Editorial

The "Putting Ghana Back to Work" National Budget: Observations

Emerging directly from a preceding deep and prolonged recession of nearly five years, the 2017 macroeconomic performance of Ghana in 2017 is relatively very impressive. The performance includes growth in the following areas: Overall real GDP (as of June) of 7.8%; Non-Oil real GDP (as of June) 4.0%; End-period inflation (as of October) 11.6%; Overall budget deficit on cash basis as percentage of GDP (Sept) 4.5%; Primary balance (September) 0.3%; current account balance (August) 0.2%; Gross International Reserves (import cover)- September 3.9%; and End-of-year expected deficit 6.3%. The overall 2017 economic sector growth (especially the industry sector) is very impressive, that is, agriculture 4.3%, industry 17.7%; and services 4.7%.

Coming from a prolonged recession, the least positive upturn in the macroeconomic performance will result in large percentage increase in its relevant indicators. Also, the drastic decline in policy rates and government interest rates within a very short period in 2017 is truly commendable. Compared to pre-2017 rates of about 25%, the following reflect an unquestionably impressive performance: 91-Day 13.2%; 182-Day 14.1%, 1-Year 15.0%, Interbank Average 20.94% and Average Lending rates to DMBs 28.97%. Unfortunately, these improvements are not being reflected in banks' lending rates for the benefit of the business community and the public.

Government or national budgets are more complex and contentious than pure economic or commercial budgets. National budgets are most widely known for their notorious political aspects unlike the economic and technical aspects of the commercial budgets. The political element of government budgets sees competing interests pushing and pulling it often in an attempt to obtain benefits at the expense of other units, while avoiding essential costs. Unlike the pure commercial budgets, government budgets are not primarily designed to allocate scarce resources for the most efficient economic use. The technical element of government budgets merely reflects the forecast of revenues and expenses – balance, deficit, or surplus budgets.

Government budgets are important as they reflect the following: political statement or slant of the ruling party; public accountability; prioritised initiatives; short-term visions; relative and constrained best case allocation of scare national resources; planned approach to government›s activities; growth of GDP, ability to finance the budget; and international relations and activities. Government budgets also show integrated approach to fiscal operations and policies; fiscal instrument of macro-economic policy; government attitude towards economic activities; measure or index of government›s functioning; and basis for claim to power and right to continue to govern.

The recent legislatively approved 2018 national budget of Ghana has been predictably viewed differently by the majority and minority parties in parliament. Under ideal situations, such disagreements are healthy for openness and public accountability; but it is not so in our case. According to the minority in parliament, the previous government deserves a lot of recognition for ending the energy crisis and for effectively laying the solid foundation that is accounting for the current upturns in the country. The minority also indicates that the current government is dwelling too much on irrelevant political slogans than on realities of the current times. They have accused the government of many instances of extreme bad faith such as allocating funds to Ghana Bauxite and Aluminum Resources, which is a non-legal authority. In addition, the minority questions the allocation of free SHS funds to an office of government machinery at the Office of the President, instead of the ministry responsible for education. It also fumes over the paltry budgeted monthly payment of Five Hundred Ghana Cedis (GHC500.00) to the anticipated graduates to be engaged under the National Builders Corps Initiative.

On the other hand, the majority in parliament claims all the credit for ending the energy crisis and for the current economic stabilization resulting from its fiscal discipline. It also lauds itself for the good start to implement its 2016 election manifesto promises to grow the economy and create jobs that would result in improved living standards of the people of Ghana. The government reiterated that the budget is focused on ensuring industrial transformation, promotion of agriculture and economic opportunities for all.

Arguably, Ghana is gradually coming out of its most severe economic recession (driven mainly by energy crisis). In the wake of that, the second (2018) NPP budget has been released, themed: "Putting Ghana Back to Work".

There are a number of high priority interventions since 2017, such as Free SHS Programme, Planting for Food and Jobs, One-District-One-Factory, Port Improvement Project, National Digitisation Programme, Marine Drive Project, Railways Rehabilitation, macroeconomic stability, affordable and reliable energy, and many others. This budget analyses the envisaged policies and programmes directed at key sectors of the economy. Ghana's economy has achieved relative stability over the last three years partly due to the concerted efforts to solve the energy crisis. Undeniably, the economy appears to be on an upward trajectory to recovery after the many challenges it experienced in the immediate past, triggered by the energy crisis in particular and following hard on the heels of the global financial crisis.

The declared broad goals of Ghana's 2018 budget (second under the NPP Government) is the stabilization of the macroeconomic fundamentals and growing of the economy through investing in industrialization, infrastructure, agriculture, and job-creating entrepreneurship initiatives for the teeming unemployed youth. Appropriately, the budget is dubbed "Putting Ghana Back to Work" after the "Asempa" budget of 2017.As a nation, we have been working before; perhaps not at full capacity due to many challenges like the energy crisis and governments' inability to pay the nation's indebtedness to the local private sector, energy sector, SOEs and SMEs on time. Naturally, the budget aims to deliver on the party's bold and rather very ambitious 2016 manifesto promises made to the nation in the run-up to the 2016 election. The 2018 budget alsostrives to consolidate the institutionalization of fiscal discipline in the public sector of the economy.

In a high inflationary, high interest rate, constantly worsening balance of trade and of payments, and fast depreciating currency macro-economic environment that have been the lot of Ghana over the years, control of prices or inflation, reduction in interest rates, and strengthening our foreign exchange rates, are very critical to driving investments in order to generate growth and create essential jobs for the youth. Unemployment, especially among the youth, continues to be a major challenge in the country despite numerous promises and policies of various governments to create jobs for the youth. The 2017 budget projected that about 750,000 jobs would be created under the "Planting for Food and Jobs" programme. The 2018 budget however provided no details on the number of jobs that had actually been created so far under this programme in 2017. The budget did not seem to attempt to consolidate or intensify the core goals of agriculture-driven industrialization and gainful job creation for not only the youth, but for all.

To deal with the increasing graduate employment challenges, the government has allocated GHs 600 million to employ 100,000 graduates as part of the Nation Builders Corps Initiative (NabCorp). Successful recruits will be trained and engaged in various sectors of the economy, ranging from health, education, revenue mobilisation, etc. However, this programme seems to be a reflection of policy incoherence, inappropriate and non-sustainable approach to solving the long standing graduate and youth unemployment challenges of the nation.

The declared focus of the 2018 budget is to revamp agriculture for food sustainability and feeding the numerous factories to be established under the 1-district-1-factory initiative. Interestingly however, the 2018 budgetary allocation to the Ministry of Agriculture, which has been soundly criticized by the NPP while in opposition as woefully inadequate, was cut by 21%. The drastic and ill-advised decrease is likely to adversely affect the sector. Other challenges in the sector are the ageing cocoa and food crop farms and farmers; inadequate financing; very low to nil interest of the youth to venture into agriculture; and the continued dependence on rain-fed mode of operation in the sector. A policy to engage graduates across the country should have centred on finding more innovative and business-driven means to attract and encourage graduates and the youth into agriculture. The refinement and re-launch of the very successful good old State Farms and Workers' Brigade programmes of the 1960s would have been more promising and pragmatic throw back from the past. It was tried and tested. Existing programmes such as planting for food and jobs target mainly existing farmers and does not make direct access to funds available for agro-based start-ups, especially for the youth and unemployed graduates. Providing access to affordable funds for a mechanized and plantation-type agriculture and agribusiness by the graduates or youths (the case of Ivory Coast) would have been a better innovative means of sustainably encouraging the youth into agriculture.

The 2018 budget demonstrates government's resolve to transform or industrialise the Ghanaian economy via the agricultural sector. Numerous projects and programmes have been outlined that are aimed at addressing the persistent challenges in the sector such as access to finance, low mechanisation,post-harvest losses, low technology uptake, unattractive prices of produce, and disturbingly chaotic and fraudulent land tenure system in Ghana.

On like the 2017 deep Budget cut in capital expenditure for the sector by approximately 74%, the 2018 Budget highlights Governments commitment to improve tourism infrastructure in sites such as proper sanitation, signage hospitality services quality enhancement good roads and many more.

There are many laudable initiatives in the budget for the energy sector. The seeming current positive accomplishments in the energy sector may be very temporary. The future does not seem very secured. The significant increase in the proceeds from the Energy Sector Levy (ESL) from GHS 1.6 billion in 2016 to GHS 1.9 billion in 2017 (projected for 2017) and expected to reach GHS 2.1 billion in 2018 is impressive. Equally, efforts on the part of government to reduce the energy sector debt have been laudable, considering that the debt has been reduced to GHS 5 billion from GHS 10 billion via payments made through the Energy Sector Levy (ESL) as well as via the proceeds of the energy sector bond. However, the energy bond-cash waterfall mechanism and electricity tariff reduction policy initiatives are very intricate and needs to be carefully handled, else the gains from the sector debt reduction will erode quickly.

The government's move to continue with the LPG cylinder distribution and recirculation programme is commendable in terms of its possible positive effects on the environment. Despite the apparent benefits of continuing the policy, government has to be mindful of the fact that seeming untamable menace of gas explosions still remains largely a function of safety in use than in the location of gas filling stations. The gains from the re-circulation programme risk being eroded if critical steps are not taken to strictly enforce safety measures at the bottling plants to be established. The move of government towards rooftop solar for MDAs is laudable. However, if the ostensibly failed or ill-implemented Energy Commission's rooftop solar programme is anything to go by, then the government's target of 3 percent increase in renewable energy generation may not be achieved.

Undoubtedly, the most challenging and controversial aspect or segment of the 2018 budget is the educational sector. There many long-standing challenges in the sector. Ghana's education sector, the second highest performing sub-sector in terms of growth in the service sector in 2017,has experienced a provisional growth of about 9 percent in 2017. Over the period, the number of the beneficiaries of the 'destiny changing' Free SHS policy amounts to over 350,000 first year students - 60% of whom are boarding students. The contentious issues of poor and inadequate educational infrastructure and resources, poorly trained teachers, teacher licensing and certification, school feeding programme, free SHS, allowances for teacher training colleges students and nursing students have put serious strain on the budget.

The proposed establishment of the Voluntary Education Fund to support education is an excellent initiative in the sector. However, it raises serious questions about the reliability and sustainability of funding education policies. GoG Funding of the sector is skewed towards goods and services to the neglect of infrastructure. Implementation challenges of the new free SHS and existing school feeding programmes pose serious challenges for the budget. Quality education seems to be completely lost in the education sector initiatives and discourse in favour of numbers and feeding of students.

Adequate and sustainable investment into infrastructure sectors of the economy, such as railways, roads, information technology, sanitation, water and housing are potential developments. The required annual catch-up investments are huge and have the potential of boosting the economy by improving quality, productivity and efficiency. It also has the potential of creating several new jobs - the key target of the 2018 budget. Ghana's huge infrastructure deficit requires equally huge, targeted, and sustained spending over the next few decades to effectively plug the existing infrastructure gap in the sector.

Ghana's huge infrastructural deficit can be provided and financed partly through public-private partnerships (PPPs). The major challenge with these ambitious infrastructure plans is the daunting problem and legal intricacies of attracting affordable private capital to complete them. PPP has been identified globally as one of the most viable alternate options to raise the investments required in bridging the country's infrastructure deficit. Several PPPs programmes are being considered for various infrastructure projects stated in the budget, especially in the housing, railways, and road sectors. However, lack of a robust and credible legal framework to facilitate and provide guarantee for private sector investment is a major drawback. A sound PPP framework requires a clear and robust legal framework to develop, procure, monitor and evaluate the projects. It also promotes local content, value for money, quality, timeliness, private sector orientation and sound accountability. Given how important this piece of legislation is, it is indeed strange that the bill, which was drafted under the previous government has not been finalized yet. The Ministry of Railways Development was carved from the transport ministry with the intention to revamp the sector to contribute to economic growth. However, the restructuring of the railway sector has not been expedited. The proposal to separate the Ghana railways development authority into two institutions - one as a regulator and the other managing the infrastructure - has not yet been done. The most efficient model that will ensure sustained investment into the rail infrastructure is when the management of the infrastructure is separated from the operations, with government's focus on regulating the sector and not acting as an operating guru.

Two very important pro-business initiatives of the 2018 budget relate to energy levy reduction and tax reductions. Such initiatives will reduce the financial strains on industry, but will have direct short-term negative effect on government revenue. The ambitious energy policy initiative, aimed at reducing the energy cost of doing business for 2018 involves reforms (reduction) in electricity tariffs in the following areas: Residential - Up to 13%; Non Residential - 13%; Special Load Tariff- Low Voltage - 13%; Special Load Tariff - Medium Voltage - 11%; Special Load Tariff - High Voltage - 14%; and High Voltage Mines - 21%.

In view of the impressive economic performance in 2017, it is very realistic to expect that the following estimates for 2018 could easily be achieved: Overall GDP growth rate of 6.8%; non-oil GDP growth rate of 5.4%; end period inflation rate of 8.9%; average inflation rate of 9.8%; fiscal deficit of 4.5% percent GDP; primary balance (surplus) of 1.6% of GDP; and gross foreign assets to cover or at least 3.5 months of imports of goods and services.

The 2018 budget is grounded on a three-pronged economic development programme that will focus on, integrating and accelerating investment in agriculture, infrastructure development, and industrialization as the primary vehicles to fundamentally transform the economy. The above programme will:

- Ramp up investments under the Planting for Food and Jobs
- Abolish duties on some agricultural produce processing equipment and machinery
- Support the development of agribusiness start-ups through the establishment of a grant funding facility
- Establish a GH¢400 million fund to de-risk the agriculture and agribusiness sector through sustainable agriculture financing and crop insurance schemes
- Increase the pace of mechanization
- Provide specific technical assistance and tax incentives to support agro-processing, packaging, and market access
- Launch a major pension scheme for cocoa farmers
- Develop modern storage facilities through the "One District, One Warehouse" programme
- Launch the commodities exchange
- Open up key food basket zones through road construction and irrigation projects

Critical observations about the 2018 budget include: near 100% increase in revenue from petroleum; interest and salaries accounting for nearly 81% of total expenditure; need for significant increase in private foreign direct investment; financing of budgetary deficit mainly from domestic borrowing; projected budget deficit increasing from IMF approved 3.8% to 4.4% of GDP; no policy statement on import substitution, export promotion, or rice importation; increasing the tax base; establishment of National Development Bank (despite NIB and ADB); and persistent budget deficit.

The budget reflects medium term vision of:

- "an optimistic self-confident and prosperous nation, through the creative exploitation of our human and natural resources, and operating within a democratic, open and fair society, in which mutual trust and economic opportunities exist for all".

This vision is programmed to be achieved through the following five pillars:

- restoring the economy;
- transforming agriculture and industry;

- revamping economic and social infrastructure;
- strengthening social protection and inclusion; and
- reforming public service delivery institutions

A worrying aspect of Ghana's national budgets relates to their lack of long-term focus – MTEF and Programme budgeting. These budgets do not deal adequately with long term projects or initiatives and their financing sustainability. The anticipated long term projects dealing with infrastructure, factories, railroad, free SHS and bauxite project, etc. are not adequately catered for in the budget on a long term basis. These projects need strategic planning with adequate designated sustainable funding sources. The nation needs genuine national consensus or agreement on such projects since they may outlive the initiating governments and parties. There is an urgent need for reinventing government and reorienting citizens when it comes to sustainability of these long term projects or initiatives.