

OVERVIEW OF PUBLICATIONS

By Vitus A. Azeem

Madam Chairperson, Distinguished Invited Guests, Ladies and Gentlemen, we are gathered here this afternoon to launch two publications of the Centre for Budget Advocacy (CBA) of ISODEC, “The 2002 Budget of Ghana – Into the 3rd Year of HIPC and Property Owning Democracy” and “Taxation in Ghana Made Simple”. The first publication has delayed unduly due to circumstances beyond our control. However, we wish to assure you that the timing of this launch is appropriate as the 2003 budget would be released soon and the issues remain relevant as our economic situation and policies have not changed drastically. The two publications are part of a series of publications that ISODEC undertakes as part of its public education exercise and its efforts to influence policy in Ghana. Our analysis is, therefore, coloured by our belief in values of equity and social justice as the essential ingredients in building a free and harmonious society. Our message is simple: The revenue projections and the expenditure plans of the budget must be affordable, efficient and effective in obtaining the intended results without unduly hurting the majority of Ghanaians.

The budget must be pro-poor and meet the expectations of the majority of Ghanaians, meaning:

- that it should have been formulated with broad consultation within and outside government and, therefore, be effectively locally owned;
- that policy objectives underlying the budget aim at expanding the economy and especially the capabilities of the poor and the disadvantaged; and
- that implementation should be guided by maximum transparency and effective accountability.

In line with this, the 2002 analysis sought an interpretation of the philosophical underpinnings of the government’s declared goal, which is to build a “property owning democracy”, and how this goal informs the priorities and policy choices that the budget expresses. Being the first budget after the adoption of the Ghana Poverty Reduction Strategy (GPRS) and the Highly Indebted Poor Countries (HIPC) debt relief initiative, our analysis explores how these frameworks exert influences on policy and allocation priorities.

Madam Chairperson, the first chapter of our analysis attempts to clarify the policy content of “property owning democracy” (POD) and suggests that this philosophy converges strongly with neo-liberalism and is, therefore, consistent with the policies promoted by the International Financial Institutions (IFIs) and the WTO. The chapter concludes that POD is founded on a misconceived role of state and markets which translate into policy bias in favour of rapid and comprehensive liberalization, deregulation and privatisation with the danger of abandonment of a complementary and direct role for the state in providing essential public services universally and in stimulating business.

The 2002 Budget and policy pronouncements indicate a bias toward just the formal corporate element in our vast private sector. But this can hardly be justified by any indicator of production, job-creation, wealth creation, or demand creation. It seems arbitrary and interest driven. Since the government has continued to relinquish its role as custodian of large public enterprises, public utilities and services to foreign multinationals, we are hard pressed to figure out how it will bring about the “property owning democracy” to its own electorate.

Ladies and gentlemen, the approach to macroeconomic stability is largely short-term and biased towards deflation without much regard to employment, growth, and social development (including poverty and inequality) impacts. Although desirable for creating a

predictable environment for investment and the protection of the value of assets, macro-economic stability is basically approached as repeated short-term phenomena. Price indicators such as low inflation, exchange rates, interest rates are not only touted as ends by themselves but as universally and equally beneficial to all segments of society, which delayed gains require immediate sacrifices from the whole society. The sacrifices are not borne equitably by the whole society but mostly by the poor and yet the gains in terms of stable prices (whether of goods, capital or value of the cedi) tend to benefit the non-poor relatively more than the poor.

Moreover, limiting deficit spending is actually a restraint on the government from enlarging and widening its public services, regardless of the willingness of its citizens to finance such improvements. We question the validity of the IMF's policy of requiring "balanced budgets" and budget surpluses rather than deficits.

Madam Chairperson, our budget ought to be the instrument that operationalises the objectives and strategies contained in the GPRS. However, to the extent that budget policies focus on wealth creation, wholesale and creeping privatisation and deflation, without even an effort to assess the potential poverty and social impact of those policies, it reveals a GPRS left in the cold and serving largely as an instrument for the HIPC initiative Completion Point conditions, the IMF's PRGF and the world Bank's CAS, all of which Ghana's Parliament, the people's representatives, have not had the chance to critique or debate.

In our second chapter, we review the performance of the 2001 budget in the light of the daunting task facing the Kufour government of fixing nearly 20 years of the NDC's rule. Inheriting empty coffers and huge indebtedness, austerity was inevitable. However, the degree of austerity, the approach to stabilization and the nature of burden sharing were a matter of policy choice. The approach to stabilization that the government adopted was determined by three factors:

- The NPP's own ideology,
- the constraints imposed on the policy space by aid-dependency, and
- the strong influence of the IMF in particular.

The drastic austerity approach adopted by the government was also helped by a "consensus" among the domestic elite (professional economists and the corporate sector) favouring this approach. At the close of 2001, cash and carry remained intact, trade liberalization deepened, privatisation of public enterprises, including essential services, put on a "fast track" and the financing of essential services through the District assemblies, largely put on hold in pursuit of low inflation.

Distinguished guests, our third chapter looks at the requirements to deliver a Primary Surplus Budget combined with Central Bank limits to government borrowing and tightly supervised cash management by the IMF. We see this as translating into an austerity diet, which keeps the size of social and economic programmes as thin as possible. Allocations to the social sector, particularly to health and education, seem to be rising but a closer look at the breakdown of these allocations tends to indicate that they may not lead to improved quality service delivery and greater access to the poor and underprivileged. Administrative costs, including personnel emoluments, take a large chunk of the budgetary allocation to the relevant sectors. Cost recovery and cost sharing policies drastically reduce access to these basic services to the poor and marginalized. The cash budget management practice, which disburses what the government has in its bank balances to the MDA and the DACF, means that essential services can be starved of funds for a good part of the year until government has positive balances in its accounts. Should revenues fall, the allocations will adjust automatically downwards and the areas to be cut are obvious.

Madam Chairperson, the fourth chapter examines the strategies for raising revenue to finance the budget and this part would be properly read with the second booklet we are launching today: Taxation in Ghana Made Simple. We present the composition and trends in government's domestic revenue generation. Ghana's main source of government revenue is from domestic sources, largely from taxation. Non-tax revenue and grants form only a small portion of the revenue. In terms of the composition of tax revenue, indirect taxes (mainly VAT and trade taxes) constitute about 70%. Revenue from direct taxes has risen over the last decade but this has not exceeded 30% of tax revenue. The tax system tends to demonstrate a bias in favour of the wealthy. This is evident in the laxity in collecting taxes from the rich. "Broadening the tax base" seems to mean more effective and sometimes multiple, taxation of the poor, and small and micro businesses. The 2002 Budget is not too concerned with inequality, hence the neglect to stretch the tax net to cover all classes of citizens and the absence of measures to drastically reduce the tax leakage caused by tax evading constituents. Moreover, tax compliance becomes increasingly problematic as corruption and unjustifiable corporate exemptions disillusion citizens. The challenge of pro-poor policy is to devise means of making large corporate entities fulfil their tax obligations and the poor to pay taxes commensurate with their incomes.

The fifth chapter is an analysis of external finance, following the discussion on the inadequacy of the tax revenues and the government's methods for raising funds at home. We warn that Ghana faces an ominous level of dependency, having everything to do with the size of foreign contributions to our budgets. We demonstrate that dependency comes with severe controls, particularly by the IFIs, over how we grow and manage our economy and how we distribute wealth. By the same token, we show that the level of control by the IMF undermines our fledgling democracy and disrupts our budget-making process, including the timeliness of its delivery. As the government did not take advantage of opportunities offered by the PRSP process to counter the imposition of dogmatic conditionalities of the IMF, the IMF loaded further its own PRGF document with the very conditionalities of adjustment that led us to HIPC in the first place. We, therefore, show in our analysis that HIPC, rather than reducing dependency, opened the gates wide for donors to enter the sectors, which they are eager to liberalize in the interest of their own corporations.

Madam Chairperson, in Chapter 6, we review the sectoral allocation of expenditure. There are nominal increases in the volumes of resources allocated to health and education. This is a good sign. However, much of the expenditure is recurrent rather than capital. This is not necessarily bad, if the increased recurrent expenditures lead to increasing the supply of teachers, nurses, and better supervision. 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.

Expenditure allocations bear no relevance to the analysis of poverty and geographic inequality contained in the GPRS. In addition, in spite of the GPRS analysis of vulnerability, there is little in the 2002 expenditure allocation framework which addresses 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.

In terms of the commitment to decentralization, the indications are that government will rescind its decision to increase the allocation to the DACF to 7.5%. This will really be a sad day for the decentralization process in Ghana and the positive change promised. The excuse that the districts do not have the necessary capacity to utilize the additional resources is not tenable.

Madam Chairperson, our second book, "Taxation in Ghana Made Simple" contains the legislation for the levying of all the taxes in Ghana as approved by Parliament. The book is written in simple language for the lay person but could also be used by tax practitioners, especially the beginners. There is also a commentary on the Legislative Instrument on the Internal Revenue Act, 2000 (Act 592) in the appendix.

In conclusion, the country requires 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 implementation of the budget should include civil society in expenditure tracking and monitoring, value for money audits and beneficiary assessments of capital expenditures and public services. These can be an effective means of attaining multiple objectives such as improved accountability, value-for-money expenditure, and participatory democracy. In future, budget statements should be packaged and presented in comprehensible formats and aim at showing how imbalances are expected to be addressed and what human development outcomes are anticipated. The obsession for macro-economic price indicators such as inflation, exchange rates and interest rates must cease to be the guiding principles of our budgets. To facilitate informed debate, it is crucial that government itself has the required capability to formulate policies, undertake analysis of policy trade offs and social impact assessment of policy choices.

Similarly, CSOs need support to understand the social and poverty impact of macroeconomic and structural reform policies, the budget processes, and how to engage with them in order to promote change as well as tools to monitor public expenditure and build coalitions in society for change. Without an active civil society engaged in the debate on economic and social policies, participatory democracy will be hard to build.

Thank you for your attention.