). In general, revenues consist of a combination of taxes (67%), grants (12%), loans (9%), and other receipts (14%). Other receipts include items such as capital market borrowing and Heavily Indebted Poor Countries (HIPC) relief (GH¢77.5 million in 2008).

Tax revenues are divided into five categories: direct (25%), indirect (35%), international trade (17%), national health insurance (5%), and import exemptions (8%).²

Table 2-2

Ghana's Revenue Budget				
	2007	2008	2009	2010
	Revised budget	Estimated budget	Projected budget	Projected budget
Total receipts				
Total revenue and grants	6,226.0	7,107.2	7,208.5	7,858.7
<i>Total revenue</i>	3,762.6	4,763.2	5,199.9	6,127.8
Tax revenue	3,435.7	4,433.2	4,649.7	6,077.8
Direct taxes	887.7	1,122.4	1,309.7	1,555.0
Personal	382.3	458.8	541.4	644.3
Self-employed	45.4	58.0	68.4	81.4
Companies	382.2	498.0	587.6	699.2
Other direct taxes	77.8	107.7	112.3	130.1
Indirect taxes	1,412.5	1,548.5	1,832.0	2,068.2
Value-added tax	887.6	1,000.1	1,191.9	1,415.1
Domestic	296.3	373.0	439.7	522.1
Imports	591.3	628.1	752.2	893.0
Petroleum	422.6	490.0	571.2	571.2
Excise	102.3	58.3	68.9	81.8
International trade taxes	613.6	746.3	890.0	1053.6
National health				
Insurance levy	182.4	235.4	276.6	324.3
Other revenue measures	0.0	330.0	50.0	50.0
Import exemptions	339.5	356.6	341.4	405.1
Nontax revenue	326.9	424.0	500.2	671.5
Grants	894.5	853.4	1,006.0	826.2
Project	444.8	514.8	613.7	425.0
Program	153.5	201.0	250.7	256.8
HIPC assistance	136.4	81.9	82.4	80.7
Multilateral debt relief				
Initiative	159.9	55.6	59.1	63.7
International Monetary Fund	108.3	0.0	0.0	0.0
World Bank	46.0	49.9	53.1	57.6
African Development Bank	5.5	5.7	6.0	6.1
Loans	598.8	621.5	917.2	824.8
Projected loans	451.9	485.3	780.0	568.0
Program loans	147.0	136.2	137.2	256.8

Source: Republic of Ghana, Ministry of Finance and Economic Planning.

Indirect, particularly value-added import and import duties, and international trade taxes account for roughly half of the country's tax revenues. Direct taxes, personal, self-employed, company and other, comprise approximately 25% of total tax revenues. Between 2007 and 2010, the proportion of tax revenues from these various sources is estimated to change minimally.

Grants received by Ghana's central government account for more than 10% of total revenues and, in 2007, exceeded total direct tax revenue. More than half of the grant funding is for projects, which are generally geared toward infrastructure needs. It is also worth noting that in 2007, nearly GH¢300 million in grant funding went toward debt-relief initiatives sponsored by the International Monetary Fund (IMF), the World Bank, and African Development Bank. These debt relief initiatives are projected to be significantly scaled back in years 2008 through 2010.

Loans account for approximately 10% of total revenues in each of the years 2007 through 2010. As with the grant funds, the lion's share of loans are internationally funded and play a key role in Ghana's poverty reduction efforts. While the totals vary annually, much of the loans funding is for projects related to infrastructure improvements. Also worth noting is that in 2007 and 2008, Ghana generated GH¢350 million and GH¢516 million through capital market borrowing. Their ability to do so reflects a 20-year effort to develop a successful financial market and national banking system.

Fiscal Accountability

Due to the sizable amount of grant and loan funding from international organizations, Ghana's financial reporting and decision making has been closely scrutinized. While there appears to be general approval of the central government's budgeting and accounting practices, expressed concerns are significant. According to the IMF, there remain challenges with the accounting practices for certain central government expenses such as donor flows dispersed directly to ministries and those arising from internally generated funds (International Monetary Fund, 2008b). In addition, it has been difficult to account for spending by extrabudgetary funds. The operations of special funds such as the Ghana Education Trust Fund and District Assemblies Fund (DAF) are not yet covered in fiscal accounts (International Monetary Fund, 2008b, p. 13). Locally, it appears that while government expenses are directly met from budgetary accounts, locally generated revenues from local governments and related spending are not yet covered.

External Review of Public Finance Management

In 2006, an extensive review of Ghana's public finance management objectives and fiscal performance measures was conducted under the auspices of the World Bank. The 2006 Public Expenditure and Financial Accountability (PEFA) assessment was published as a two-volume set in excess of 100 pages. In essence, the report concludes that Ghana has made significant strides since it became eligible for HIPC support in the

early 2000s. The assessment is conducted against six core public finance management objectives. The findings for Ghana are as follows:

- *Credibility of the Budget.* Aggregate expenditure and revenue outturns broadly match the budget plans, but credibility is diminished by variance across budget heads, reflecting weaknesses in budget formulation and the treatment of contingencies.
- *Comprehensiveness and Transparency of the Budget.* This has improved considerably over the past two years, through the incorporation of information on internally generated funds, direct donor disbursements, HIPC, and statutory funds on the budget statement. However, in-year reporting is less comprehensive, hampering overall budget scrutiny and management.
- *Policy-Based Budget.* While budgets have become more policy based in recent years, performance is held back by limited ability to cost strategies, the lack of effective wage-bill planning, and the absence of a transparent link between planned and executed budget activities.
- *Predictability and Control in Budget Execution.* The government has improved commitment and other internal controls, but recognizes weaknesses in management and oversight of control systems.
- *Accountability, Recording, and Reporting.* The government still relies predominantly on a paper-based system, resulting in delays and data errors. Analytic and technical capacity constraints hamper the Ministry of Finance and Economic Planning, and departments and agencies' efforts to monitor and analyze budget performance.
- *External Scrutiny and Audit.* There is now more timely completion of accounts and financial statements and submission of audit reports to the legislature, which in turn, is more actively scrutinizing both budget and accounts. Reported progress has been facilitated by the timely submission of the Report and Financial Statements of the Consolidated Fund by Controller and Account General Department (CAGD). However, effective follow-up on audit findings remains a question, and the excessive detail of the budget documents undermines effective parliamentary scrutiny.

Ghana's most challenging recommendations identified in the report are to:

- Expand the coverage and improve the accuracy of CADG monthly budget execution reports by including retained internally generated funds and donor project aid;
- Align better Ghana Growth and Poverty Reduction Strategy for 2006 to 2009 (GPRS II) and the annual budget by strengthening the medium-term expenditure framework (MTEF) and increasing its capacity to reflect the costs of existing and new policies and programs, and thus make the budget more credible; and
- Strengthen the governance framework for state-owned enterprises (SOE) by enforcing the requirement for all SOEs to submit annual financial and operating plans, quarterly implementation reports, and continue to adopt measures to mitigate fiscal risk.

Debt

Ghana currently receives annual payments of approximately US\$1 billion in various forms of aid. The IMF, an organization that has a vested interest in Ghana given the amounts loaned, has links to several useful staff reports on its Web site.³ One of the IMF's primary concerns continues to be Ghana's level of debt. In 2008, Ghana's overall fiscal balance was -10.3% of its GDP. For the same year, the country's total governmental debt was 51.4% of GDP, of which 29.6% was domestic and 26.7% was external (IMF, 2008b, p. 10). The IMF projects debt rising to 60.3% of GDP in 2010, and 80% of GDP in 2028 (IMF, 2008b).

One of the primary drivers of Ghana's fiscal imbalance has been a lack of spending discipline (IMF, 2008b). For instance, recent wage bills were authorized outside of the budgeting process enabling ministries and local agencies to hire significantly more than budgeted. According to the IMF (2008b), "Particular attention is needed to control expenditure commitments; civil service reform needs to resume in earnest, with attracting high-quality labor and reducing public sector employment and fiscal decentralization which can provide efficiency gains."

What might be most concerning is not so much the country's current level of debt, but that debt continues to be an area of focus given its history of debt relief. As early as the 1960s, Ghana was faced with debt problems (Harrington & Younger, 2000). The country's debt woes worsened in the 1970s, peaked in the 1980s, and, because of debt restructuring, steadied in the early 1990s (Osei & Quartey, 2001). According to Osei and Quartey, Ghana's debt service to exports ratio peaked at over 80% in 1982 primarily due to oil price increases, the recession in western countries, and policy mismanagement (Osei & Quartey). In the late 1980s, Ghana was able to restructure their debt, which provided some temporary relief. The relief was, however, short lived as the country was using incoming aid to repay debt. By 1997, Ghana's debt service was exceeding its net aid (Osei & Quartey).

In the early 2000s, Ghana sought and qualified for HIPC assistance. The HIPC initiative is a multinational and multiorganizational effort (principally the IMF, the African Development Fund, and the World Bank) to provide relief for countries overwhelmed by their debt burdens. Eligibility is contingent on several factors, including the creation of a poverty-reduction strategy and fiscal policy reforms. While 41 countries are eligible, Ghana is one of 28 countries that, as of February 18, 2010, have received HIPC assistance (IMF, 2010). According to an African Development Bank Group (2009) report, Ghana has received US\$2.2 million in debt relief. The amount of relief was equivalent to a 56.2% reduction in the country's outstanding debt (African Development Bank Group).

What remains to be seen is the extent to which Ghana is able to change past practices of debt growth and meet a principle goal of the HIPC initiative: lowering poverty. Implicit in the HIPC assistance is that public expenditures previously used to service debt will be used to fund programs aimed to benefit those less well off. Lloyd, Morrissey, & Osei (2001), in one of the few available studies, found that the HIPC initiative could produce this intended effect in two ways: economic development

spurred by investment and government savings on debt service that would now be spent on social programs.

As previously discussed, Ghana has a dedicated funding source for education, health, roads, and local governments that, in 2008, accounted for 10% of total spending. Those percentages rose to 12.5% in 2009, and 13.4% in 2010. These expenses also do not capture discretionary spending by various ministries, including the Ministry of Transportation; the Ministry of Harbors and Railways; the Ministry of Education, Science, and Sports; and the Ministry of Health.

Just as important, if not more so, is Ghana's debt management strategy. A report by the IMF includes a forecast of Ghana's debt burden under three economic scenarios: a baseline, low growth, and oil exporting (see Table 2-3). The three fiscal stress ratios for 2008 were: net present value (NPV) of debt to GDP (20%), NPV of debt to exports (45%), and debt service to exports (3%). For perspective, Ghana's debt service to exports was 24.9% during the period 1970 to 1983, rose to 44.3% from 1983 to 1989, and fell to 29.8% from 1990 to 1998 (Osei & Quartey, 2001). Similarly, debt to exports was 342.9% from 1970 to 1983, peaked at 443.4% from 1983 to 1998, and dipped to 385.9% from 1990 to 1998 (Osei & Quartey). Finally, external debt to GDP for the same periods were 30.2%, 53.5%, and 81.1%, respectively (Osei & Quartey). Compared to these numbers, Ghana currently appears in a strong position. However, the estimates 10 and 20 years out raise concerns as the ratios worsen. The IMF points to many of the same causes, particularly poor fiscal policy (IMF, 2008b). The discovery of oil reserves could be the nation's salvation, if used primarily to buy down its debt service.

Table 2-3

Ghana's Debt Ratios			
	2008	2018	2028
	Baseline Scenario		
NPV of debt to GDP ratio	20	35	40
NPV of debt to exports ratio	45	109	150
Debt service to exports ratio	3	11	23
	Low-GDP Scenario		
NPV of debt to GDP ratio	20	38	56
NPV of debt to exports ratio	45	122	185
Debt service to exports ratio	3	12	29
	Oil Exporting Scenario		
NPV of debt to GDP ratio	20	22	9
NPV of debt to exports ratio	45	69	34
Debt service to exports ratio	3	9	7

Source: International Monetary Fund, Debt Sustainability Analysis estimates.

Opportunities: Oil Reserves

In 2007 and 2008, oil reserves were discovered in Ghana by the UK-based Tullow Oil in quantities greater than domestic demand. It is estimated that the current 170 billions of barrels generated in Ghana could reach the 500 to 600 billion barrel mark. The supply is expected to be short-lived, meaning that an analysis by IMF staff predicts that production and exportation could begin in 2011, peak in 2013, and be depleted by 2030 (IMF, 2008b). The same analysis determined that these discoveries could net the government a total of US\$20 billion, or 160% of Ghana's 2008 GDP.

Management of the revenues generated from such a discovery has received the attention of international donors. Were Ghana to use all oil revenues to retire debt, the country public service debt would drop from nearly 50% of GDP in 2007 to 19.2% in 2028 (IMF, 2008b, p. 19). According to the IMF (2008a):

Good international practice suggests that a separate account under the control of the treasury, that clear rules be established for transferring oil revenues into the account and making transfers to the budget to finance the non-oil deficit, that the fund be regulated by the investment strategy supervised by a professionally staffed investment committee, and that arrangements for regular reporting and independent audit of the management and use of oil and gas resources be put in place. (p. 122)

Decentralization: A Panacea for Prosperity?

For all practical purposes, Ghana functions as a highly centralized state. Administratively, the country operates as a unitary state with one level of subnational government comprising five metropolitan assemblies, eight municipal assemblies, and 125 district assemblies. These subnational governments are collectively referred to as MMDAs. In recent years, with the encouragement of lending agencies, the World Bank in particular, there has been a concerted effort by the central government toward greater decentralization. The current framework for intergovernmental fiscal relations is found in the Local Government Act and the 2003 District Assemblies Common Fund (DACF) Act. The Local Government Act (462) of 1993 provides district assemblies with taxing authority, political and administrative authority, and the development of infrastructure.

The District Assemblies (DA) are responsible for preparing and approving an annual budget. Once approved, the budget is submitted to a regional coordinating council for project coordination. In practice, the district assemblies have several limitations, including an inability to generate sufficient own-source revenue, a limited operating budget, and the inability to hire staff or select officials serving on the district assemblies. Regarding the first point, while DAs have the authority to impose property taxes and charge fees for any license or permit, in reality, these account for a small portion of their budget. The majority of DA revenue come from the central government. Only 16% of DA revenues are locally generated. The bulk of their funding comes in the form of grants and intergovernmental aids (see Table 2-4).

Table 2-4

Consolidate Budget for District Assemblies of Ghana			
<i>Category</i>	Millions of GH cedis	Average	% of total
Rates	54,420	2,899	3.8
Lands	33,963	1,808	2.4
Fees	68,015	3,620	4.8
Licenses	31,788	1,692	2.2
Rent	11,469		
Investments	7,438		
Miscellaneous	20,003		
Subtotal of internally generated revenues	227,096	12,086	16.0
Transfers salary	115,547	6,150	8.1
Common fund	619,551	32,973	43.5
Donors	138,759	7,385	9.8
HIPC	322,076	17,141	22.6
Total grants	1,195,933	63,649	84.0
Total revenue	1,423,029	75,735	100.0
Expenses			
Personnel	163,708	8,713	11.4
Other current expenditures	149,640	7,964	10.4
Capital expenditures	1,125,003	59,874	78.2
Total expenses	1,438,351	76,551	100.0

Source: The World Bank.

The largest single-source DA revenue source (43.5%) is from the Common Fund. The distributions of aids are generally formula-based, including equality, need (education-related), and population density (World Bank, 2006b). This poses challenges as financing from the Common Fund can only be used to fund projects that are part of the approved development plan for the district. Thus, nearly 80% of DA expenditures are for capital projects.

Not only are the DAs' abilities to make budgetary decisions hampered by revenue and expenditure limitations, so too are their abilities to make personnel decisions. The hiring, firing, and assigning of local staff are currently the responsibility of central government: Ministries, Departments, and Agencies (World Bank, 2008). Thus, the Minister of Local Government and Rural Development, which is responsible for coordinating many local functions, plays an important role in the effectiveness of the DAs.

Exacerbating these fiscal and management limitations, representation on assembly councils consists of a combination of elected and appointed positions. Those appointed are done so by both the central government and president. In addition, the central government (typically the minister of local government) has the power to investigate and even dismiss a council in situations where irregularities have appeared. The central government's role in DA governance has caused resentment by citizens (World Bank, 2008).

The issue of intergovernmental relations has been examined extensively by both the World Bank and the IMF. Areas of concern expressed by both organizations include a lack of local control and blurred lines of responsibilities between the DAs and the central government. According to the World Bank, the result of this relationship has been an inability to provide core services. For instance, water coverage in urban areas has declined from 85% in 1990 to 61% in 2004. Similarly, in 2004, solid waste was collected at a rate of 70%, just as the electricity infrastructure is strained and traffic congestion is problematic.

LOCAL FINANCIAL ACCOUNTING ISSUES

Included in the World Bank's review of Ghana's financial position and management was an assessment of local governments. With respect to intergovernmental fiscal relations, Ghana received a grade of C (World Bank, 2006b). The grade was based on three indicators: transparency and objectivity in the horizontal allocation amongst subnational governments; timeliness and reliability to subnational governments on their allocation; and the extent of consolidation in fiscal data. On the first indicator, Ghana received a grade of A based on the clarity and transparency of criteria. On both the second and third indicators, the government received a D. For the second indicator, the low grade was the result of the distribution formula not being approved until after the subnational governments' fiscal year in 2006. The third and final grade was received because of the different classification systems that prohibit the national and subnational governments from consolidating fiscal data (World Bank, 2006b, p. 16).

The lack of consistency in charts of accounts makes it difficult to assess local fiscal decision making. According to the World Bank, ". . . the lack of up-to-date accounts, lack of a user-friendly accounting system and unfamiliarity with financial control and audit mechanisms . . . limit the ability of residents to participate in DA fiscal decision making" (World Bank, 2006b). In addition, the DAs heavy reliance on transfers, which, historically, have not been reliable in terms of timing and amounts, limits their ability to budget beyond the current year.

Given the previously made points, it should not be surprising that the World Bank has expressed concerns with the level of fiscal discipline by Ghana's DAs. In reference to the DAs, the World Bank (2006b) has stated, that there is "little incentive to control local expenditures as financial oversight and control is primarily done by the central government." The report goes on and states "The implementation of lines of responsibility within the government system leaves much to be desired. Definitions of responsibility are fuzzy at levels control/management and actual delivery. Overlapping responsibilities within the system are considerable." Such a finding is certainly not unique to Ghana. For example, a recent study of fiscal decentralization in Kenya found that local governments that are afforded capital expenditure discretion were, in fact, investing in capital projects that then needed operating funds from the central government due to limited local resources (Bagaka, 2008).

Ghana's Municipal Finance and Management Initiative

Ghana has recently embarked on an effort to enhance local decision making, called the Municipal Finance and Management Initiative (MFMI).⁴ In 2007, the Ministry of Local Government and Rural Development, and the Ministry of Finance and Economic Planning organized a 2-day international conference on this initiative in Accra. According to the Cities Alliance, "The main aim of the MFMI is to assist municipal governments achieve the following:

- Significantly increase Internally Generated Funds;
- Identify and find ways of minimizing and finally eliminating financial leakages;
- Significantly improving management and accounting systems;
- Raise necessary funds to meet infrastructural and service delivery requirements;
- Gain public confidence."⁵

The MFMI remains in the development stages and was dealt a serious blow with the recent death of Kwadwo Baah-Wiredu, Ghana's finance minister.⁶ However, given the push by the international lending agencies, particularly the World Bank, intergovernmental relations will remain a key focus.

IS FISCAL DECENTRALIZATION THE SOLUTION?

Paul Smoke's work is most useful for the discussion of Ghana's decentralization movement. A key point raised is that there is a serious lack of international comparative work on fiscal decentralization, which limits the ability to define a "best" model (Smoke, 2001). Based on his review of the existing literature and on research on Ethiopia and Uganda, Smoke contends that a good fiscal decentralization program needs, "... an adequate enabling environment; assignment of an appropriate set of functions to local governments; the establishment of an adequate intergovernmental fiscal transfer system; and the establishment of adequate access to local governments to development capital" (p. 19).

In terms of environment, it is suggested that not only is it important to have constitutional and statutory definitions of local government roles and responsibilities, but a national will for decentralization (Smoke, 2001). In addition, local government oversight needs consideration. The latter points are particularly worth noting for Ghana. Although Ghana has a history of local governance, recent efforts appear to be more at the desire of the international donor community, the World Bank in particular. Reviews of IMF and World Bank documents consistently reference the need for Ghana to decentralize. Smoke cautions about external pushes for decentralization:

In spite of current international rhetoric, donors do not always behave in ways that genuinely support gradual and strategic decentralization, institution building and sectoral coordination. Such efforts are time consuming and difficult, and, therefore likely to cause substantial delays in donor efforts move funds. Given common

pressures or programme officers to keep to expenditure schedules, particularly in large lending institutions, substantial funds continue to flow for investment, even if it is clear that recipient governments lack the capacity to ensure that funds will be well spent and that projects being constructed will be well maintained. (p. 29)

Oversight of local governance will also need to be reviewed in Ghana. Smoke (2001) references countries “. . . broad-purpose ministries, such as Local Government, Home Affairs, Finance and Planning . . .” as problematic because the oversight tends to become competitive and disorganized (p. 20). Ghana’s Ministry of Local Government and Rural Development, and Ministry of Finance and Economic Planning appear to fit the broad definition of a local government oversight agency warned by Smoke. Each is providing input on the future of Ghana’s local government structure and has a stake in the outcome. The outcome could mean a loss of influence with which bureaucrats are not easily willing to part (Smoke). A more desirable oversight model was found in Kenya, which has one ministry (the Ministry of Local Government) whose sole responsibility is oversight of local governments (Smoke). In addition, the ability of Ghana’s central government ministries to hire, fire, and place local bureaucrats are an inherent cause for tension and can ultimately weaken local government effectiveness.

The adequacy of an intergovernmental fiscal transfer system lies at the heart of most discussions of fiscal decentralization. The challenges tend to center around balancing the need for local fiscal autonomy with the desire for equity across local areas. The consensus among scholars seems to be that local governments should rely on a few sizable revenue sources—principally property taxes and user fees—that can produce significant returns (Bahl & Linn, 1992; Smoke, 2001). Interestingly, these are currently the primary sources for Ghana’s DAs. The administration of property taxes has been problematic for Ghana for a number of reasons, including difficulty in determining property ownership in many cases. Greater use of fees for services by DAs has been an issue pressed by the World Bank and is consistent with the opinions of a number of scholars (Smoke, 2001).

In addition to locally generated revenues, the central government will need to continue to play an important role. As previously discussed, Ghana’s DAs currently receive about 80% of their funding from the central government. In addition, those funds are largely restricted for capital projects. While conditional grants are needed in any fiscal decentralization model to encourage spending in particular areas, Ghana also needs to develop unconditional grants. Unconditional grants provide the necessary local flexibility to meet the unique needs of citizens. These grants could be particularly beneficial to Ghana’s DAs, as they currently lack resources for general operations.

Somewhat more controversial is the ability of local governments to incur debt for investment capital. Ghana, like most developing countries, receives capital funds from the central government. A key point worthy of consideration is that the ability of local government to access credit markets provides stability when economic fluctuations force central governments to reign in grant funding for such projects (Smoke, 2001). Interestingly, international donors have specifically stated their opposition to Ghana granting local governments the ability to incur debt over fear of abuse. At a minimum, fiscal decentralization models should consist of a range of local government financing options (Smoke).

Conclusion

Ghana's political environment, stability, and civil liberties and freedoms are the envy of most African countries. The country's biggest challenges are fiscal and economic issues. Economically, the discovery of oil reserves will provide a boom over the next 20 years, however, the ability to harness the potential revenues for infrastructure improvements and debt relief will, undoubtedly, be challenged by short-term political gains. Current policies structured toward poverty reduction are positive signs.

Ghana, like many developing countries, is pursuing fiscal decentralization for several reasons, including anticipated economic development opportunities, poverty reduction, fiscal transparency, and international donor prodding. The most recent effort is the MFMI questions. According to the MFMI secretariat,⁷ the aims of the initiative are to assist local governments to:

- significantly increase Internally Generated Funds (IGF);
- identify and find ways of minimizing and finally eliminating financial leakages;
- significantly improve management and accounting systems;
- raise necessary funds to meet infrastructural and service delivery requirements; and
- gain public confidence.

Based on the stated goals, the focus is clearly on revenue generation and financial accounting practices. While these are obviously important objectives, they might not be sufficient to ensure success. Basic questions of oversight, local capacity, the appropriate mix of central government grants, representation on municipal councils, and personnel decision making also need consideration.

Discussion Questions

1. Referring back to the chapter's title, is Ghana a success story? What are the bases by which one should evaluate a developing nation's success?
2. Much of the academic literature of fiscal federalism (most common bodies of literature include the "fly-paper effect" and "fiscal illusion") focuses on the United States. Using the Republic of Ghana as an example, how do international studies add to the breadth and/or redefine fiscal federalism literature?
3. According to the World Bank, fiscal decentralization and local government reform have been among the most widespread recent trends in developing countries. Based on this chapter, why is this occurring? Discuss both strengths and weaknesses in this trend.
4. Paul Smoke (2001) wrote that the elements of a good fiscal decentralization include:
 - a. An adequate enabling environment;
 - b. Assignment of an appropriate set of functions to local governments;
 - c. Assignment of an appropriate set of own-source revenues to local governments;

- d. Establishment of an adequate intergovernmental fiscal transfer system; and
 - e. Establishment of adequate access of local governments to development capital.
- Using these five criteria, evaluate Ghana's fiscal decentralization capacity.
5. The level of debt currently incurred by Ghana and estimated in the upcoming years is substantial. To meet the country's needs, international organizations have loaned money to Ghana. Given this, to what extent should these donor organizations expect Ghana to reform? Discuss this within the context of sovereignty.
 6. For all practical purposes, Ghana functions as a highly centralized state yet has been in the process of developing a more decentralized governing structure. From what you have read, is Ghana's decentralization effort a panacea for prosperity?

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