

ISODEC's Expectations of the Impending Budget Statement

About a fortnight ago the President delivered his State of the Nation address to Parliament, and therefore, to Ghanaians. We are told the Minister for Finance will also present the government's economic Policy Statement to Parliament this week. We present here our expectations of the budget scheduled to be read today.

A quick review of the economy's performance shows that some amount of economic stability has been achieved as at the end of the 2002 financial year. The rate of inflation fell to 12.9% at the close of September although it rose again to 15.2% in December. Thus, we did not achieve the targeted inflation rate of 13% although there was an improvement over last year's. The government is likely to continue to work towards reducing inflation to single digits with a commitment to controlling government expenditure. The local currency depreciated by 13% against the dollar in 2002 although this was lower than it did with other currencies. The government's promise to replace the cash and carry system by a Health Insurance Scheme is being given meaning, with a pilot scheme in 42 districts and it is hoped that this will be expended to cover the whole country this year. There are promises to continue the rehabilitation of irrigation schemes that have been started to boost agriculture. We commend the government for the successes it has achieved and its efforts to turn the economy around.

Although there is no official indication of what the budget will contain, it is clear from pronouncements of His Excellency, the President of the Republic, the IMF Head of Mission that visited the country recently, the Minister of Finance and some other state officials that there is no turning back from the policies embarked upon by the NPP government since it came to power in 2001. The message is clear: Ghana will continue with the IMF and World Bank policy prescriptions that were being implemented by the predecessor NDC government. We are being told to brace ourselves for harder times. This is clearly shown in the recent doubling of the price of petroleum products allegedly due to the rising TOR debt (about ₵4.5 trillion).

The government continues to focus on macroeconomic stability without consideration of the impact of such deflationary measures on employment, growth, and social development or even the general welfare of the majority of Ghanaians. The emphasis is on bringing inflation down to single digits irrespective of its effects on these important factors. Macroeconomic stability is desirable for creating a predictable environment for investment and the protection of the value of assets but it should not be seen as the be-all and end-all.

This is our first area of concern, as this year's budget is not likely to be any different from the two previous ones. The achievements in targets of price indicators such as low inflation, exchange rates, interest rates are commendable but they are not universally and equally beneficial to all segments of society and do not necessarily show an improvement in the lives of the majority of Ghanaians.

We, therefore, call on the government to desist from placing too much emphasis on it without any impact assessments.

We are told that the IMF suspended its PRGF with Ghana pending the government taking steps to control the fiscal situation in the country. In their negotiations for a new PRGF agreement the IMF has insisted on a number of issues:

- Fiscal policy issues, specifically the wage bill, which is larger than expected, and other expenditure cuts.

- Increasing the rate of the modern, broad-based and efficient VAT tax to levels in other countries.
- Continued divestiture of state assets, including the Ghana Commercial Bank.
- Increases in the price of petroleum products to reflect current trends and full cost recovery as well as pay off TOR debt.

It is, therefore, clear why the NPP government has started taking these steps no matter how inimical they may be to the majority of Ghanaians. Prices of petroleum products have gone up by almost 100% without commensurate increases in workers' salaries. This recent hike in the price of petroleum products as well as the impending increases in the prices of utilities clearly indicate that there is no reprieve for the ordinary Ghanaian, be he or she a farmer, a fishmonger, or a salaried worker. The increase is also seen as a step towards raising additional revenue for government. Besides, it has become clear that the problem of TOR is more than the price. There are allegations of mismanagement, corruption and diversion of fuel and these allegations must be investigated. The negative impact of the increase is immense. Most ordinary workers have started walking to work so the multiplier effect of price increases of petroleum products is already beginning to show. It is necessary to take other steps to avoid the worsening of the TOR situation. How many state institutions owe the TOR, besides the security agencies? How many private fuel dealers owe TOR? There are more unanswered questions that need to be answered. Moreover, one important point in the fuel price debate is the fact that no assessment has been done on the potential impact of these increases on industry, on economic growth or on poverty and inequality.

Whether we like it or not it is necessary to increase salaries and wages of workers to a level that is commensurate with the increase in fuel prices and other prices earmarked to follow. Furthermore, there are rumours about an increase in the VAT rate in the near future. This will definitely result in further price hikes and worsen the plight of the poor and disadvantaged. The Government must resist the temptation to yield to the pressures from the IMF to increase the VAT rate as Ghanaians are likely to take to the streets in a re-play of the "kumi preko" demonstrations, but this time against the very initiators of that resistance.

We expressed our concerns about the sale of this strategic bank alongside a lot of Ghanaians including our traditional rulers. Which private bank would have loaned so much money to TOR? Is it the aim of the IMF to cripple the government and prevent it from undertaking such desperate measures in the future by depriving it of such a viable commercial bank? The sale of state-owned enterprises is continuing even where there is no market for them and we subject ourselves to ridiculous terms.

We do not doubt the need for Ghana to seek foreign assistance, including the IMF's \$245 million, to support her budget but we need to look at the cost to the nation particularly the implications of the accompanying conditionalities. His Excellency, the President stated at the People's Assembly held recently that the economy must abide by the normal laws of economics if we hope to:

- make a stronger case for greater assistance from our development partners, and
- make the economy more attractive to Foreign Direct Investment.

He indicated further that 60% of our development budget comes from external development partners and that this was shameful. His recommendations were that we mobilize more domestic revenue (probably increase the VAT rate) and eliminate distortions in the payment of tariffs on petroleum products and utilities (full cost recovery). His Excellency sounded like the Head of the IMF Mission to Ghana and did not give any consolation to Ghanaians.

It is definitely necessary to increase our efforts at mobilizing domestic revenue not only for our development but also to reduce our dependency on external assistance. However, the

tendency towards greater regressive taxation, that is, the reliance on VAT and customs duties, should be reversed as it has more negative impacts on the poor than the rich. Instead, greater efforts should be put into ensuring that potential large tax paying units, such as big and foreign corporations and the professionals, such as lawyers and accountants, fulfill their tax obligations. The Ministry of Local Government should also be adequately supported to devise effective mechanisms for collecting property taxes and devising means for effectively targeting utility subsidies to poor communities and households. We have drawn government's attention to the paucity of the income tax reliefs, which were last revised in 1998. The 2003 budget must include a revision of these reliefs as well as a further revision of the graduated tax rates if the situation of the poor is to change for the better.

There has been much debate about the setting of revenue targets and the achievement of these targets by the revenue collecting agencies. Are these targets usually realistic? Are they inflation indexed? What are they based on? Have these agencies put in place any new measures that could have brought in more taxpayers into the tax net? What measures have they put in place to reduce the leakages in revenue as a result of corruption, tax evasion and tax avoidance that could have brought in more revenue? We need to review the approach to the setting of revenue targets, put in place new initiatives to widen the tax net and plug the loopholes in the tax system and double our revenue collection. The revenue agencies need to be given the necessary support. This is the way forward for our dear nation.

Ghanaians were shocked to learn late last year that the Ghana Poverty Reduction Strategy (GPRS) was yet to be approved by the Boards of the IMF and the World Bank. It was presumed that achieving the HIPC decision point was an indication of the IFIs approval of the GPRS. The Minister of Finance, in his 2002 Budget Statement, even indicated that 2002 marked the first year of the implementation of the GPRS. Ghanaians need to be told what the true situation is with regard to the GPRS as each of the budgets for the three-year period (2002 –2004) should be the instrument that operationalizes the objectives and strategies contained in the GPRS. The 2003 Budget, coming after the adoption of the GPRS, at least by Ghanaians, should be fully based on the policy document. Our emphasis on wealth creation, wholesale and creeping privatisation and deflation, without even an effort to assess the potential poverty and social impact of those policies, may make the GPRS another of the policy documents that would be left on the shelves of policy makers. We should not find ourselves working on another GPRS after several years because poverty has not reduced.

For citizens to be proactive in meeting their tax obligations and accept government's harsh economic policies the government itself and its leading officials must be seen to be using state resources efficiently and pursuing policies that will effectively improve their livelihoods. This is not the situation in Ghana as public officials openly exhibit a life of opulence and claim it as their right. As we brace ourselves for hard times, we expect similar bracing by public institutions and officials.

The public vehicle population is very high for a poor country like ours as ministers and senior public officers have up to three official vehicles at their disposal. The costs in terms of repairs and maintenance as well as fuel to the state is a drain on the resources of the country. This situation is worsened by the level of diversion of fuel, over-invoicing of repairs and procurement of spare parts as well as misuse of these vehicles. We think that all public saloon cars should be sold to the current users and the use of the rest of the vehicles rigidly controlled and fuel allocation drastically reduced. Moreover, in spite of denials by certain government officials, rumours are rife that the special advisors and assistants get the dollar component of their salaries direct from the Ministry of Finance. If this is true, it should show in the budget since government is adamant about scrapping this position.

The sectoral allocation of expenditures have shown nominal increases in the volumes of resources allocated to health and education over the previous years. But as in the case of

the revenue targets there does not appear to be real increases, considering the rate of inflation in this country. More importantly, nominal increases in expenditure, even if these translate into actual expenditures, will not do much for the poor if the policy of academic user fees, cash and carry and cost recovery in the health and education sectors and the uncontrolled liberalization of the prices of drugs, mosquito nets, and condoms persist. Moreover, much of the expenditure is recurrent rather than capital and might not lead to improved service delivery in the long run even if it leads to increasing the supply of teachers, nurses, and better supervision.

The expenditure allocations should reflect the analysis of poverty and geographic inequality contained in the GPRS as well as the programmes and projects of the GPRS. This should include addressing the discrimination against people with disability and other vulnerable groups such as street children and people living in areas suffering chronic or seasonal food insecurity. The commitment to decentralization by the government must go beyond the announcement of an intention, as was done in 2001, to increase the allocation to the DACF to 7.5%. There must be projections of budgetary allocations in the budget statement based on this increase.

The public is losing confidence in the government's declaration of zero tolerance for corruption as Government continues to ignore public allegations against certain public officials and state agencies. In considering nominations to certain key public positions, the government appears to ignore allegations against the individuals concerned. Parliament rarely rejects any presidential nominee. Those people appointed to preside over the finances of this country and those charged with ensuring that abuses are corrected must be without blemish and their appointments must follow serious investigations especially where there are doubts about their integrity.

In conclusion, **we repeat our call to the government to put in place legal and procedural reforms that open up the entire cycle of the budget making process to greater participation, external oversight and institutional checks and balances. The budget making process is still shrouded in secrecy and consultation is limited to only salary and transport fares negotiations. We call for greater transparency not only in the budget process but also in its implementation, which should also include civil society in expenditure tracking and monitoring, value for money audits and beneficiary assessments of capital expenditures and public services.** We would be surprised if our obsession for macro-economic price indicators such as inflation, exchange rates and interest rates do not show in this year's budget but their impact on the majority of Ghanaians need to be debated seriously by Parliament before the budget is passed.

Signed,

Steve Manteaw
For Budget Advocacy Coordinator