

STATEMENT OF THE CENTRE FOR BUDGET ADVOCACY (CBA) ON THE 2004 BUDGET STATEMENT

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Ladies and Gentlemen of the press, the Centre for Budget Advocacy of ISODEC welcomes you to this event. We very much appreciate the interest you have shown in our work since we began a little over 3 years ago. This support is demonstrated by your very presence here today.

It is our civic duty to be involved

The budget is the most powerful means available to any government to transform society for the good. But governments can also use budgets to produce outcomes which are bad for society such as immense wealth for a few and poverty and suffering for the multitude, ethnic divisions and tensions, injustice, corruption, social and economic decline and external dependence and indebtedness etc. We believe that the only condition needed for governments to use public resources to promote undesirable outcomes is for civil society to be uninterested, uninformed and uninvolved in the workings of the budget. It is our civic duty and right to participate in the budget process because a budget is after all a statement of how government proposes to extract money from us as tax payers, how the burden of these taxes will be shared among different social groups in society (rich and poor, urban and rural, earners wages and profits, locals and foreigners etc) and how they intend to spend our money for the overall public good. We are also, after all, the best judges of how past policies and spending patterns impacted on our well-being. The press has a key role to play to inform the public accurately and in simple and easy-to-understand form, to ask critical questions and to encourage government to create the spaces for greater participation and accountability. This is the more reason why we appreciate your presence here today.

Ladies and gentlemen,

We invited you here today to share with you our preliminary views on the 2004 economic policy and annual budget statement delivered to parliament last week by the Minister for Finance and Economic Planning, the Honourable Osafo Marfo, on behalf of his Excellency the President of Ghana. The statement was entitled "Releasing Energies of Individuals and Businesses towards Sustainable Growth". As a preliminary reaction, we can only be selective on the many issues presented by the Honourable Minister. Do look out for our fuller analysis shortly.

A healthy economy? What does that mean?

As always, it is important to state that our remarks are shaped by our aspirations for a Ghana where social inequity is minimal, where no one is denied basic rights including basic needs such as peace and security, water, food, education, and health care because of poverty, exclusion or discrimination.

For us therefore a healthy economy is not about whether inflation is low or high, whether the macro-economic indicators are stable, whether the economy has grown by 4% or 8%, how much of our debts have been paid out, whether the exchange rate stabilized etc. In our view these are all important factors affecting a healthy economy but do not equate a healthy economy in the sense that you can have all these indicators moving in positive directions side by side with massive poverty and suffering, neglect, inequality and social tensions. For us, a healthy economy is one that reflects in the improved quality of lives of the people, especially the poorest, through strengthened livelihood choices: i.e. increased incomes in the form of wages and salaries earned from productive employment, or profits and returns from productive investments and businesses including agriculture, rent from assets that

people own, and access and consumption of good quality public services, such as health, water, education, transport and peace and security. Lives improve when livelihood sources improve and are secure. Only then can an economy be said to be getting healthy.

This constitutes our first observation about budget statements going back through the years, which is that they are not only deficient in defining what the indicators of economic progress are, they are largely misplaced – giving undue weight to indirect and often meaningless macroeconomic indicators and ignoring those indicators that directly assess livelihoods. This leads to misplaced attention of government. We call for budgets that state as their objectives upfront the direct improvement in the quality of lives of people, driven by human improvement targets as expected by our commitment to the Millennium Development Goals (MDGs) and measured by their progress in improving human development not economic climates.

Ladies and gentlemen,

There is much to congratulate the government about

There are many positive messages and signals contained in the budget and demonstrated by government practice in the past year. First we commend the government for initiating public forums to discuss the budget, emulating the practice initiated by CBA. This practice is a first in this country, if not the continent at large. Added to the people's forums, the national economic dialogue and several stakeholder consultations, this government has more than demonstrated its commitment to participatory, not just representative, democracy. The government should be commended and encouraged to expand these forums but simply as a means of spreading their messages but for purposes of genuine, inclusive debate.

There is a lot of good news. For the first time in a long time, the economy has expanded above the 5% mark, signalling that the economy may have turned the corner and that the target growth of 6% announced in the Ghana Poverty Reduction strategy (GPRS) paper is achievable. Perhaps what is more important is the source of growth – a huge expansion of the cocoa sector from a –0.5% in 2002 to 16.4% in 2003. There are many explanations for the expansion of the cocoa sub-sector – the cessation of outward smuggling and/or the reversal of smuggling arising from the insecurity in Ivory Coast, substantial increase in credit to the sector and the mass spraying exercise. What ever is the explanation, there is one important message which needs to be underlined, which is that active demand-side government intervention in the form of subsidies (this time in the form of the cost of spraying) and financing is essential to launch growth in the agricultural sector in particular. This contrasts sharply with the IMF/World Bank inspired practices in the past which discouraged these interventions believing that growth can be brought about largely through getting the incentives right, so called supply-side factors. We encourage the government to expand this practice beyond cocoa to include edible cassava, yams, rice, maize, millet and sorghum. This is particularly urgent given that the food and livestock sub-sector has stagnated and yet it is this sector that the poorest people in this country earn their livelihoods.

There is another government practice we will like to draw attention to and commend the government for. This is the use of labour-based methods for the construction of road infrastructure whereby unemployed young people in the communities are contracted to dig culverts and patch road. This approach is sensible for several reasons. First it produces employment and injects resources in deprived communities thereby stimulating local economies. Perhaps more compelling is the fact that research conducted by the ILO and the World Bank has proven that the substitution of labour for heavy machinery have resulted in the construction of low traffic-volume gravel roads of standards and costs comparable to those built through capital intensive means. ISODEC's work with the Department Feeder roads in this area has shown this be true. A third advantage in the use of labour-intensive methods in a HIPCed country is that it reduces the need to borrow more foreign exchange t

import equipment. We will like to encourage the government to expand this practice, mindful however not to use this approach for partisan political purposes.

Finally, we wish to commend the government's progressive and deliberate approach to the rehabilitation of social infrastructure and the upgrading of the quality of social services, especially education. Being poor and constrained by debt means that we can implement the right to good quality services only through a step-by-step approach without creating crisis in other areas. This has been the approach the country adopted in the provision of public services immediately after independence. Sadly, this approach was jettisoned in the 1980s in favour of private sector solutions – cost-recover, and the promotion of private schools - which in our view is a dangerous approach as it can only produce multi-tier quality schools, the best privately provided for the rich and the mass of the poor condemned to hopeless public schools that the policy makers themselves and the progressive middle class have no stake in as their children are catered for in the expensive private or privatised sector. In commending the government for the progressive improvement approach we call for a serious rethink of the strategy of liberalisation and privatisation of education and health care. We call on the Ministry of Education to lead a study of the immediate and long-term effects of this strategy on educational access, poverty generally and implication of development strategies.

Ladies and gentlemen,

What are we to make of government policy statements and targets

We express a couple of general areas of concern and then comment on specific policy targets.

1. The Mystery of Economic growth

Economic growth is the single most important indicator that governments use to suggest that the economy is creating more wealth and improving the lives of people. The growth figure is also important because it is used to project other very important targets such as tax revenues, our ability to pay our debts and how much a government can borrow to spend on productive activities. We expressed our excitement about the break-through above the 5% mark. However, given the importance of this indicator, there is surprisingly little illumination about how this figure is arrived at. In other countries, the formula for arriving at this figure is provided in the technical appendix to the budget so that those who want to investigate its validity can do so. This is not so in Ghana. This is particularly worrying, given that the IMF's projections which our policies rely so much on, do not generate growth figures from the real (productive) side of the economy. We also know that the Statistical Services department has been beset by several problems, many of which have severely negatively impacted on the quality of national income statistics and their ability to conduct surveys regularly. Finally, we know that in the Economics profession there is a big unresolved debate about how to calculate economic growth. Given all these factors, the growth figures quoted year in and year out appear to be a complete mystery to many Ghanaians. The CBA will like to benefit from an illumination of this matter: How is this important figure generated? Can any one help?

2. What has become of GPRS and MDGs?

The GPRS was presented to Ghanaians last year, after it had undergone several revisions with the guidance of the World Bank in particular, as the strategy to produce growth and poverty reduction. In the revisions of the document, the outcome targets were reshaped to reflect Ghana's commitment to the Millennium Development goals which call for, among others, halving poverty by 2015, ensuring universal enrolment and gender equality in enrolment and many others. The international donor/lending community undertook to ensure that their funding is provided through the budget, the form of the MDBS, based on these goals. It takes reading between the lines to discover much resembling explicit commitment to either the GPRS or the MDG targets. Does this indicate a relative lack of commitment to

these goals or does it suggest that these goals will be achieved largely through “releasing energies of businesses and individuals for sustainable development?” What exactly is the nature of the contract between the development partners and the government? Which policy triggers represent the true nature of the mutual commitment – the MDGS triggers, the HIPC triggers or the PRSP policy matrix?

3. Achieving a stable macroeconomic environment

The 2004 macroeconomic targets are conservative, being pegged either at the same levels as the achieved ones for last year or even reduced, with the exception of the desire to achieve a single digit inflation. However, the key issue for us is not whether or not these targets can be achieved but what the strategies are to achieve them and the cost to society and the economy narrowly in the short and long run arising from the strategies adopted.

The macroeconomic problems we face today are exactly the ones we have been dealing with since the on-set of structural adjustment programmes in the 1980s. We continue to be plagued with some combination of persistent current account deficits and government budget deficits, high and growing levels of external and domestic debt, moderate to high inflation, stagnating economic growth and unemployment.

These have been addressed over the years – from the PNDC, the NDC, to the NPP - by very similar stabilization packages, with contents suggested by the International Monetary Fund. Its typical components are cuts in government spending and increases in taxes, introduction of floating exchange rates and currency depreciation, tight credit and high interest rates, and current and capital account liberalisation. The thrust of the package is redirecting domestic production towards exports and domestic demand away from imports due to relative price effects. At the same time, control of government spending and tight credit are meant to control inflation. Import liberalization aided by privatisation is also supposed to more or less automatically promote efficiency in domestic production.

While this package often achieves some of its objectives in the short term, it can also be expected to have a strong recessionary bias, for the following reasons:

- At least a substantial part of a country’s economic output (notably manufacturing and services) is determined primarily from the side of demand. Any demand injection into the economy will thus increase GDP by an amount larger than the initial injection itself, due to re-spending within the economy. In any economy, there are three major sources of injections, namely investment net of savings, government deficit, and current account surplus. Let us consider how a standard stabilization package affects each in turn.
- Firstly, the cutting of government spending and increase in taxes means that the fiscal stimulus to the economy decreases; in fact it is typical to require the government to run a primary surplus so as to meet interest payment obligations, so that the government actually becomes a net drain on aggregate demand.
- Secondly, high interest rates, increased competition from imports, and a drop in domestic demand from other sources cause a drop in investment, thus undermining the second source of injections along with the capital stock and thus the prospects for long-term growth. Foreign investment, even when it comes in the form of capital creation rather than volatile short-term flows, rarely suffices to compensate for the fall in domestic investment, and in any case the profits from foreign-owned enterprises are to a large extent repatriated.

- Finally, a decrease in import tariffs together with a depreciating exchange rate has a negative effect on the current account from an increase in imports, often exacerbating a pre-existing deficit, to the extent that Ghana, like most of the Sub-Saharan African countries following this adjustment model, are at this point dependent on yearly grant and loan injections from external development partners to meet basic import needs. The intended increase in export supply, on the other hand, rarely happens to anywhere near the envisioned level. That is not really surprising, as export-based “miracles” have historically never happened without strong government guidance, which the governments in the region currently have neither the resources, nor the political manoeuvring space to provide. Structural adjustment programs do often also improve the balance of payments in the short term. However, that typically happens not because of relative price effects, but because domestic output (primarily investment) and thus demand for imports, is depressed by the program; thus an economic recovery can be expected to largely reverse that improvement. Finally, in the medium term the recessionary effects together with reduction in subsidies and competition from heavily subsidized foreign producers often, and have actually destroyed some domestic industries, so that demand is performance relocated to imports, further worsening the current account. We may wish to note

While probably not all of these adverse effects will be operating at any one time, we see that the typical structural adjustment package which we continue to follow can be expected to have a strong downward pressure on economic growth and entrenches dependence on external grants. One possible reason why this seems to be often overlooked or denied by its proponents is that most of them adhere to neoclassical/monetarist theories, in which full employment of productive resources is assumed at all times and thus a recession is theoretically impossible. This dangerous theoretical assumption underlies the policies we have been advised over the years to follow. We are essentially caught in a recessionary and dependency trap.

In our view, the key to breaking this recessionary trap lies in: radical solutions to the debt overhang and policies that focus equally on the real (productive) side of our economy as we currently do on the monetary side. These include trade policy, policies to promote production especially agriculture and manufacturing, policies to generate employment and therefore increase incomes available to people to demand manufactured products and policies to increase skills.

Trade Policy

Trade policies are generally aimed at reducing the gap between import and exports of goods and services (the current account). In our view, an effective trade policy must begin with addressing the production question – how to enable your local producers to expand production whilst recognising that some form of competition is important to improve quality and efficiency. Much of the emphasis in this sector has been on keeping the exchange rate competitive. Strangely, this has also been accompanied by comprehensive, rapid and unilateral import tariff cuts far deeper and steeper than our WTO obligations require of us. Combined with limited government support, declining and expensive credit, there is no question that our domestic productive capacity has eroded.

We cannot turn around our exports sector without support to production. It is in this context that we applaud the cocoa spraying exercise. However what puzzles us is why the GOG could not marshal sufficient courage in resisting what clearly an externally dictated decision to scrap the policy to increase tariffs in rice and poultry modestly even though this policy was passed into law. The 2004 budget is silent about the tariff issue.

Debt, HIPC and its Completion Point

We entered into the HIPC debt relief arrangement amidst much furor. The manner of our entering the arrangement notwithstanding, the justification was that HIPC will enable us reduce our debt overhang and our debt servicing obligations. Clearly there have been some savings but the nature of the HIPC arrangement is such that maximum debt relief will happen only after the government has met a series of stiff IMF-supervised conditions. Only then would it have reached completion point, qualifying the country for substantial debt cancellation. In the mean time, we benefit only from the unilateral cancellations of debt by some bilaterals and the post-postponement of debt servicing.

There are at least 3 problems following from this. First, because the debt relief is small in the interim the government is forced to meet its foreign exchange and development obligations through borrowing internationally, given that one condition is to cut down on domestic borrowing. The result of this is that the debt stock has expanded rather than declined. Whilst the Minister announced that our debt stock is \$6.5 bn the latest Bank of Ghana data record \$7.02bn, showing a substantial rise over 2002.

Because of the large demands that debt-servicing makes on the budget, the government is desperate to achieve the completion point at all cost. The Minister declared that the government would assiduously pursue the implementation of the covenants and undertakings under the HIPC arrangements that are necessary for Ghana to reach "Completion Point" this year. However, the determination to reach the Completion Point by all means in twelve months and in an election year is suspect as the conditions prescribed to be fulfilled are not easy to comply with without bringing even further hardship to the majority of Ghanaians.

Thirdly, the potency of the HIPC conditionalities (triggers) have been enhanced even further by the Multi-Donor Budget Support System that Ghana has signed unto. The benefit of the MDDBS is that it will improve predictability of donor flows to government and will reduce coordination costs. The cost is that the budget system has effectively been captured by donor arrangements. Again, it is the IMF that supervises the MDDBS compliance. These compliance triggers are largely without regard to the GPRS nor were they arrived at through broad debate. Clearly, we are in total danger of losing any sovereignty left over in the management of our society and in danger of being permanently fixated to the recessionary and dependency trap alluded to above.

Moreover, we must not be over-enthusiastic about the expected debt relief because the purported benefits will be spread over twenty years, debts will be cancelled only when they become due and the funds must be generated first. We also wish to appeal to our legislators to consider Ghana's interests in enacting laws and just a desire to reach the HIPC Completion Point. The Procurement Bill, as it stands, has its problems and Parliament needs to consider these problems.

Tax Reliefs for Individuals

The Budget Statement was also purported to contain tax reliefs for individuals but the only tax relief announced by the Minister was the minimal increase in the basic income tax relief from ₵1,200,000 to ₵1,500,000 per annum, an increase of ₵25,000 per month for salaried workers from its current level. At a marginal tax rate of 15% for low-income workers the tax foregone is only ₵2,750 per month. The Minister stopped short of increasing the other reliefs, which were fixed as far back as 1998. The Marriage and responsibility relief, children education relief and aged dependent relief remain at ₵300,000, ₵240,000 and ₵200,000, respectively, even in the face of increasing school fees and utility prices. In fact, when one considers that these are annual figures the benefits on a monthly basis are negligible. We have called on the government to review the income tax reliefs, which have become

outdated due to inflation. Unfortunately, the government has not heeded to our call and has once again failed to review upwards the rest of the reliefs for individuals but rather reviewed corporate taxes based on its belief that the private sector is the engine of growth. This philosophy ignores the fact that the corporate community needs a healthy labour force to succeed. So the loyal Ghanaian worker, who is loyal because his tax is withheld at source, is left in the cold. Let us look at the figures and effects on the taxpayer, particularly the ordinary worker:

Type of Relief	2003 Rate	2004 Rate	Tax benefit of increase
Basic relief	1,200,000	1,500,000	2,750 per month
Marriage Relief	300,000	300,000	0
Child Education	240,000	240,000	0
Old age relief	300,000	300,000	0
Aged dependent	200,000	200,000	0
Disability relief	25% of income	25% of income	0
Training cost relief	500,000	500,000	0
Social security/Insurance	Calculated based on contribution	Calculated based on contribution	0

The proposed tax brackets are also not too different from the existing ones and will not bring any significant benefit to the low-income earners.

Rate	2003 Tax Bracket	2004 Tax Bracket	Difference
Free	1,200,000	1,500,000	300,000
5%	1,200,000	1,500,000	300,000
10%	3,000,000	3,000,000	0
15%	18,600,000	21,000,000	2,400,000
20%	24,000,000	33,000,000	9,000,000
30%	Excess of 48,000,000	Excess of 60,000,000	12,000,000

The Agriculture Sector

The increase in the GDP growth rate was attributed to improvement in the contribution of the agriculture sector and particularly increased production in the cocoa industry. This is explained by the cocoa spraying exercise that has been carried out by the government in the past two years and the lack of motivation for smuggling due to the Ivorian crisis.

However, the agriculture sector would grow even more if more attention is also given to food crop farmers. An examination of the budget indicates a nominal decline in sectoral allocation to the Agricultural Sector from ₵413 billion in 2003 to ₵394 billion. In real terms, there has been a decline in the agricultural sector of 25.8 percent. This decline is unacceptable considering the fact that the Ghanaian economy is predominantly agricultural, with the sector accounting for over 55 percent of employment and about 40 percent of annual foreign exchange earnings. Given the numerous policies and programs outlined in the 2004 budget for the agricultural sector and the meagre allocation to the sector, we therefore consider the government as paying lip service to the agricultural sector. Despite the immense role of Agriculture in the Ghanaian economy, the Government of Ghana component of the total expenditure is only 36.2% while donor expenditure 63.8%. Strangely donor expenditure constitutes 86.8% of Service and Investment expenditures while GoG component of Service and Investment Expenditure is only 13.2%. We believe the objectives of the GPRS could not be met if the government expenditure to Agriculture keeps dwindling.

Combined with the meagre allocations to the agricultural sector and the massive inflow of the imported finished agricultural products into country, it would therefore not be surprising that the sector is being gradually mortified. In the 2003 budget statement the government introduced and/or increased the tariffs on poultry products and rice as a means of assisting the local farmers to stand on their feet. However, pressures from the IMF required the government to withdraw from this noble decision even though Parliament had approved the budget. We call on the government to revisit the issue.

Deregulation of the Petroleum Sector

The Finance Minister announced that government would implement the policy of deregulation in the petroleum sector. The reason given Ghanaians for increasing the petroleum prices in January 2003 was to use part of the petroleum tax to settle the TOR debt. Recent increase in domestic debt from 9 trillion to 14 trillion was attributed to the TOR debt; the question then is what has become of the petroleum levy? Where has the money gone to and what has the money been used for? The government must as a matter of urgency come out with detailed expenditure on the petroleum levy. We require the government to be transparent on the petroleum levy by publishing collections from petroleum levy quarterly. Secondly, we believe the deregulation of the petroleum sector would lead to macroeconomic instability and would not lead to the achievement of the objectives in the GPRS. It is amply evident that producers and those in the distribution sector instantly factor increase in petroleum prices on goods and services hence deregulation of the petroleum sector would cause price instability in the economy. This was accepted by the government as the explanation for the surge in inflation in 2003.

We wonder what has become of the commitment by the government of Ghana and the international partners to ensure that every major policy that has potential to significantly impact on poverty should undergo an ex-ante poverty and Social Impact Assessment (PSIA)?

Expenditure Allocations to the Sectors

The proposed sectoral allocations for 2004 and projections for 2005 show an increasing trend that favours the Social Services Sector, particularly the Education and Health sub-sectors. The public sector in education and health caters for the majority of Ghanaians, especially the poor and marginalized. It is, therefore, very important that these sectors are well catered for and welcome that these two sectors are absorbing increased public resources.

Sector	2003	Percentage	2004	Percentage	2005	Percentage
Social Sector	4,166,849	32.15%	5,048,514	38.82%	5,705,117	39.10%
Administration			2,229,840	17.15%	2,512,581	17.2%
Public Safety			1,517,991	11.67%	1,728,930	11.85%
Infrastructure			1,420,929	10.93%	1,525,476	10.46%
Economic			1,160,718	8.92%	1,262,992	8.66%
Contingency			920,769	7.08%	1,048,593	7.19%
Rev. Agencies			387,617	2.98%	442,469	
Utilities			319,000	2.45%	364,142	
Grand totals	12,961,800		13,005,379	100%	14,590,300	

Within the Social Services Sector the allocations favour the Education sub-sector as demonstrated below. However, it is important to ensure that these increased resources lead to increased access and quality services. Some of these allocations should, therefore, be spent on monitoring and evaluation of the activities and programmes of the sub-sector. E also suggests strongly that civil society organizations be encouraged to participate in budget tracking exercises and to monitor quality of service. It is urgent however that capacity be strengthened in the district assemblies to enable them undertake both expenditure monitoring as well as impact monitoring.

	2003	Per cent allocation	2004	Per cent allocation	2005	Per cent allocation
MOEYS	2,893,900	69.45%	3,466,008	68.65%	3,942,730	69.11%
MOH	1,154,000	28.40%	1,449,462	28.71%	1,611,318	28.24%
MMDE	42,600	1.02%	47,441	0.94%	53,708	0.94%
MOWCA	9,700	0.23%	20,563	0.41%	23,265	0.41%
Grand totals	4,166,849	99.10%	5,048,514	100%	5,705,117	100%

Source: Budget Statements 2003 & 2004 (Projected figures).

We have already drawn attention to dangers of the privatization strategy employed in education and health. We should also point out the limitation of general enrolment figures as indicators of progress in education. Our work at the district level shows dramatic dropout rates especially among girls at both JSS and SSS levels. For example, our surveys revealed that out of 449 girls enrolled in SSS1, only 280 managed to complete SSS in Yaa Asantewaa Secondary school; of 2001 that enrolled into the SSS at Bekwai SDA Sec. School, only 129 reached the SSS level. This picture is pervasive in this district and applies also to the JSS. Poverty remains the single most important cause of drop out. But quality is important and the supply of teachers is a key determinant of education quality. Unfortunately, this is a severe problem. In one primary school in Brong Ahafo region, there was only one teacher for a stream of 6 classrooms.

Fee paying remains a chaotic problem largely because of the confused nature of government policy in this area. We note with gratitude the recent publication of authorized fees in schools but the issue now is enforcement, as parents do not often challenge school authorities for fear of victimization of their children.

Conclusion

This year's budget has been variously described as a Business Friendly Budget and an Election Year Budget for various reasons but whatever the case the implementation is very important. It is clearly not a poverty-focused budget. It makes little reference to poverty, the GPRS and the MDGs. It contains no explicit proposals address the decline or stagnation in the sectors where the poor earn their living, including the self-employed who constitute 55% of the labour force and food farmers.

But our greatest concern is that it represents more of the same types of policies that have left us in a dependency-stagnation trap.

We are looking up to the NPP government for more action and not the enactment of more laws without the teeth to bite.

A good budget in our view is one that addresses human development but a good budget is meaningless unless it is implemented effectively. The government needs everybody, including civil society to implement its budget.