Better Policies and Better Management for Better Ghana

Introduction

The Minister of Finance is getting ready to present the National Budget and Economic Policy for 2015 to Parliament. This paper contains our proposals and expectations of the Budget and Government’s economic policy for 2015 and beyond.

Developments in the last couple of months have clearly shown that Ghana’s economy is still very fragile. The fiscal deficit has remained above 10 percent of GDP for three consecutive years. Inflation continues to rise. The trade deficit keeps growing. The national debt continues to increase. The cedi has been severely weakened. Over seven million Ghanaians are living in very deplorable conditions despite our huge stock of natural resources and three decades of economic growth.

Government has turned to the IMF for a bailout. We still hold the view that IMF cannot help Ghana. In fact, the weaknesses we are witnessing in the economy today have their roots in the IMF/World Bank–sponsored policies that have been implemented since the 1980s. At the heart of these policies were the ruthless deployment of market forces accompanied by unbridled trade liberalization, indiscriminate privatization of strategic national assets, hikes in utility tariffs and removal of vital subsidies.

The depreciating cedi, the soaring inflation, the burgeoning fiscal deficits, the widening trade deficit, the high and rising interest rates, the huge national debt, government’s inability to meet its statutory obligations, erratic power supply and acute shortage of decent employment are the results of inappropriate policies combined with pervasive corruption, cronyism, incompetence and partisanship.

Basic schools are not receiving their capitation grants. The District Assemblies Common Fund, the National Health Insurance Scheme (NHIS), and the GETFUND are all in arrears. Government contribution to the first and second tier pension schemes are also in arrears of nearly GH¢1billion.

Yet, nearly all taxes, charges and fees ranging from import duties and VAT to road tolls have increased in the last couple of years. The VAT rate, for instance, has
increased from 15 percent to 17.5 percent. New taxes have been introduced. Since 2011, commercial production of oil from the Jubilee Field has added approximately US$600 million annually to the national purse. At the same time, Government has reduced expenditure on social services and programmes. Fuel subsidies have been removed. Payment of allowances to Teacher and Nursing Trainees has ceased.

How did we get here? Government has singled out the Single Spine Pay Policy (SSPP) as the main source of Ghana’s recent economic challenges. We are told, constantly, that the wage bill now takes up 70 percent of tax revenues. In 2014, public sector workers were, therefore, forced to accept cost-of-living-allowance (COLA) at the time inflation was soaring and the cedi was deprecating at a very fast rate.

Despite these sacrifices by public sector workers, the fiscal deficit and the associated economic challenges are showing no signs of abating. It is now clear that the SSPP is not responsible for Ghana’s economic woes. Rather, it is the dubious payments made to non-existing staff under GYEEDA and the National Service Scheme as well as other corrupt practices in state institutions and mismanagement of state resources, in general, that account for the huge wage bill.

Why are we going back to IMF when we know the source of our problems? How can IMF bailout restore confidence in the economy when our state institutions continue to be corrupt and incapable of implementing policies that will lead us away from poverty to prosperity?

The gist of these proposals is that Ghana does not need an IMF bailout. In the last thirty years, we have implemented IMF-sponsored market-based economic policies. The results are the high incidence of poverty, food insecurity, inadequate sanitation, unsafe drinking water, poor healthcare, illiteracy and ignorance among our people. What we need is transformational leadership and strong state institutions that are able to implement better and Made-in-Ghana policies for economic and social development of our country.
We believe that Ghana can develop faster if the managers of our economy can be bold enough to take these proposals into consideration in the formulation and implementation of the budget and economic policy for 2015 and beyond.

**Transforming the Ghana into a True Middle-Income Country**

The confidence in every economy is determined largely by the rate of economic growth and the effect of growth on the lives of the people. The rate and quality of growth is also determined by our ability to add value to our human and natural resources.

Economic growth in Ghana in the last three decades has not been transformational. Growth has been based mainly on natural resources which are extracted and exported in their raw forms with very limited positive impact on the ordinary people of Ghana. The natural resource-induced growth has only succeeded in creating employment and wealth for a very tiny fraction of the population. Consequently, ten out of the twelve million Ghanaians aged 15 years and above find themselves in the informal economy where earnings are low and the incidence of poverty is very high.

Our economic history shows clearly that we can rely on natural resources for economic growth, in terms of increases in the GDP, but we cannot transform our economy and achieve social and economic development by relying solely on natural resources. Instead, we should focus on the development of the human resources using the proceeds from our natural resources. If we cannot develop our human resources, we cannot develop or add value to our natural resources.

We expect adequate provision in the 2015 Budget to start addressing the challenges in human resources development and management. This should take the form of education and training appropriate for the growth of the economy and for the development of Ghana. If we make human resource development the main objective of all the economic and social policies and programmes, including the private-public partnership programmes, Ghana can transform itself into a true middle-income country within a decade.
High Cost of Living

High cost of living can trigger social unrest. Other countries have learnt this lesson bitterly. The social upheaval we witnessed in the Arab countries should be one of those lessons. We witnessed such social upheavals in Ghana in the 1970s and 1980s. We risk repeating those mistakes if we do not pay attention to the high cost of living now.

Official inflation was 16.5 percent at the end of September 2014. Some prominent Ghanaians have raised doubts about the official inflation figures. Their concerns should be taken seriously. Currently some banks are charging 4 percent per month which translates into about 48 percent per annum. The combined effect of high cost of living and the high cost of doing business can eventually trigger social upheavals as more and more people fall into the poverty trap partly because of inability of businesses to employ them.

At the level of our economic development, we can accept a reasonable level of inflation and interest rates. But the spiraling inflation and interest rate we are witnessing in Ghana can lead to uncontrollable social and ultimately political unrest if left unchecked.

We, therefore, expect clear policies in the 2015 Budget to deal with the high cost of living and the high cost of doing business in Ghana. Bank of Ghana’s policies partly explain the dire situation in which we find ourselves. Thanks to the Senchi Consensus, we managed to get Bank of Ghana to reverse some of these policies. Bank of Ghana should be made to change the rest of the policies and make them suitable for Ghana. Most importantly, Bank of Ghana’s mandate should be expanded to explicitly include growth and employment objectives without abandoning the quest for price stability.
**Fiscal Policy**

At the time our economy is reeling under multiple crises, fiscal policy becomes extremely important. Fiscal policy remains the most important tool in the hands of the state to leverage economic growth and social development. We cannot escape from these economic troubles and potential social unrest if government continues to deny its already weak institutions the needed financial resources to provide basic services to the people of Ghana.

What we need in this and subsequent budget statement is counter-cyclical fiscal policies that can help address the social and economic challenges facing the country. Government should use its fiscal policy prerogatives to support businesses to create more jobs for Ghanaians.

**Trade and Investment Policies**

Building a strong domestic private sector and a manufacturing base requires a radical shift in the national trade policy and practices. We cannot build a strong manufacturing base when our trade policy encourages the importation of the very products we seek to manufacture particularly when the countries we import from have both natural and artificial levers that allow them to produce at far cheaper costs.

Ghana’s trade policy is too liberal for our level of development. We need a trade regime (policy and practices) that encourages domestic manufacturing and penalizes imports. This does not mean that we close our borders. The current regime of international trade rules under the WTO offers Ghana and other developing countries enough safeguards to shield their domestic enterprises from unsustainable competition. We just need to take advantage of these safeguards to ensure that our trade policy is in line with our employment policy objectives and the imperative to develop the domestic private sector.

We oppose the Economic Partnership Agreement (EPA) mainly because it carries the trade liberalisation agenda to even a higher level, i.e., the level where our prerogative
to take advantage of the safeguard clauses in international trade agreements would be curtailed thereby denying us the ability to build a viable manufacturing base.

Similarly, Ghana’s investment policy orientation appears too focused on attracting foreign investment in areas or sectors that do not create enough jobs. We reiterate the point we have made over and over again that the only way we can create decent jobs for Ghanaians is for government to offer direct support to struggling but promising domestic firms to make them competitive especially at the time interest rates are so high.

**Employment Creation**

The greatest challenge facing Ghana today is the inability of the economy to create jobs for the teeming youth roaming the streets in urban centres across the country. Even university graduates are finding it harder to access jobs. The continued implementation of the policy of net hiring freeze in the public sector is a clear indication that government does not recognise its direct role in employment and human resources management. The scale of the employment challenge that faces the country requires direct intervention by government. Government can train and employ more doctors, nurses, teachers, fire officers, prison officers, and police officers.

According to the Ministry of Health, in 2013, the total number of doctors on MOH payroll was 2,615 and the doctor to population ratio was one doctor per nearly 10,000 Ghanaians compared to the international standard of one doctor to 600 people and the middle-income average of one doctor to 1,282 people. Ghana needs tens of thousands of health workers. It is the responsibility of government to train and employ more health workers.

Currently, there are about 25,000 police officers in Ghana. This translates into one police officer per 1000 Ghanaians compared to the UN global standard of one police officer to 500 citizens. Ghana therefore needs to double the size of its police force to ensure peace and security. Again, it is the responsibility of government to ensure adequate security for the citizens of Ghana.
The current size of the public sector is about 500,000. For a population of almost 25 million people that translates into about one public service worker for every 50 citizens compared to one public sector worker to 20 citizens in other African countries. There is, therefore, room for government to employ more teachers, health workers, security personnel and other public service workers. These are areas we cannot simply leave to the private sector. Filling the vacancies in education, health and security sectors alone will make a very significant impact on the employment situation. We urge government to take into account the positive impact of such initiative on the economy of Ghana but not to overemphasize the cost of hiring more workers to provide essential services for the people of Ghana. The benefits of having more health workers, teachers and police officers will far outweigh the cost if the benefits are properly quantified.

The private sector can also be supported to create more jobs. Government knows what to do. What is required now is the will to do it. According to the World Bank, in 2013, domestic credit to the private sector was 17.1 percent of GDP compared to the average of 45 percent in lower middle-income countries. We expect government to create the enabling environment for business growth.

Nearly nine out of every ten Ghanaians are working in the informal economy. This does not reflect the middle-income status of the country. There must be a policy backed by a conscious effort to formalise economic activities in all sectors including the agricultural sector in line with the International Labour Organisation’s recommendations. Strategies to formalize the informal economy should include appropriate legal and institutional reforms to ensure improved access to financial resources for business development for SMEs.

**Investment in Labour Market Institutions**

Labour market institutions are among the weakest state institutions in the country. The Ministry of Employment and Labour Relations and its agencies (Labour Department, Factories Inspectorate, the National Labour Commission and the Fair Wages and Salaries Commission) have suffered long periods of neglect. This partly
explains the frequent strikes and labour unrest in the country. These institutions lack the resources to deal with labour issues.

In 2013, for example, only 663 workplace inspections were conducted to enforce Occupational Safety and Health Standards, according to the 2014 Budget Statement and Economic Policies. This represents just about one percent of the nearly 50,000 establishments that have registered with SSNIT. The National Labour Commission which is responsible for ensuring peaceful industrial atmosphere in the whole country has only one office in Accra. All these institutions do not have the necessary resources to operate. For example, in previous government budgets, including the 2014 Budget, provision was made for the establishment of Labour Market Information System (LMIS). It is time for another budget but the LMIS is yet to be established. Government should not see such investments as waste of resources. We expect the 2015 budget to make provision for the strengthening of labour market institutions for an efficient management of the labour market.

**Public Sector Pay**

In 2014 public sector workers were forced to forfeit pay rise for the first time in many years. Instead, they were given cost of living allowance (COLA) which turned out to be lower than the rate of inflation. We would like to remind government that it is time for the negotiation of an upward adjustment of public sector pay for 2015. To avoid any potential confrontation between public sector unions and government we would like to advise government to do whatever it takes to conclude negotiations of public sector pay and to make the necessary provisions in the budget before it is presented to Parliament. The provisions should not be made only for the increase in basic pay but also for the payment of all categories 2 and 3 allowances.

**Social Protection**

Social protection schemes are essential interventions that promote welfare and offer protection against life contingencies and vulnerabilities. Just about 120,000 old people are receiving benefits from SSNIT and other social security schemes out of the nearly two million old citizens. A significant number of the SSNIT beneficiaries are actually earning as low as GH¢200 a month.
That is why we are worried about the current state of pensions in the country. The aim of the pension reform was to enhance coverage of pensions and to improve income security for pensioners. The National Pensions Regulatory Authority (NPRA) was established to regulate the industry. We expect government to provide the necessary support to the NPRA to do its work without any interference. We are concerned that government’s attempt to impose Pension Alliance Trust on public sector workers in respect of their second tier scheme has the potential of undermining the NPRA and the entire pension system. It will be regrettable if government forces the NPRA to reverse its decision to register the four public sector schemes to manage the second tier contribution on behalf of public sector workers concerned.

We would like to advise government, once again, to allow the four public sector second tier schemes to operate without further delay. It is now public knowledge that government owes the first and second tier schemes nearly GH¢1 billion even though government has already deducted this amount from the salaries of all public sector workers. We urge government to make adequate provisions in the 2015 budget to settle all the pension contribution arrears with interest.

In our previous submissions, we have advocated the introduction of basic income grant for the aged. Our estimates show that it will cost less than GH¢1 billion to lift all old people above the official extreme poverty line of GH¢792 per annum. Government should make the necessary efforts towards the establishment of a social assistance scheme which will cater for the needs for the aged in society.

Management of Petroleum Revenues

We are still concerned about the management of our petroleum resources. For instance, in 2012, an amount of GH¢232,403,269 out of the oil revenues was committed to road infrastructure. But we are yet to be told exactly which roads have been constructed with the funds. Again, in 2012 while an amount of GH¢72,471,824 (14%) was committed to agricultural modernization, GH¢111,959,738 was used for so-called capacity building. In its 2012 annual report, the Public Interest and Accountability Committee (PIAC), called on government to show how the funding
for capacity building was utilized. Government has failed to provide answers. Reports from the PIAC indicates that government has thinly applied the allocations on roads to over 180 roads making it almost impossible to assess compliance with Petroleum Revenue Management Act or to determine the value for the money.

We expect the 2015 budget to shed light on all monies accrued from oil and how those monies have been utilized. This is what we need to restore public confidence in government and in the economy.

**The Transport Sector**

Rail and maritime transport are the most efficient means of mass transportation of persons and goods. Regrettably, Ghana’s railway infrastructure is in a deplorable state due to long years of disinvestment and neglect. This trend needs to be reversed. The Ghana Infrastructure Fund (GIF) should be used for the development of railway and maritime transport infrastructure.

We also expect government to make adequate provision in the 2015 budget to start the reconstruction of the Western Railway Line. The line, when reconstructed, will significantly reduce the haulage challenges confronting mining activities in the area. These companies can then expand their production capacities and employ more Ghanaians. Similarly, we propose that government, in its broad road project framework in the Western Region, should prioritize the Tarkwa-Bogoso-Prestea road network because of its strategic nature to the mining activities in these areas. We believe the cost of reconstructing these roads will be far less than the economic gains Ghana will reap from their reconstruction.

**Conclusion**

The 2015 budget must acknowledge the limitations of orthodox economic policy especially in an economy like Ghana’s which is facing multiple challenges. The budget must reveal to Ghanaians the true state of the national economy. It must focus on growing the economy. Government must use this budget to introduce policies that strengthen domestic industries and create employment in both the private and public sectors. The budget must also be clear about how government intends to eradicate
corruption in the public sector and how it intends to strengthen state institutions to underpin the Better Ghana agenda. Finally, we expect the budget to lead Ghana away from poverty, destitution and ignorance that have afflicted many of our compatriots. We do not need IMF bailout. We need a strong leader, the appropriate Made-in-Ghana policies and strong institutions to deal with the economic challenges facing Ghana.