FISCAL SPACE AND DEVELOPMENT STRATEGY-GHANA'S EXPERIENCE

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Introduction

- ✓ **Fiscal space can be defined as room in a government's budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy.**

- **Fiscal space must exist or be created to enable extra resources to be made available for priority government spending.**

The Need for Fiscal Buffers in Ghana

- Ghana's budget currently has some inherent rigidities which make it difficult for Government to direct resources critical expenditure. Indeed the national budget has become very lopsided and a victim of inordinate rigidity caused by the earmarking of a large part of it.

- A disproportional part of national expenditure is statutorily determined, taking the form of Ghana Education Trust Fund, National Health Insurance Fund, and District Assemblies Common Fund.

- This together with other contractual obligations, such as interest payments, wages and salaries, and pensions has resulted in the situation where there **is virtually very little** revenue left for other critical expenditures. The situation calls for the rebuilding of Fiscal Buffers to enable Government finance major infrastructures which are seen as catalyst for rapid economic growth

How Does the Government Create Fiscal Space

- The Government of Ghana has been using all the traditional methods available in trying to create the needed fiscal space to allow for expansion in the provision of both economic and social infrastructure;

➢ These include among others:
  - Raising of Taxes
  - Securing Foreign Grants
  - Borrowing from external sources and domestically through the bank and non-bank sectors
  - Cutting down on non-priority expenditures, and
  - Effectively managing public debt to sustainable levels

- In implementing all these policies, government is mindful not to compromise on macroeconomic stability and fiscal sustainability.

The Ghana Shared Growth and Development Agenda (GSGDA)

- Ghana is currently in the second year of implementation of a 4-year medium-term development plan called the Ghana Shared Growth Development Agenda, (2010 t0 2013).
- The GSGDA has the strategic direction to lay the foundation for the structural transformation of the economy within the decade ending 2020, through industrialization especially manufacturing, based on modernised agriculture and sustainable exploitation of Ghana’s natural resources, particularly minerals, oil and gas.
- The process is underpinned by rapid infrastructure and human development as well as the application of science, technology and innovation.

Priority Spending Under the GSGDA

- The Ghana Shared Growth and Development Agenda The GSGDA is anchored on the following thematic areas:

- ✓ Ensuring and sustaining macroeconomic stability;
- ✓ Enhanced competitiveness of Ghana's private sector;
- ✓ Accelerated agricultural modernisation and natural resource management;
- ✓ Oil and gas development;
- ✓ Infrastructure, energy and human settlements development;
- ✓ Human development, employment and productivity; and
- ✓ Transparent and Accountable Governance.

- The estimated total resources required to finance the GSGDA is US$23,891.459 million (GH¢34,642.616 million) over the period 2010-2013. This cost excludes wages and salaries expenses associated with project and programme implementation.

- A comparison of the projected resource inflows to the estimated cost of implementing the GSGDA provides an indication of the resource gap that must be filled to ensure full implementation of the programmes and projects identified under the GSGDA.

- Over the period, total revenue and grants is expected to rise by an average of 17.9% per annum from US$6,088.545 million in 2010 to US$9,960.074 million in 2013. The GOG budgetary resources allocated for expenditures in Services and Investment is estimated to rise at average of 15.2% per annum from US$2,271.403 million in 2010 to US$3,418.921 million in 2013, thereby accounting for 47.7% of the total resource requirement over the period.

- Based on the projected total revenue and expenditures in Investments and Service over the period, overall resource gap of US$12,500.676 million (GH¢18,125.980 million) and an average of US$3,125.169 million per annum was estimated.

- This represents an overall financing gap of about 52.3% over the period 2010-2013, which is expected to be filled.
- This calls for fiscal expansion to close the existing gap.

Table 1: Financial Requirements for Implementation of GSGDA

THEME AREA	Expenditure Summary									
	2010		2011		2012		2013		Total	
	Value (in Millions US$)	%	Value (in Millions US$)	%	Value (in Millions US$)	%	Value (in Millions US$)	%	Value (in Millions US$)	%
I. ENSURING AND SUSTAINING MACROECONOMIC STABILITY	111.129	3.34	126.579	1.92	130.371	1.91	134.795	1.89	**502.873**	2.10
II. ENHANCING COMPITIVENESS IN GHANA'S PRIVATE SECTOR	21.467	0.65	507.513	7.71	643.298	9.41	733.933	10.26	**1,906.211**	7.98
III. AGRICULTURAL MODERNIZATION AND NATURAL RESOURCE MANAGEMENT	90.755	2.73	292.616	4.44	285.102	4.17	237.882	3.33	**906.354**	3.79
IV. INFRUSTRUCTURE ANDHUMAN SETTLEMENTS	1,493.714	44.96	2,497.376	37.93	2568.205	37.57	2,859.120	39.99	**9,418.415**	39.42
V. ENERGY, OIL AND GAS INDUSTRY	281.699	8.48	1,257.948	19.11	1182.371	17.30	879.421	12.30	**3,601.438**	15.07
VI. HUMAN DEVELOPMENT PRODUCTIVITY AND EMPLOYMENT	1,109.410	33.39	1,441.495	21.89	1577.153	23.07	1,890.690	26.44	**6,018.748**	25.19
VII. TRANSPARENT AND ACCOUNTABLE GOVERNANCE	214.076	6.44	460.711	7.00	448.417	6.56	414.216	5.79	**1,537.419**	6.44
GRAND TOTAL	3,322.250	100.00	6584.238	100.00	6,834.913	100.00	7.50.056	100.00	**23891.4.459**	100.00

Source : NDPC

Table 2: Revenue Projections 2010-2013

	2010 Budget Estimate	2011 Budget Estimate	2012 Projected Estimate	2013 Projected Estimate
External	1,065.950	1,108.400	1,299.620	1,438.800
National Health Insurance Levy (NHIL)	**480.908**	**477.673**	**565.132**	**644.306**
CEPS Collection	216.710	226.300	259.920	287.800
VATS Collection	121.820	161.600	202.000	242.400
SSNIT Contribution	142.378	89.773	103.212	114.106
Other revenue measures	**132.990**	**0.000**	**0.000**	**0.000**
Import Exemptions	**237.228**	**260.838**	**292.105**	**320.522**
Tax Revenue	**6,072.243**	**7,712.451**	**9,505.768**	**10,731.304**
Non-Tax Revenue	**1,916.403**	**1,355.668**	**1,659.061**	**1,899.685**
TOTAL REVENUE	**8,264.013**	**9,299.521**	**11,441.281**	**12,952.985**
GRANTS	**1,364.515**	**1,301.601**	**1,306.873**	**1,489.123**
Project grants	832.880	784.183	736.211	838.411
Programme Grants	296.205	281.387	318.928	385.398
HIPC Assistance (multilaterals)	131.595	128.746	135.227	132.487
Multi Debt Relief Initiative (MDRI)	103.835	107.286	116.508	132.826
International Monetary Fund	0.000	0.000	0.000	0.000
World Bank	93.930	97.440	105.995	112.667
African Development Bank	9.905	9.846	10.513	20.159
TOTAL REVENUE & GRANTS	**9,628.527**	**10,601.123**	**12,748.154**	**14,442.108**

Source; MoFEP/NDPC

Table 3: Resource Gap Analysis

Resource Gap Analysis					
	Amount (in millions US $)				
	2010	2011	2012	2013	TOTAL
1 **SERVICES**	**285.740**	**276.279**	**326.753**	**365.210**	**1,253.982**
2 **INVESTMENT**	**1,985.663**	**2,583.381**	**2,514.045**	**3,053.711**	**10,136.801**
Domestic Financed (excluding statutory)	916.833	1,094.829	1,620.219	1,832.007	5,463.889
Foreign Financed	1,068.830	1,488.552	893.826	1,221.705	4,672.913
3 **SERVICES + INVESTMENT**	**2,271.403**	**2,859.660**	**2,840.798**	**3,418.921**	**11,390.783**
4 **ESTIMATED COST OF THE GSGDA**	**3,322.250**	**6,584.238**	**6,834.916**	**7,150.056**	**23,891.459**
5 **RESOURCE GAP**	**1,050.847**	**3,724.577**	**3,994.118**	**3,731.134**	**12,500.676**

Source: NDPC

Creating Fiscal Space for Scaling-up Investment

- **Scaling up Domestic Revenue Mobilisation**

➢ Prior to the rebasing of Ghana's GDP, total revenue collection had reached 26.1 per cent of GDP in 2009 and was projected to reach 29.8 per cent in 2011.

➢ However with the rebasing of the GDP total revenue/GDP ratio fell to 15 per cent of GDP in 2010. Government through tax reforms plans to increase the revenue GDP ratio to 20 per cent in the medium term.

✓ Some measures which were introduced in the last 2 years have started showing positive results.

- As part of the reforms, the three revenue agencies were brought together under one administrative authority, the Ghana Revenue Authority under one Commissioner-General;
- There was reforms in the warehousing regime to restrict warehousing to only raw material and capital goods for a limited period only, and a review of the exemptions regime, among others.

- This has drastically reduced the fraud and corrupt practices that was inherent in the old regime.

- Others revenue enhancing measures were the introduction of Fiscal Stabilisation Levy to enable government benefit from the huge profits made by Financial Institutions, Insurance Companies, Mobile phone companies among others to mobilize additional resources for development.
- ✓ The increase in the royalties rate from 3% to 5% which is expected raked in additional resources of about US$85 million in 2011. Going forward natural resource taxation is going to be an important source of revenue to the Ghanaian economy

- Property taxation is another area where government is directing efforts to rake in more revenue through professional evaluation of properties to ensure the payment of reasonable taxes on all properties.

✓ Oil Revenue

- Ghana currently has joined the countries that export crude oil, although in a modest scale. The additional resources from the petroleum sector is guided by the Petroleum Revenue Management Act, 2010.

- The Act specifies how the Government portion of Petroleum revenue should be treated. Under this Act, 70 per cent of resources should go into specified investment programmes while the remaining 30% is shared between stabilization fund and heritage funds in 70% and 30% basis. This will create additional fiscal space to finance critical projects.

Other Revenue Measures

- The rebasing exercise saw an expansion of the GDP by over 50%, causing the revenue/GDP ratio to drop significantly. The rebasing exercise also saw a shift from agriculture to services as sector contributing more to the GDP.

- The services sector has expanded in recent years as a result of the boom in commercial trading, communication services, banking services, and consulting services. Unfortunately, it appears that tax revenues from these activities have not risen in commensurate proportions. There is the view that the services sector is not taxed appropriately due to some administrative weaknesses and challenges in taxing the services sector. Government has therefore directed that a comprehensive analysis of the expansion of the services sector should be undertaken to establish the impact of the growth of the sector on tax revenue so that the appropriate action can be taken.

- Government is also looking seriously at the subsidies on petroleum products, weaknesses in the distribution of electricity and water, and the collection of the relevant tariffs, with the viewing to enhancing revenue mobilization and freeing resources for priority projects.

Public-Private Partnership (PPP)

- In line with Government policy of accelerating the delivery of infrastructure and public service projects, a PPP framework and policy have been developed. Government will use the following instruments to support the implementation of this PPP:

- ✓ Project Development Facility to finance upstream investment appraisal, value-for-money assessment and other feasibility and safeguard studies.
- ✓ Viability Gap Schemes to provide rule-based incentives for PPP projects that are economically justified but financially not feasible without reasonable government support; and
- ✓ Infrastructure Finance facility to raise the requisite long-term financing for on-lending at commercial rates to the private sector partners for PPP projects.

- The resort to PPP is to shift some of the financial burden in the provision of such critical facilities from the public sector to the private sector.

Loans and Grants

- Ghana's budget is partly financed from external sources. On a yearly basis, an average of between 10%-12% of total resource envelope is sourced externally to compliment domestic revenue for the execution of projects and programmes of government.
- In 2011 Budget Statement, Government emphasized the critical role infrastructure plays in the country's development. Consequently, a number of new infrastructure projects in road, rail, health, education, water, and other sectors were initiated using both domestic and external resources.
- In view of the huge financial outlays required for these key physical infrastructure projects Government has sourced a US$3.0 billion loan facility from China Development Bank (CDB) in addition to the facilities from the traditional development partners to implement such projects.

- The projects to be funded by the CDB loan include among others:

- ✓ Accra Plains Irrigation Project;
- ✓ Coastal Fishing Harbours and Landing Sites Project;
- ✓ Tema-Akosombo-Buipe Multi-modal Transportation Project;
- ✓ Western Corridor Gas Infrastructure Project
- ✓ Early phase components of Offshore Gas Pipeline, Gas Processing Plant, and Onshore Gas Trunk Pipeline;
- ✓ Refinery Retrofit for NGL Processing;
- ✓ Helicopter Surveillance Fleet for Western Corridor “Oil Enclave”;
- ✓ Development of ICT Enhanced Surveillance Platform for Western Corridor “Oil Enclave”;
- ✓ Western Corridor “Oil Enclave” Road Re-development Project

Expenditure Rationalisation Measures

- On the expenditure side, a lot of gains have been made through rationalisation and reprioritization of public expenditure.

They include:

- Strengthening the Public Financial Management processes, including, Payroll Management; Migrating all non-security services subvented organizations onto centralized payroll structure; the issuance of Commencement Certificate in respect of procurement of major capital items before financially committing Government to such transaction; requiring MDAs to prepare procurement and cash plans for budget execution; abiding by rules in the Public Procurement Act to ensure transparency in public procurement and value for money; and conducting regular payroll audits to remove ghost names from the government payroll.

Ensuring Macroeconomic Stability

- Through good governance and implementation of sound monetary and fiscal policies, Ghana has succeeded in attracting consistent stream of external inflows to assist in the implementation of her development programmes.

- Reprioritizing expenditures by curbing unproductive spending has been one major prerequisite of Government to cut down on public expenditure. This has taken the form of removing subsidies on petroleum products and public utility services.

Boosting efficiency in spending

- Boosting efficiency in spending has the advantage of maximising the effectiveness of aid.
- In Ghana this is accomplished by using the Multi-Donor Budget Support (MDBS) process which brings most development partners together under common conditions for disbursement of donor funds into the budget.
- The MDBS concept has brought about better coordination in aid administration and reduced administrative overloads on public officers.

Debt Management issues

- Ghana joined the club of HIPC countries in March 2001 when her total debt obligation (TDO) exceeded the amount of goods and services produced that year (TDO/GDP ratio hit 103%) and reached the Completion Point on July 13, 2004.

- Since then the countries continues to enjoy HIPC/MDRI reliefs from both bi-lateral and multi-lateral creditors. This has succeeded in reducing her debt GDP ratio significantly, enabling Ghana to have as much as at least 3.7 billion dollars of her debt being written off.

Debt Management Issues

- Since then, total public debt has been increasing and Government has been mindful of her borrowing activities in order not to fall into unsustainable debt trap. Government has a policy of not contracting loans with concessonality element of less than 35%. In situations where commercial borrowing is inevitable, as with the US$3.0 billion China Development Bank credit (meant to cover a number of projects consistent with GSGDA priorities), great caution will be exercised.
- The government will ensure that each project is supported by robust feasibility and financial viability studies, assessed by reputable institutions, and that the phasing of disbursements for such projects is consistent with the agreed targets in the medium term fiscal plan to preserve debt sustainability.
- To complement this position, a trajectory of public debt repayment obligation running up to 2050 has been developed and this will combine with yearly conduct of Debt Sustainability Analysis to ensure that Ghana does not fall back to HIPC condition.

Total Public debt, 2004-10

	2004	2005	2006	2007	2008	2009	2010
(In Millions of U.S. dollars)							
1. External debt	6,448	6,348	2,177	3,586	4,035	5,008	6,111
Multilateral Institutions	5,287	5,565	1,327	1,710	2,028	2,462	2,971
IMF	447	424	158	167	163	270	388
IDA	4,012	4,336	803	1,137	1,320	1,536	1,789
AfDB	551	555	141	153	230	271	422
Others	277	251	225	254	315	385	372
Official bilateral	960	636	760	978	1,168	1,687	2,112
Non-concessional[1]	201	147	90	898	839	859	1,028
2. Domestic debt	1,830	1,927	3,133	3,821	4,315	4,273	5,618
Banking system	1,385	1,684	2,431	2,599	2,677	2,974	3,589
Non-banking sector	444	242	637	1,222	1,277	960	968
Non-residents	0	0	66	0	361	339	1,062
Others[2]	0	0	0	0	0	0	0
3. Total public debt(1+2)	8,277	8,275	5,310	7,407	8,350	9,280	11,729
Memorandum items							
Total public debt[3]	58.0	48.4	26.2	31.0	33.6	36.0	38.9
External debt	45.0	37.2	10.7	15.0	16.2	19.4	20.3
Domestic debt	12.8	11.3	15.5	16.0	17.4	16.6	18.6
Source : Ministry of Finance and Bank of Ghana							
[1]Includes a bond placement in September 2007							
[2]Includes Jubilee bond and other standard credits							
[3]In percent of GDP							

Text Table 1. Debt Outturns, 2010 (in percent of GDP)

	2010 DSA[1/]		2011 DSA	
	2009 Est.	2010 proj.	2009 Act.	2010 Est.
Total external debt	24.5	27.5	28.1	27.8
Public sector[2/]	19.4	20.3	19.4	20.3
Private sector	5.1	7.2	8.7	7.5
Public debt[3/]	35.9	37.8	36	38.9
Of which: public domestic debt	16.5	17.5	16.6	18.6

[1/] Rebased using revised national accounts

[2/] Public and publicly guaranteed external sector debt

[3/] Domestic and external public debt

Conclusion:

- The need to increase the fiscal space to secure the needed finances to the ensure the implementation of priority projects (which will facilitate the achieve of the MDGs, reduce poverty and accord a reasonable standard of living for the people of Ghana) has been the thrust of the current medium-term development programme.

- Already Government has been able to free some resources through the implementation of revenue enhancing initiatives as well as expenditure rationalization measures. Development partners have also contributed significantly to funding part of the resource gap through loans and grants. In order to achieve the objective of creating fiscal buffer without plunging the country into unsustainable debt trap, government should abide fully by the principles of good practices to ensure that such loans are capable of generating more revenue for repayment.

Thank you for your attention