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Towards a Compact for Ghana's Political
and Economic Transformation

ENSURING FISCAL RESPONSIBILITY IN GHANA: Drawing Lessons from Challenges and Outcomes 1992–2021

Technical Background Paper

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1 Introduction

Ghana's economy for the past 60 years has transitioned through four unique economic phases, namely, the pre- Economic Recovery Programme (ERP) period between 1960 and 1983; the ERP I and ERP II phase (1983 to 1995); the Ghana Poverty Reduction Strategy and the Growth and Poverty Reduction Strategy (GPRS I and GPRS II – from 2003 to 2009); the Ghana Shared Growth and Development Agenda (GSGDA I and GSGDA II) from 2010 to 2017; and the Coordinated Programme of Economic and Social Development Policies (2017-2024). These four periods were characterized by two sets of economic organization and controls, namely, the *dirigiste* and neo-liberal policy systems. The *dirigiste* system was initially being practiced but the futile nature of it later brought about the neo-liberal policy system.

The four unique economic phases described above also shaped the fiscal outcomes, with large fiscal deficits being a recurrent phenomenon, especially during post-election periods. The fiscal deficits over the past three decades (1991-2021) have mostly been above the 3 percent of GDP target established under the West African Monetary Zone (WAMZ) convergence criteria; in some cases they have been more than twice higher than the established threshold. Except in 2004, the cyclical nature of large fiscal deficits has been highly evident in election years. The fiscal deficits have led to increasing debt build ups but the debt-GDP ratio declined between 2000 and 2005 as a result of gains from the Multilateral Debt Relief Initiative. However, since 2006, the downward trend has seen a reversal, with the debt-GDP ratio crossing 80 percent. The high debt burden is also associated with extremely high debt-service costs, including interest payments. These account for a significant proportion of total revenue and after making statutory payments and paying salaries and compensation to public sector employees, there is little left to finance development.

The causes of the fiscal deficit include low domestic revenue mobilization, with revenue-to-GDP averaging 15.8 percent compared with an SSA average of 20.5 percent. This in turn has been explained by the lack of sustained growth, limited revenue from the extractives sector, coupled with low manufacturing value added and high tax exemptions. It is important to note that the COVID-19 pandemic brought economic stress and fiscal slippages to the global community, with developing countries recording significant challenges. The Russia-Ukraine war in turn exacerbated global supply bottlenecks, with rising commodity prices and a global credit squeeze impacting the already precarious fiscal conditions and possible threats to borrowing costs. Some of the global threats include: (i) crude oil prices per barrel increased from US$74.17 in December 2021 to US$130 as of March 7, 2022, before falling to US$115 as of March 24, 2022; (ii) US inflation increased from 1.4 percent in January 2022 to 7.9 percent in February 2022. Inflation in Germany increased from 1 percent in January 2022 to 5.1 percent in February 2022. Similarly, inflation in UK rose above 5 percent, the highest since 1992; (iii) more than 60 percent of African sovereigns have suffered downgrades across the region since COVID-19 struck.

Addressing Ghana's economic woes and reversing a possible economic crisis requires a radical overhaul of the fiscal regime through rationalization of expenditures, enhanced revenue mobilization, reduced external borrowing and increased domestic financing that does not significantly crowd out the private sector. The question that remains is, how do we achieve these without hurting economic growth and worsening unemployment? This will be the main focus of this paper. Section 2 to Section 5 will provide detailed analysis of the fiscal challenges, including the fundamental causes as well as the effects and the proposed solutions. The other sections will look at how to measure success relative to goals and targets.

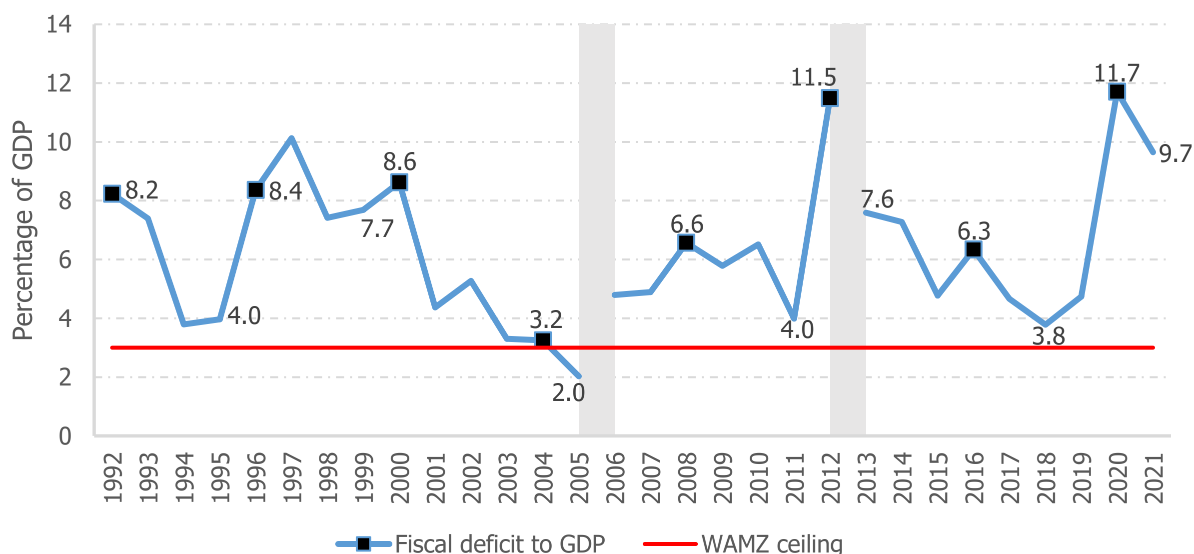
2 Fiscal challenges

Since 1992, Ghana has faced the challenge of recurring poor fiscal outcomes. This has taken the form of recurring large fiscal deficits, frequent sharp debt buildups, recurring large debt service costs, and sharply reducing public investment.

2.1 Recurring large deficits

The ability of a country to keep public borrowing within prudent limits is a hallmark of responsible fiscal management, since this prevents rapid, unsustainable public debt accumulation and its ramifications. In Ghana, however, high levels of public borrowing, resulting in large fiscal deficits, have been the norm since 1992, as shown by Figure 1.[1]

Figure 1: Fiscal deficits, 1992-2021 (% of GDP)



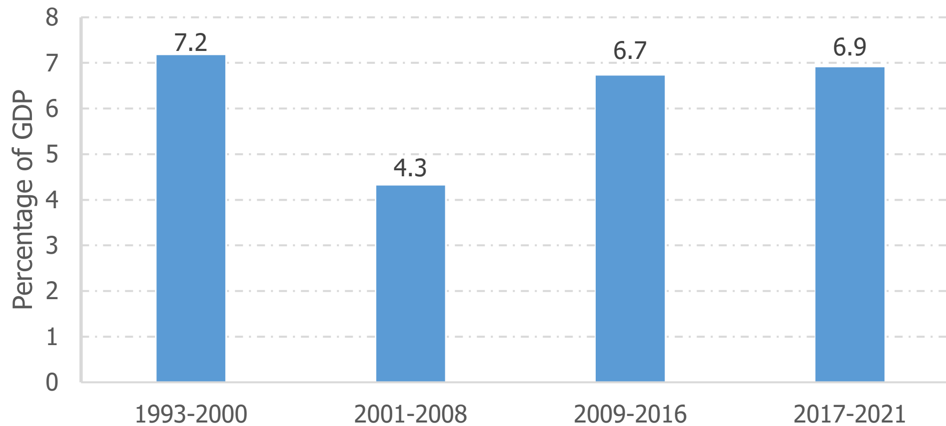
[1] Source of data: Ministry of Finance (deficit data), Ghana Statistical Service (GDP data)
Note: The deficit ratios in the figure were derived using official nominal GDP data from the Ghana Statistical Service (GSS). This GDP series has two breaks, at 2006 and 2013, due to two rebasing/re-estimation exercises carried out by the GSS, which changed the base years for estimating GDP from 1993 to 2006 and subsequently to 2013. The breaks shown in the deficit ratio curve (and further illustrated by the shaded areas) therefore reflect the breaks in the underlying GDP series.

Figure 1 compares Ghana's fiscal deficits over the last 30 years (1992-2021) to the limit of 3 percent of GDP that Ghana and other member countries of the West African Monetary Zone (WAMZ) have set for themselves as the prudent level, ahead of the adoption of a common West African currency. Figure 1 shows that the deficit as a ratio of GDP has been within this limit just once (that is, in 2005) in the past 30 years, and has been considerably above it in most years. In fact, the deficit averaged 6.3 percent of GDP within the period, which is 2.1 times the WAMZ benchmark.

Another feature of the deficits is their tendency to spike in election years (identified in Figure 1 by the black squares on the trend line), with 2004 the only exception. Each spike is usually followed by a period of fiscal adjustment in which the deficit is reduced, before it surges again in the next election year. The average deficit in election years during the period was 8.1 percent of GDP, compared with 5.6 percent outside election years. This means the deficit was nearly 50 percent larger in years when the country held elections than when it did not. Moreover, the average election-year deficit was 2.7 times the WAMZ benchmark, while even outside election years, the average deficit was 1.9 times the benchmark.

Despite the general phenomenon of large deficits illustrated above, it is instructive to note that the deficit was relatively contained during a critical phase in the fiscal history of the Fourth Republic. This is seen in Figure 2, which shows the behavior of the deficit in different periods of the Fourth Republic. In the first period, 1993-2000, the deficit averaged 7.2 percent of GDP, above the overall average of 6.3 percent of GDP. Subsequently, the average deficit fell to 4.3 percent of GDP in 2001-2008, below the overall average. The relative containment of the deficit during this period largely reflects the impact of the debt relief Ghana received from its bilateral and multilateral creditors, through the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) programs. The fall in the deficit was achieved, to a significant degree, through the combination of debt-service savings (which affected government expenditure positively) and increased external grant revenue (which shored up total government revenue) that the country enjoyed during this period.

Figure 2: Average fiscal deficits in the Fourth Republic (% of GDP)



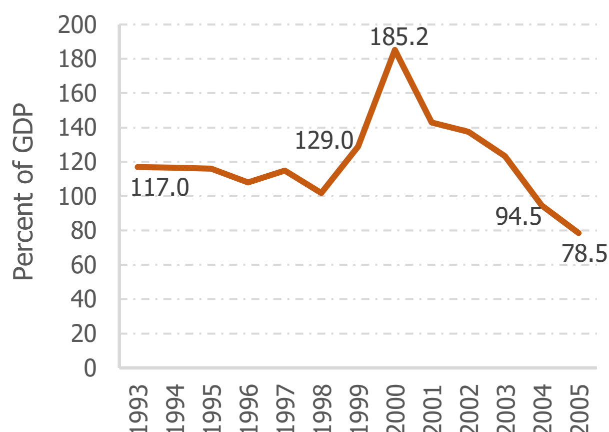
Source: Ministry of Finance (deficit data), Ghana Statistical Service (GDP data)

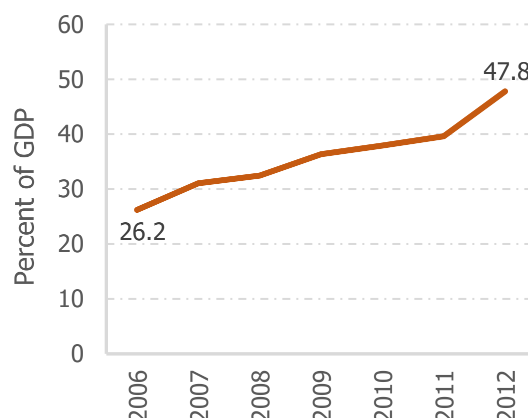
After this period, however, the deficit began to increase again, rising to an average ratio of 6.7 percent of GDP in 2009-2016. It remained near this level in 2017-2021, with an average ratio of 6.9 percent of GDP. This implies the average deficit in the last five years also exceeded the overall average of 6.3 percent of GDP, underscoring the persistence of high levels of public borrowing in Ghana.

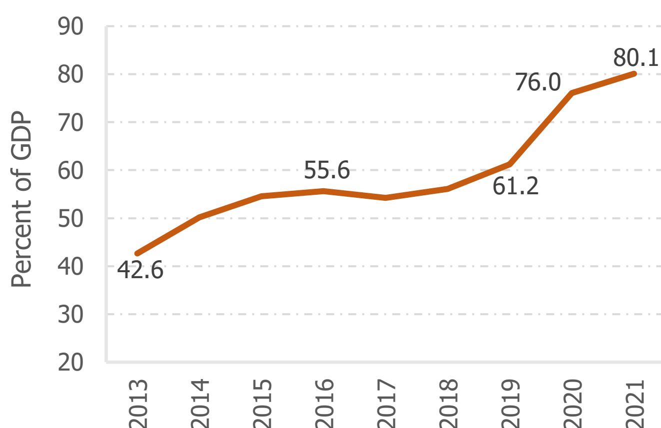
2.2 Sharp Debt Buildups

The recurring large deficits have led to frequent sharp debt buildups in the past 30 years, undermining macroeconomic stability and the pursuit of rapid development in Ghana, as we shall see in Section 4. The public debt burden on the economy, measured by the debt-to-GDP ratio, was stubbornly high in the 1990s because of high government borrowing, as reflected in the large average fiscal deficit of the time. Figure 3a shows the debt-to-GDP ratio running above 100 percent during the 1990s, with eventual surges to 129 percent in 1999 and 185.2 percent in 2000. Subsequently, the debt-to-GDP ratio experienced a dramatic fall, dropping below 100 percent in 2004, with a further large drop to 78.5 percent in 2005. The two main drivers of this fast decline were reduced fiscal deficits—helped by the freezing of debt-service payments under the HIPC initiative—and the massive debt cancellation Ghana obtained in 2004 under the same initiative.

Figure 3: Public debt as a ratio of GDP







Sources of data: Ministry of Finance (debt data), Ghana Statistical Service (GDP data)

Figure 3b shows the debt-to-GDP ratio at 26.2 percent in 2006, a big fall from 78.5 percent in 2005. There are two important explanations for this drop. The first is that in 2006, Ghana again enjoyed considerable debt cancellation, this time through the MDRI. This development alone cut the debt-to-GDP ratio to 42 percent. The second factor, which lowered the ratio further to 26.2 percent, was somewhat artificial, as it resulted from a 60 percent upward revision to the previously estimated nominal GDP for 2006, following the rebasing and re-estimation of Ghana's national income accounts in 2010.[2] The combined effect of the debt cancellation and nominal GDP revision was a debt-to-GDP ratio for 2006 that was sustainable, providing fiscal space for increased public investment while improving the economy's resilience to adverse shocks.

[2] This exercise involved the GSS resetting the national income accounts base year from 1993 to 2006 and re-estimating both nominal GDP and real GDP from 2006 onwards.

From 2007, however, the debt-to-GDP ratio started rising again, reaching 32.4 percent in 2008 and 47.8 percent in 2012. Thus, within just six years, the debt-to-GDP ratio increased by as much as 21.6 percentage points.

Figure 3c shows the path of the debt ratio from 2013 to 2021. The starting point indicates a debt-to-GDP ratio of 42.6 percent in 2013, apparently lower than the ratio of 47.8 percent in 2012. This reduction, however, reflects the effect of another major nominal GDP revision, carried out in 2018, which changed the national income accounts base year from 2006 to 2013 and revised upwards by about one-third the previously reported nominal GDP for 2013. Absent this revision, the debt-to-GDP ratio would have shown a continuing rise in 2013 based on the initial nominal GDP.

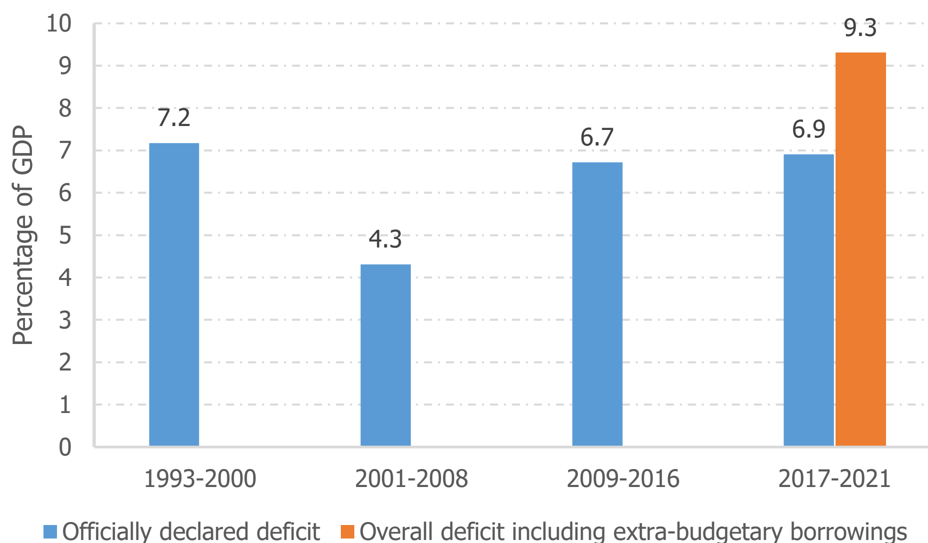
Yet, even with the revised, lower debt-to-GDP ratio in 2013, Figure 3c shows debt building up rapidly in the ensuing years, with the ratio reaching 55.6 percent in 2016 and 61.2 percent in 2019. In 2020, amid the COVID-19 pandemic shock, the ratio spiked to 76 percent. It grew further to 80.1 percent in 2021.

As in the 1990s, the public debt's ascent since 2007 (evident in Figures 3b and 3c) was largely the result of the elevated fiscal deficits witnessed over the period. It should be noted, though, that but for the periodic rebasing and re-estimation of the national income accounts, which produced large and unusual jumps in nominal GDP starting from 2006 and 2013, the debt ratios observed in Figures 3b and 3c would certainly be bigger — and the ratios in 2020 and 2021 would perhaps be close to the extreme debt levels that pertained in the late 1990s or even 2000.

While the fiscal deficit has been the primary driver of debt buildups in Ghana, there has been a phenomenon of large extra-budgetary borrowing[3] in recent years, which has helped push up the debt to the high levels discussed in the previous paragraphs. Figure 4 shows that if extra-budgetary borrowings, resulting mainly from the fiscal interventions in the banking and energy sectors, were added to the officially declared fiscal deficits in 2017-2021, this would sharply raise the overall deficit for the period to an average of 9.3 percent of GDP, compared with 6.9 percent of GDP without the extra-budgetary borrowings. Clearly, this deficit ratio is excessive, and it explains the significant worsening of Ghana's debt position in recent years.

Figure 4: Fiscal deficit with and without extra-budgetary borrowings (%)

[3] Extra-budgetary borrowing is borrowing which the government does not include in the officially declared fiscal deficit because the expenditures it funded were also not included in the budget.



Source of data: Ministry of Finance, International Monetary Fund (IMF)
Note: Although extra-budgetary borrowing is not just a recent occurrence, actual historical data on it is sparse. This is why the overall deficit including extra-budgetary borrowings is not shown for earlier periods. Nevertheless, the magnitude of such borrowing has risen significantly in recent years.[4]

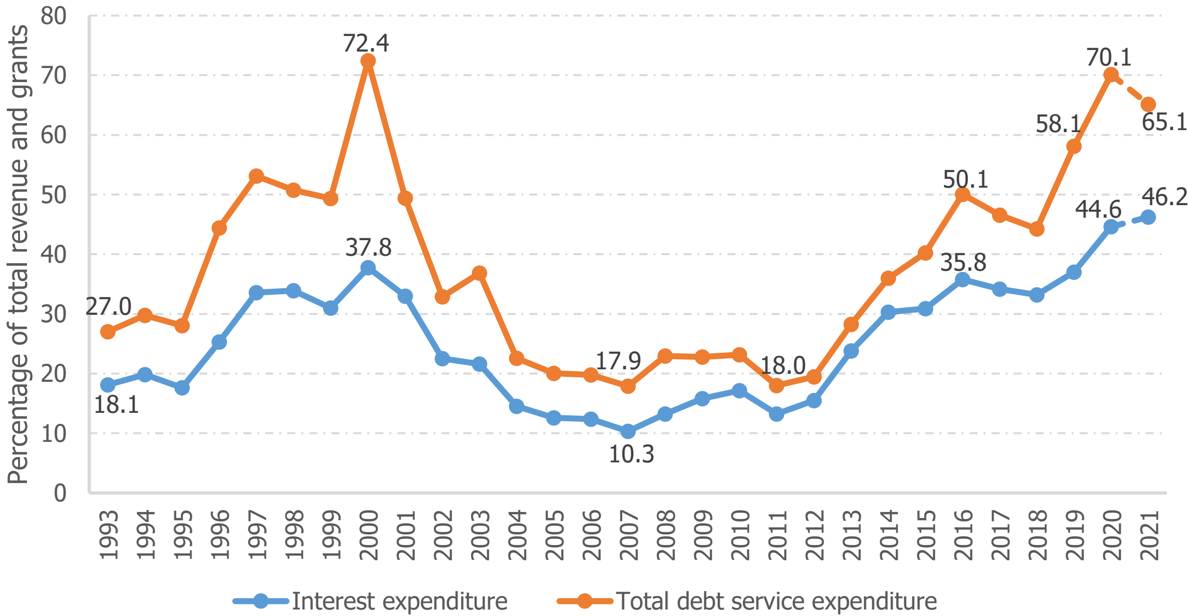
2.3 Large debt-service costs

Mirroring the pattern of debt accumulation during the Fourth Republic, Ghana's public debt-service burden rose rapidly in the 1990s but reversed its trajectory during the period of debt relief, before returning to an upward trend that has largely persisted to date. Indeed, as was the case before Ghana signed up for HIPC debt relief in 2001, managing the onerous debt service burden is arguably the biggest fiscal policy challenge confronting the country now.

The evolution of debt-service costs is illustrated in Figure 5, which shows total debt service (the sum of interest payment and amortization) as a ratio of total revenue and grants, alongside interest expenditure as a ratio of total revenue and grants, from 1993 to 2021. Driven by large deficits and sharp debt buildups, total debt-service cost climbed from 27 percent of total revenue and grants in 1993 to 72.4 percent in 2000. Then, reflecting the benefits of debt reliefs and fiscal consolidation, total debt-service cost declined steadily, reaching 17.9 percent of total revenue and grants in 2007, lower than its level in 1993. From 2008 to 2012, the debt-service ratio more or less stabilized, as the effects of debt relief endured. Beginning in 2013, however, given the worsening debt situation, debt-service cost assumed a rapid growth path, eventually reaching 70.1 percent of total revenue and grants in 2020. This level is reminiscent of the dangerous height reached in 2000, which pushed Ghana to seek debt cancellation. In 2021, total debt service as a ratio of total revenue and grants has been projected at 65.1 percent, which is the second-highest ratio since 2000.

[4] Mensah (2020) contains model estimates of the size of extra-budgetary public borrowing from 2007–2019. The estimates reveal an upsurge in such borrowing in the last few years.

Figure 5: Total debt service and interest expenditures, 1993-2021 (%)



Source of data: Ministry of Finance (The 2021 ratios are projections)

The pattern of interest expenditure as a ratio of total revenue and grants is similar to the total debt-service ratio (since interest is often the main driver of debt-service spending). Accordingly, the interest expenditure ratio increased up to 2000, fell during the debt relief period, and began to accelerate thereafter, reaching 44.6 percent in 2020. In 2021, it is projected to increase to 46.2 percent.

2.4 Sharply reducing public investment

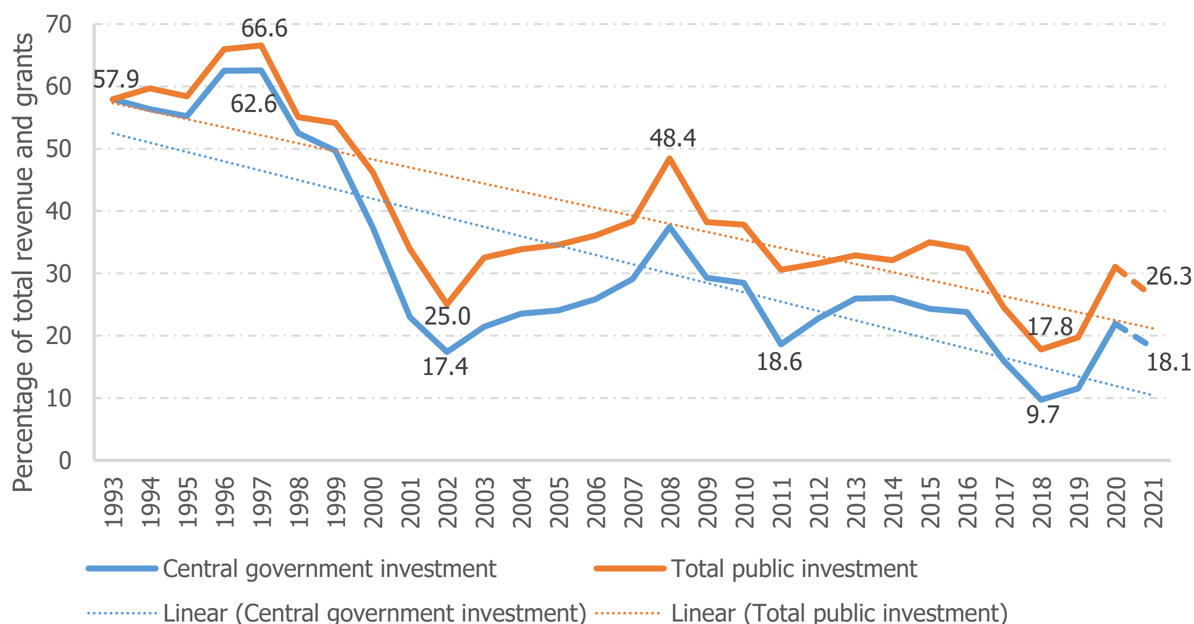
Ensuring the allocation of substantial resources for public investment has been a constant policy aim of governments during the Fourth Republic (Boakye and Mensah, 2021). This is due to the vital role of public investment, especially in infrastructure, in driving economic growth, productivity, job creation, and overall improvements in the quality of life. Matching the policy objective of sizeable public investment to the reality has, however, proved extremely challenging. The fact is that actual fiscal policy outcomes over the past 30 years indicate sharply decreasing public investment, rather than the desired acceleration.

Evidence for this is seen in Figure 6, which tracks public investment spending since the beginning of the Fourth Republic. The line graphs show central government investment as a proportion of total revenue and grants, and total public investment (made up of central government investment and allocations to statutory funds that carry out public investment) as a proportion of total revenue and grants. The linear lines indicate the declining trends in the two variables.

Figure 6 has an interesting correlation with Figures 3a, 3b, 3c, and 5, which showed the trends in Ghana's debt and debt-service ratios since 1993. Both central government investment and total public investment as shares of total revenue and grants were quite substantial in the 1990s, standing at 66.6 percent and 62.6 percent respectively at their peaks in 1997. Following that, both ratios began to fall, coinciding with the striking deterioration in Ghana's debt and debt-service ratios. By 2002, total public investment had hit a low point of 25 percent of total revenue and grants, with central government investment at 17.4 percent of total revenue and grants. Subsequently, however, against the backdrop of debt relief, Ghana's fiscal space was enlarged, enabling a recovery in the total public investment ratio to 48.4 percent in 2008 (central government: 37.5 percent), albeit still below the robust levels of the 1990s.

The succeeding years began another phase of shrinking public investment, coinciding again with worsening debt and debt-service ratios. In 2018, total public investment and the central government element reached their lowest levels—17.8 percent and 9.7 percent of total revenue and grants, respectively—in the history of the Fourth Republic. Although in 2019-2020, the ratios improved to 31 percent and 21.9 percent respectively, they are projected to fall in 2021 to 26.3 percent and 18.1 percent respectively.

Figure 6: Central government and total public investment, 1993-2021 (%)



Source: Ministry of Finance (The 2021 ratios are projections)

3 Fundamental Causes of Ghana's Fiscal Challenges

Section 2 indicated that Ghana has faced serious fiscal challenges since the beginning of the Fourth Republic. For instance, due to recurring large fiscal deficits and sharp debt buildups in the 1990s, total debt-service cost as a ratio of total revenue and grants increased from 27.0 percent in 1993 to as high as 72.4 percent in 2000, before falling to an average of 20.7 percent from 2007 to 2012 due to the HIPC and MDRI initiatives. Also, due to a return to large debt buildups, debt-service cost began to sharply increase starting from 2013, reaching 70.1 percent of total revenue and grants by the end of 2020.

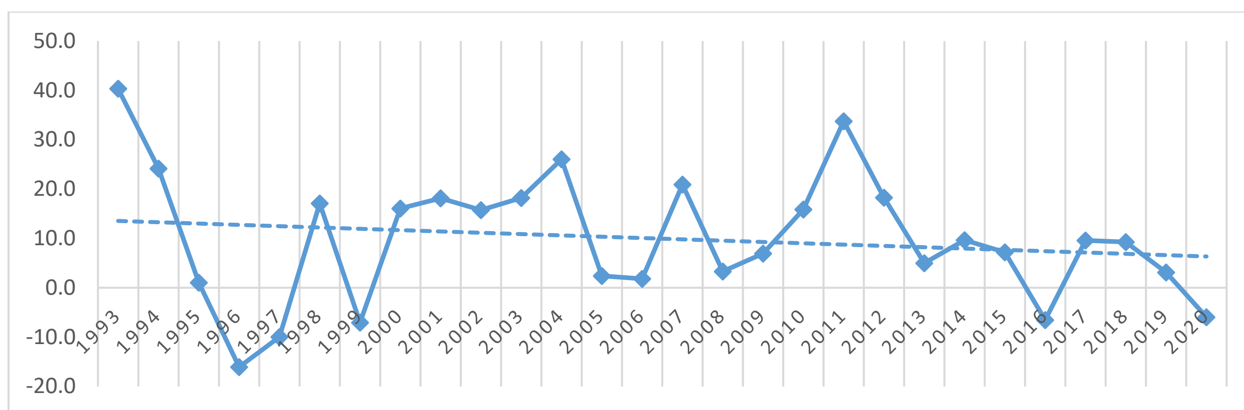
Another important fiscal challenge is that total public investment, which is critically needed to ensure rapid and sustainable growth of the Ghanaian economy, fell from an average of 60.5 percent of total revenue and grants in 1993-1996 to only 23.3 percent of total revenue and grants in 2017-2020. The question is, what are the fundamental causes of the repeatedly poor fiscal outcomes that have challenged the country since the start of the Fourth Republic? Poor revenue mobilization, expenditure management difficulties, and shocks are the main causes of these challenges.

3.1 Poor revenue mobilization

The government of Ghana has been unable, for the most part, to raise appreciable amounts of revenue to fund its budget since the beginning of the Fourth Republic, despite carrying out

comprehensive tax and non-tax policy and administration reforms since the 1980s under the auspices of the IMF and the World Bank.

Figure 7: Growth rate of real total revenue and grants, 1993-2020 (%)

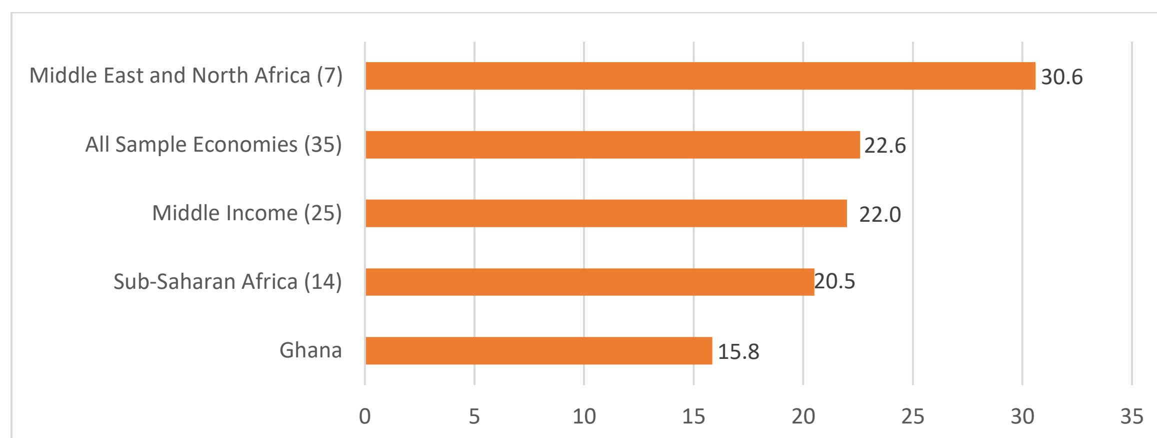


Thus, total government revenue has performed poorly in Ghana, which has been a critical cause of the country's deficit, debt and public investment problems. For instance, as Figure 7 shows, in real terms, total revenue and grants saw a declining trend from 1993 to 2020, as indicated by the dotted line.

Indeed, Ghana is currently underperforming relative to its peers in the developing world in terms of total government revenue-to-GDP ratio. As Figure 8[5] shows, while total government revenue as a ratio of GDP stands at only 15.8 percent in Ghana[6], averages for sub-Saharan African, middle income, and all developing economies in the sample stand at 20.5 percent, 22.0 percent and 22.6 percent respectively. For the Middle East and North African (MENA) economies in the sample, the average stands at as high as 30.6 percent.

[5] Source: Boakye (2020) – IFS Occasional Paper No. 24.
[6] In fact, following a review of 2018 GDP value, the 2018 total revenue-to-GDP ratio in Ghana is now 15.4 percent.

Figure 8: Total government revenue as a proportion of GDP: Averages for Ghana and different groups of developing economies, 2018 or most recent data (%)



What then, are the fundamental causes of the poor performance of government revenue in Ghana despite the extensive revenue mobilization reforms? Non-sustainability of high economic growth, limited extractive sector revenue generation, large tax exemptions, and revenue leakages are the most important fundamental causes.

3.1.1 Non-sustainability of high economic growth in Ghana

Real GDP growth, particularly the non-oil component, is a critical factor that determines revenue performance in Ghana. However, Ghana has not been able to sustain high economic growth rates in the past 30 years, just as it was unable to do so before the onset of the Fourth Republic.

Table 1: Non-sustainability of high economic growth in Ghana and its effects on government revenue performance (%)

Period	Average growth rate of non-oil real GDP	Average growth rate of real total revenue and grants
1992-2000	4.2	6.1
2001-2008	5.6	13.3
2009-2012	7.4	18.7
2013-2016	4.0	3.8
2017-2020	4.4	4.0
Correlation Coefficient:		**0.97**

Sources: Ghana Statistical Service (GDP data) and Ministry of Finance (revenue data)

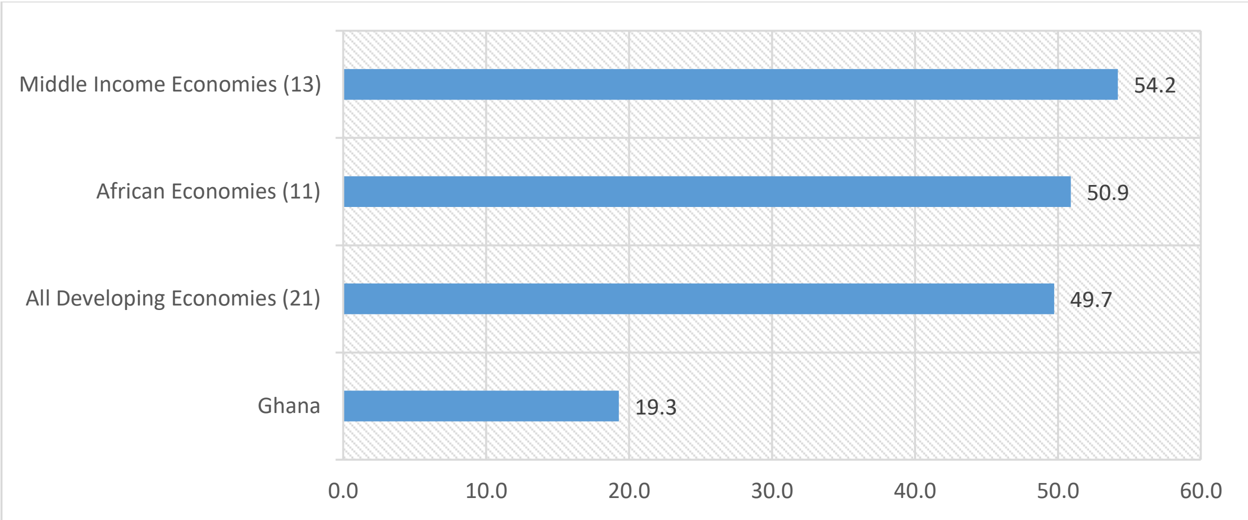
As Table 1 shows, average non-oil real GDP growth, which accelerated from 4.2 percent in 1992-2000 to 5.6 percent in 2001-2008, and further to 7.4 percent in 2009-2012, fell sharply to 4.0 percent and 4.4 percent in 2013-2016 and 2017-2020 respectively. Consequently, the average

growth rate of real total revenue and grants, which increased from 6.1 percent in 1992-2000 to 13.3 percent in 2001-2008, and further to 18.7 percent in 2009-2012, fell sharply to 3.8 percent and 4.0 percent in 2013-2016 and 2017-2020 respectively. Thus, government revenue would have performed much better if the economy had sustained high growth rates over the entire period. Indeed, as shown at the bottom of the table, the correlation coefficient between the average non-oil real GDP growth rate and average growth rate of real total revenue and grants is as high as 0.97.

3.1.2 Limited extractive sector revenue generation

Another important factor that has affected the performance of government revenue in Ghana is limited extractive sector revenue generation. Figure 9 shows that the country generates incredibly lower revenue from the sector than its peers.

Figure 9: Government extractive sector revenue as a ratio of extractive sector value added (Averages for Ghana and other economy groups) (%)



As Figure 9[7] shows, while the government of Ghana's extractive sector revenue as a ratio of extractive sector value added stands at only 19.3 percent, averages for middle-income and other African economies in the sample stand at 54.2 percent and 50.9 percent respectively. Boakye (2020) estimates that if Ghana is able to mobilize revenue from the extractive sector at the same rate as two of its peers (Nigeria and Botswana), it could generate an additional US$4.32 billion annually.

It is important to point out that, comparatively, Ghana generates limited revenue from the extractive sector because: (1) the government over-relies on the use of fiscal instruments (royalties and corporate income tax) under concessionary arrangements, with very limited direct involvement in terms of participating interests; and (2) production-sharing agreements, which

[7] Source: Boakye (2020) – IFS Occasional Paper No. 24

are able to help overcome many of the practical problems associated with concessionary arrangements, are not used in Ghana. However, governments of many peer countries such as Nigeria and Botswana that are able to generate large revenues from the extractive sector also have huge investments in the sector and/or use production-sharing agreements as the contractual arrangement in the sector (Boakye, 2020).

3.1.3 Large tax exemptions

To attract private investment, particularly foreign, the government has long offered a wide range of tax exemptions and other fiscal incentives. For example, in 1995, the government passed the Free Trade Zone Act (Act 504) to promote processing and manufacturing of goods for export through the establishment of Export Processing Zones (EPZs). To encourage foreign investors, the Act exempted enterprises granted licenses from the payment of income tax on profits for the first 10 years from the date of commencement of operations. The income tax rate after the first 10 years was not to exceed 8 percent[8]. The Act also exempted shareholders from the payment of withholding taxes on dividends from Free Zone investments. Enterprises in the Free Zone are also granted 100 percent exemption from the payment of direct and indirect duties and levies on all imports for production and they do not pay export duties. Furthermore, there are no conditions or restrictions on repatriation of dividends or net profits and other foreign transfers by investors in the Free Zone.

As part of its efforts to promote the automotive industry, the government has provided a generous package of tax exemptions aimed at attracting investment into the industry. The exemptions, according to the Ministry of Trade and Industry, include: (1) a corporate tax holiday of 5 years for enhanced semi knocked-down (SKD) registered assemblers; (2) a corporate tax holiday of 10 years to registered assemblers and component manufacturers to attract component manufacturers into Ghana and encourage registered assemblers to upgrade their investment to completely knocked-down (CKD) assembly; (3) exemption from import duties and related charges on any plant, machinery, equipment or parts of the plant, machinery or equipment (that are not already zero-rated) imported for SKD, enhanced SKD and CKD auto assembly; (4) waivers of the import duty and domestic levies on imported SKD, enhanced SKD, and CKD kits and on original equipment components, including import VAT, National Health Insurance Levy, GETFund Levy, EXIM Levy, and Special Import Levy; and (5) a 35 percent import duty rebate for fully built units imported from global original equipment manufacturers under the Ghana Automotive Development Policy, based on the value of their imported SKD/CKD kits.

The above are just two sets of exemptions provided by the government. In fact, in a publication, entitled *Ghana Incentives Inventory*, the Ghana Investment Promotion Centre (GIPC) lists as many as 31 income tax, customs and financial incentive packages that the government provides to several subsectors of industry in order to attract investments.

[8] The income tax limit after the first 10 years was increased to 15 percent in 2015.

These exemptions have significantly undermined revenue mobilization and they are estimated to constitute huge revenue losses to the government. For instance, in the memorandum attached to the 2019 Exemption Bill submitted to Parliament by the government, which has not yet been passed at the time of writing, exemptions in the form of import duty, import value added tax, import National Health Insurance Levy and domestic value added tax alone were estimated to be GH¢4.66 billion in 2018, representing 1.6 percent of GDP.

3.1.4 Revenue leakage

Government revenue leakage through tax evasion is believed to constitute a sizable amount of potential revenue. The evasion is believed to be done often in connivance with personnel of the revenue collecting agencies through bribery and other corrupt practices.

Revenue leakage has, therefore, been a source of great concern to governments since the beginning of the Fourth Republic. For instance, regarding international trade tax in the 1990s, revenue leakage was seen to take the form of wrongful description, misclassification and collusion between importers and Customs officials. To stem this, the government "made efforts to reduce the discretionary powers of Customs officials by narrowing the spread between duty rates. Two additional pre-shipment inspection companies were introduced to help assess the proper value and quantity of imports. Additionally, the government introduced specific duties to be paid whenever the declared import price fell below the Customs, Excise and Preventive Service (CEPS) Commissioner's established value" (Boakye, 2020). In early 2000s, the government saw the minimization of revenue leakages and reduction of the incidence of tax avoidance as major means of increasing tax revenue without having to rely on tax increases. To achieve this, the government, through CEPS, began the implementation of an automation program to facilitate clearance of goods. Also, to ensure effective monitoring of collection and payment of non-tax revenue into the Consolidated Fund as a means of reducing leakages, a Non-Tax Revenue Unit was established in the Ministry of Finance and Economic Planning in 2002.

Successive governments saw revenue leakage as a serious problem. The first strategic objective on revenue mobilization of both the Ghana Shared Growth and Development Agenda I & II (GSGDA I & II) medium-term strategic plans was minimization of revenue leakages in all collecting agencies. More recently, the Minister of Finance was reported by Joy News on 27th January 2020 to have charged the Customs Division of the Ghana Revenue Authority (GRA) to strive hard to reduce revenue leakage at the ports in order to help the government to increase the tax revenue-to-GDP ratio from the current 13 percent to 20 percent by 2024. Digitization of revenue collection processes is also seen as the important part of the solution to revenue leakage in Ghana by the government.

Revenue leakage in Ghana also takes the form of corporate income tax evasion, in part or in whole, through underreporting of corporate profit, by understatement of revenues and/or overstatement of expenditures. Multinational firms in Ghana are also thought to often use transfer pricing and other techniques. For instance, the Natural Resource Governance Institute

(2016) argues that "despite the significant contribution of the extractive sector to Ghana's economic growth, allegations of potential tax avoidance suggest that extractive industry revenues could be far higher. The discrepancy is due to transfer mispricing, trade mis-invoicing, and thin capitalization. Ghana ranked 93rd of 145 developing countries in terms of illicit financial flows in 2013."

3.2 Expenditure management difficulties

In addition to poor revenue mobilization and its fundamental causes discussed above, the government faces a number of expenditure management issues, which have significantly contributed to the recurring high deficits, sharp debt buildups and sharply reduction in public investment ratios as discussed above in Section 2. These expenditure management issues include high fiscal rigidities, fiscal populism, and corruption and waste in government expenditure.

3.2.1 High fiscal rigidities

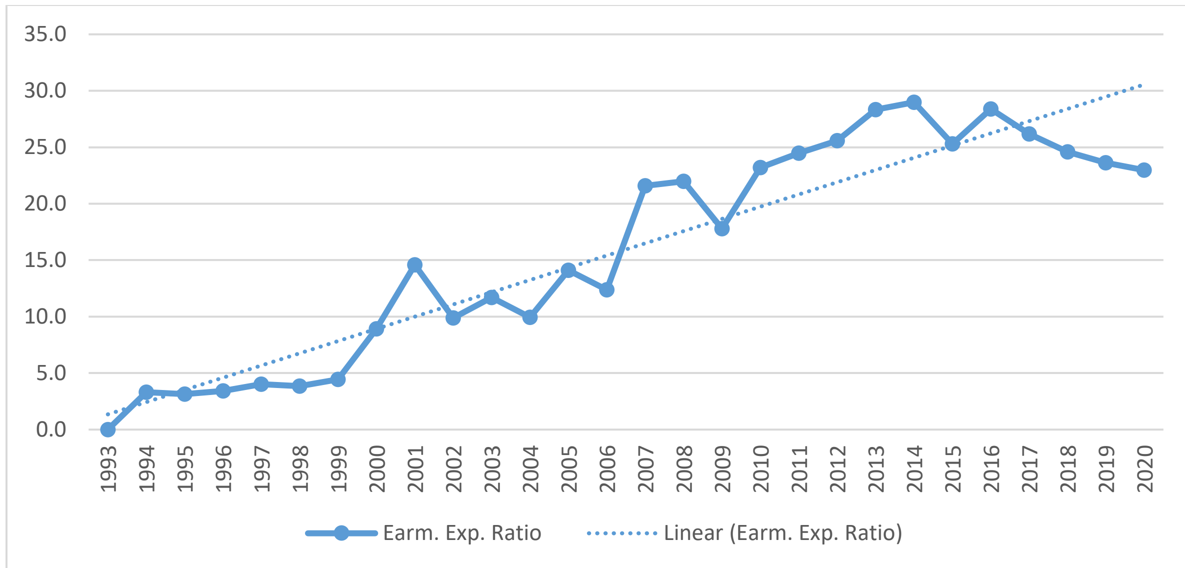
Fiscal rigidities are institutional, legal, contractual or other constraints that limit the ability of the government to change the size and structure of the public budget, at least in the short term. Earmarked expenditure[9], compensation of employees, and debt service expenditure are the three main categories of rigid expenditure.

Earmarked Expenditure

Earmarked expenditure as a ratio of total revenue and grants has seen a rising trend since the start of the Fourth Republic, with the government allocating increasing shares of total revenue and grants to earmarked or statutory funds.

Figure 10: Earmarked expenditure as a ratio of total revenue and grants, 1993-2020 (%)

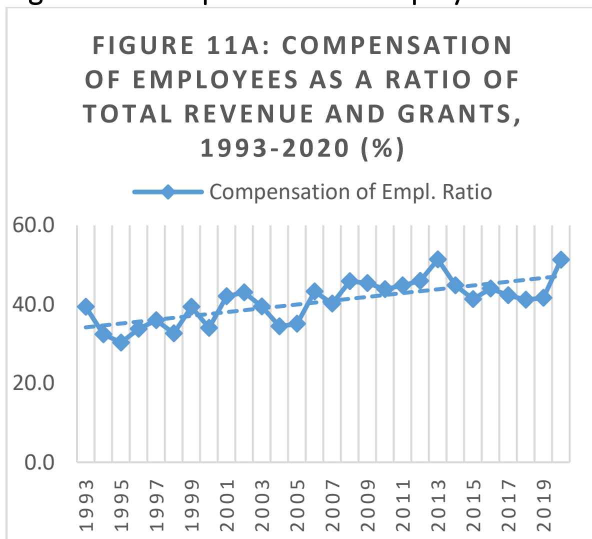
[9] Earmarked expenditure represents statutorily required budgetary transfers, such as transfers to the District Assemblies Common Fund, Road Fund, GETFund, Petroleum Related Fund, National Health Insurance Fund, GNPC, etc.

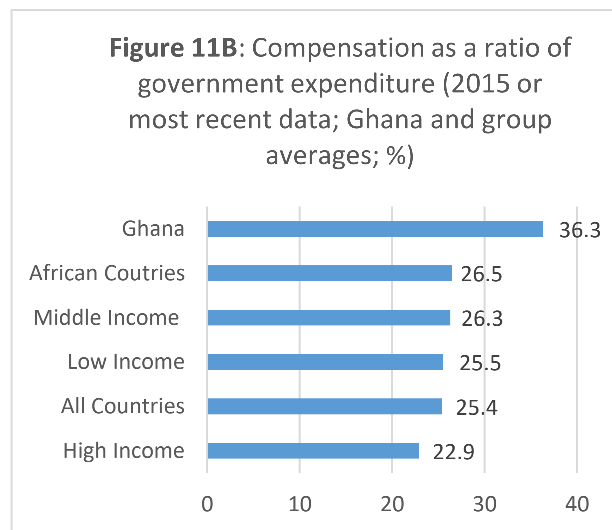


This is demonstrated by Figure 10. This phenomenon has significantly helped to cause inflexibility in the Ghanaian budget. It is worth noting, however, that since the passage of the Earmarked Funds Capping and Realignment Act, 2017 (Act 947), earmarked expenditure to total revenue and grants ratio has stayed around 25 percent.

Earmarked expenditure has seen such an increasing trend because since the start of the Fourth Republic, the country has witnessed the establishment of an increasing number of earmarked/statutory funds. For instance, according to Boakye (2017), while there was only one earmarked fund in 1993, the number increased to 4 in 2000, then to 7 in 2006. By the end of 2011, the number of earmarked funds was now 11.

Figure 11: Compensation of Employees





Source of Data: Ministry of Finance

Compensation of employees as a ratio of total revenue and grants has also seen a rising trend since the start of the Fourth Republic, as indicated by the dotted linear line in Figure 11A. This shows that the government has been allocating an ever-increasing share of total revenue and grants to compensate public sector workers. Compared with other countries, Ghana's compensation bill is way too high. As Figure 11B[10] shows, while Ghana's compensation bill as a ratio of government expenditure stands at 36.3 percent, averages for 22 African and 28 middle-income countries in the sample stand at 26.5 percent and 26.3 percent respectively.

As Boakye (2019) shows, Ghana's large and rising compensation bill ratio is being driven by the level of public sector wages rather than by the size of public sector employment. He further shows that public sector wages in Ghana are comparatively high because of: (i) the power of public sector employees, resulting from a high degree of unionization; (ii) electoral interests of ruling governments getting in the way of economic issues, making them easily yield to wage demands by public sector workers; (iii) lavish spending by the political/governing class on themselves, which stimulates wage agitation; (iv) the constant obsession with the elimination of wage disparities in Ghana's public sector, which usually leads to wage increases; and (v) overreliance on the use of general wage increases to induce efficiency and productivity in the public sector.

Total debt service expenditure

As discussed and illustrated in Section 2 (Figure 5), total debt service expenditure (comprising interest payments and amortization) as a ratio of total revenue and grants saw a sharp upward trend in the 1990s, which declined in the 2000s due to the HIPC and MDRI debt relief. Starting from 2013, however, it has again seen a sharp increase. Thus, the dynamics of debt service expenditure have been influenced by the dynamics of public debt stock.

Total rigid expenditure and its implications for Ghana's fiscal challenges

Total rigid expenditure (the sum of earmarked expenditure, compensation of employees and total debt service expenditure) as a ratio of total revenue and grants increased sharply from 66.4 percent in 1993 and 61.5 percent in 1995 to 93.2 percent in 1999. In 2000, it reached a high of 115.4 percent (Figure 12). Thus, in 2000, not only did these three rigid expenditures consume Ghana's entire total revenue and grants, the government had to borrow an additional amount to the tune of 15.4 percent of total revenue and grants before these expenditures could be fully settled.

Figure 12: Total rigid expenditure as a ratio of total revenue and grants, 1993-2020 (%)

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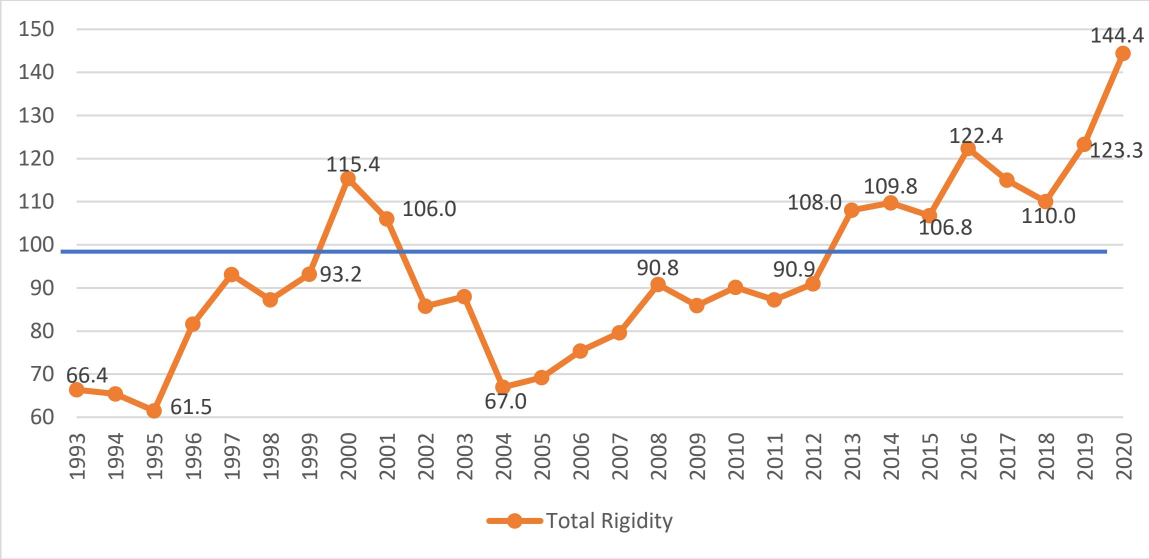
[10] Boakye (2019), IFS Occasional Paper No. 22. The sample data used for the analysis cover 56 countries. Of them, 17 are low income, 28 are middle income, and the remaining 11 are high-income countries. Across the income groups, there are 22 African countries.



However, driven by the fast-declining debt service expenditure owing to HIPC debt cancellation, which reached its completion point in 2004, total rigid expenditure as a share of total revenue and grants declined sharply to 67.0 percent in 2004. Therefore, in 2004, after making statutory transfers to the earmarked funds, paying for employee compensation, and servicing its debt, the government of Ghana was left with 33.0 percent of its total revenue and grants to be spent on other budgetary expenditures, such as goods and services and capital expenditure. Nevertheless, driven by earmarked expenditure and compensation of employees, total rigid expenditure as a ratio of total revenue and grants increased to 90.9 percent in 2012. And because starting from 2013 it began to sharply increase again, total debt service expenditure joined earmarked expenditure and compensation of employees to together drive total rigid expenditure to exceed 100 percent of total revenue and grants again. In 2019, total rigid expenditure reached 123.3 percent of total revenue and grants. It jumped again to a whopping 144.4 percent of total revenue and grants in 2020.

The recurring high level of rigidity in Ghana's budget, as measured by the size of total rigid expenditure ratio, has been a major cause of the country's fiscal challenges – the recurring high fiscal deficit, sharp debt built-ups, large debt-service costs, and a declining public investment ratio. This has adversely affected effective expenditure management because by virtue of their inflexible nature or being sticky downwards, large rigid expenditures affect the ability of the government to achieve meaningful fiscal consolidation, as they limit expenditure cuts. This helps to keep the fiscal deficit stubbornly high, despite the government's attempts at fiscal consolidation. And because the deficit remains high, borrowing to finance the deficit also remains high, which leads to sharp debt buildups and thus increased debt-service costs. What makes high fiscal rigidities more worrisome is that because debt-service cost is one of the rigid expenditure items, the resultant increase in the debt-service cost helps to further increase the degree of rigidity in the budget, which makes fiscal consolidation even more difficult, and the

cycle continues. In fact, without resorting to extraordinary measures (like opting for HIPC and the MDRI in the early 2000s), the cycle has been difficult to break.

The presence of a high degree of fiscal rigidity in Ghana's budget has also significantly contributed to the declining public investment ratio. This is simply because public investment expenditure is a more flexible budgetary expenditure, making it easier for such cuts to become the major means of fiscal adjustment.

3.2.2 Fiscal populism

Fiscal populism refers to the pursuit of fiscal policies that aim at attracting popular support, in order for the government to gain electoral advantage over its opponents, but which may not be the right policies to pursue in terms of prudential, efficiency, or long-term social welfare considerations.

In their quest to win or maintain political power, governments in Ghana have frequently engaged in a high level of fiscal populism. This has manifested itself in overspending and/or laxity in revenue collection, particularly during an election year, thereby contributing significantly to the recurring large fiscal deficits and sharp debt buildups. As a consequence, fiscal consolidation gains that may have been made prior to the election years are usually reversed. In fact, largely due to fiscal populism, with the exception of 2004, every election year in Ghana since 1992 has seen substantial fiscal slippage, with a much higher fiscal deficit rate than initially budgeted for. As seen in Section 2 above, from 1992 to 2021, the average deficit-to-GDP ratio for non-election years stands at 5.6 percent. However, the average deficit-to-GDP ratio for the eight general election years (1992, 1996, 2000, 2004, 2008, 2012, 2016 and 2020) stands at 8.1 percent.

During the past 30 years of the Fourth Republic, to help it capture political power, the main opposition party promises to pursue fiscal policies that are usually more populist in nature. Therefore, after winning political power and forming the government, that party cannot help but implement the populist policies it campaigned on, in order to avoid being accused of failing to fulfill campaign promises. Consequently, in practice, this cycle has not only contributed, in a significant way, to the recurring high deficit, sharp debt buildups and the large debt-service costs, but it has also often resulted in bad and non-viable projects, due to the lack (or inadequacy) of prior feasibility and viability studies.

3.2.3 Corruption and waste in government expenditure

Despite the presence of comprehensive laws and regulations to check corruption and financial malpractices and irregularities in government institutions, Ghana loses huge sums of money to corruption and waste. This contributes significantly to the expenditure management difficulties and thus the fiscal challenges. For instance, the Report of the Auditor-General on the Public Accounts of Ghana: Ministries, Departments and Other Agencies (MDAs) for the Year Ended 31

December 2020 shows that irregularities, in the form of tax irregularities, cash, debt/loans/advances, payroll, stores/procurement, rent, and contracts from 2016 to 2020 cost an estimated GH¢13.32 billion (Table 2).

Table 2: Summary of irregularities in ministries, departments and agencies, 2016-2020 (GH¢ million)

	2016	*2017*	*2018*	*2019*	*2020*	**Total**
Tax irregularities	42.87	655.60	4,788.28	2,666.74	694.39	8,847.88
Cash	2,053.62	190.56	388.93	276.62	34.03	2,943.76
Debt/loans/advances	6.78	2.70	0.59	0.20	1,108.66	1,118.93
Payroll	4.28	1.78	1.88	0.47	4.49	12.90
Stores/procurement	35.94	41.67	6.82	20.60	10.67	115.70
Rent	9.05	0.94	3.94	43.47	29.58	86.98
Contracts	13.01	-	5.60	0.77	171.36	190.74
Total	2,165.54	892.40	5,196.04	3,008.19	2,053.18	**13,316.89**

Source: Ghana Audit Service, Report of the Auditor-General on the Public Accounts of Ghana: Ministries, Departments and Other Agencies (MDAs) for the Year Ended 31 December 2020 (Table 1B)

According to the Auditor-General, the "irregularities represent either losses that had been incurred by the State through the impropriety or lack of probity in the actions and decisions of public officers or on the other hand, the savings that could have been made, if public officials and institutions had duly observed the public financial management framework put in place to guide their conduct and also safeguard national assets and resources." Indeed, the U4 Anti-Corruption Resource Centre argues that "corruption exists in all branches of [the] Ghanaian government, and there is often a lack of accountability. The culprits often enjoy impunity."

Why is corruption so endemic in Ghana's public institutions? Ghana's client politics or political clientelism (see, for instance, Booth et al., 2005) can largely be blamed for the endemic nature of corruption in the country's public institutions. Due to client politics, state institutions are not allowed to work properly since they are usually filled with loyalists who serve the interests of their patrons who placed them there. These clients are therefore shielded from prosecution despite being corrupt, since prosecution of the clients is interpreted as prosecution of the patrons who placed them there, which could affect the chances of the patrons (ruling government) at the polls, thereby creating the incentives for continuing corrupt practices in public institutions in Ghana.

3.3 Negative economic shocks

Negative economic shocks, which are unexpected events that negatively affect the economy, have also been major fundamental causes of the country's fiscal challenges. Among the negative

shocks that have hit Ghana since 1992 are energy sector shocks, terms of trade shocks, and COVID-19.

On the energy sector shocks, in 1998, 2002, 2006, and 2013 Ghana witnessed sharp declines in energy supply due to reduced rainfall, which affected the water levels of the country's hydroelectric power-generating dams, particularly the Akosombo Dam. Ghana also experienced strong terms of trade shocks in 1999 and 2000. This is because there were sharp declines in the international prices of cocoa and gold, the country's two main export commodities at the time, due to global financial and economic crises that had begun in East Asia. At the same time, the international price of oil, the country's largest import commodity, saw sharp increases. Specifically, in 1999, the international price of cocoa decreased by 32.3 percent. An additional 20.4 percent decline was recorded in 2000, pushing the international price of cocoa to US$903.91 per metric ton in 2000 (Table 3). This was the only year since the early 1970s that the international price of cocoa fell below US$1,000 per metric ton. The international price of gold in turn declined by 5.2 percent in 1999 on top of the declines that had been recorded in 1997 and 1998. The international price of gold in 1999 and 2000 were, at the time, the lowest since 1978. Meanwhile, the international price of crude oil, represented by the price of Brent Crude, increased by 32.2 percent in 1999, and by as much as 59.9 percent in 2000, thereby pushing the price to US$28.31 in 2000 from US$12.72 in 1998. The price of Brent Crude in 2000 was the highest since 1984.

Table 3: Cocoa, gold and oil price movements (1998-2000)

	1998	*1999*	*2000*
International price of cocoa (US$)	1,676.00	1,135.05 (-32.3%)	903.91 (-20.4%)
International price of gold (US$)	294.14	278.87 (-5.2%)	279.17 (0.1%)
International price of oil (Brent Crude) (US$)	12.72	17.70 (39.2%)	28.31 (59.9%)

Source of data: Primary Commodity Prices of the IMF

Regarding COVID-19, the global pandemic hit Ghana in March 2020. To fight the pandemic, the government of Ghana, like most governments, placed a number of restrictions on human interactions, which affected economic activities. A three-week partial lockdown was even placed on Accra and Kumasi starting from 30th March 2020.

The fiscal effects of these shocks were: (1) the general growth rate of total government revenue went down, since the shocks affected economic activities, and (2) government expenditure growth generally increased because the government had to increase spending in order to mitigate the suffering of the people, following the reduction in economic activities brought about by the shocks. For the energy sector shocks, there were additional increases in capital

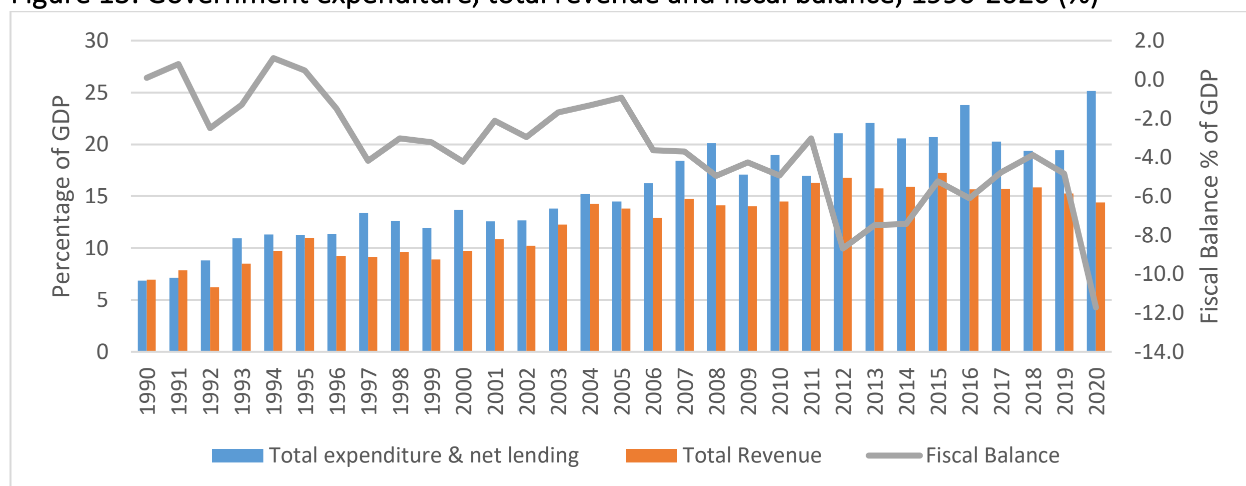
expenditure, as the government intervened to expand electricity generating capacity. For these reasons, the size of the country's fiscal deficit was affected by the shocks, contributing to the sharp debt buildups and thus the increased debt service burden.

4 Consequences/effects of fiscal challenges

Ghana's economy over the last three decades has been affected by fiscal challenges resulting from structural bottlenecks in revenue mobilization, ever-increasing expenditure and rigidity in three main expenditure line items. Following independence, Ghana quest to build the productive infrastructure that was necessary to support the import substitution industrialization strategy for accelerated growth and economic transformation saw a surge in infrastructure expenditure on roads, hospitals, schools, and dams. The economy did, in fact, expand significantly, however, after a decade of little budget consolidation measures, the economy began to face fiscal challenges (Osei and Telli, 2017). Ghana's fiscal policy stance, both expansionary and contractionary, have remained critical in regulating its macroeconomic indices such as unemployment, interest rates, inflation, and economic growth, and indeed, continues to play a significant role in Ghana's development and change.

Recent decades (from 1992) show that Ghana's expenditure has been rising and so has the level of its fiscal deficit (see Figure 13). This is because the increase in spending has not been met by commensurate levels of revenue mobilization. Total revenue has been lower than total expenditure and the difference (i.e., the fiscal deficit) has been relatively higher in recent times (Figure 13). This has led to debt accumulation, recurring macroeconomic instability and unsustained high economic growth episodes.

Figure 13: Government expenditure, total revenue and fiscal balance, 1990-2020 (%)

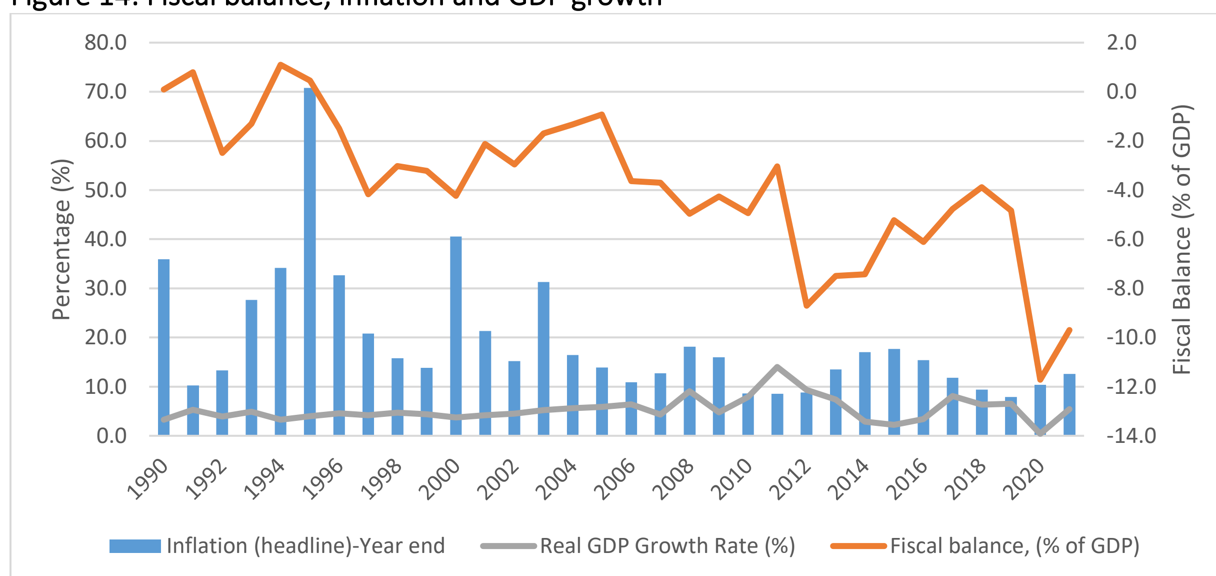


Source: Ministry of Finance

4.1 Evolution of Ghana's debt and debt trap

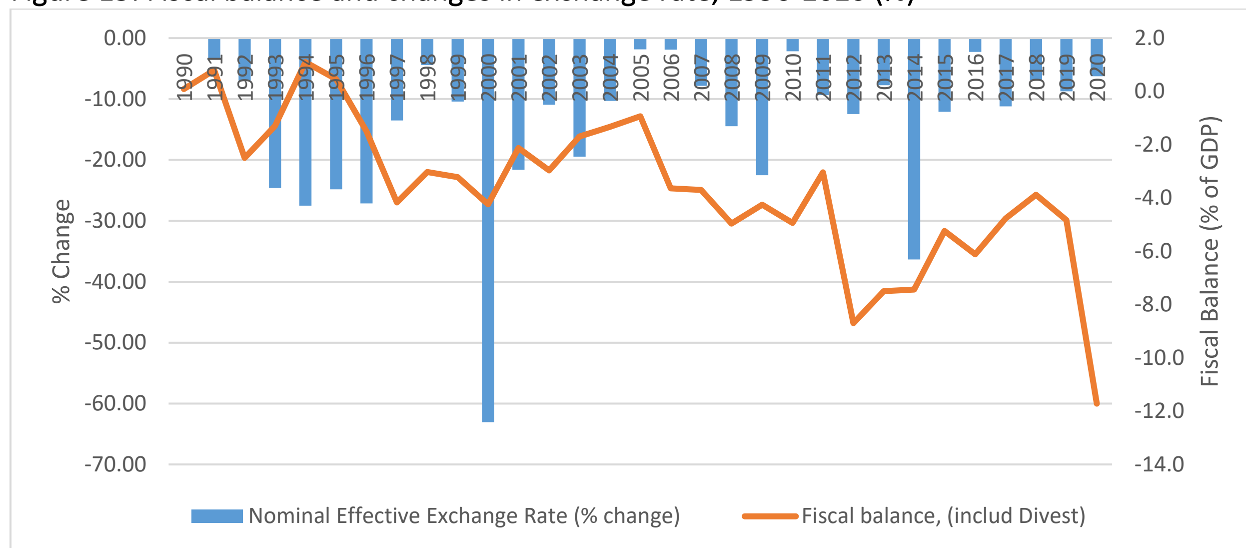
Between the mid-1980s and the early 1990s, Ghana implemented structural reforms prompted by the need to address over a decade of economic distress, a persistent balance of payments deficit and the resulting debt crisis. The goal of the reforms was to help Ghana to restructure its economy to overcome its debt and payments difficulties by increasing exports and attracting foreign direct investment. Despite the relative success of the reforms and the structural changes, growth in the early 1990s was slow due to a series of high inflationary episodes, fast exchange rate depreciation, and unsustainable balance of payments deficits (Figures 14 and 15). Moreover, Ghana's debt stock rose rapidly from 1992 to 2000 and this was largely driven by external debts (Figure 16). Over that same period, debt service, which stood at 27 percent of total revenue and grants in 1993, rose to 72.4 percent by 2000 (Figure 5). This left very little for other earmarked expenditure, compensation, good and services and capital expenditure. Indeed, as shown in Figure 13, the sum of compensation, earmarked funds and debt service (i.e. rigid expenditure), which stood at 66.4 percent of total revenue and grants in 1993, rose to 115 percent by 2000, indicating clearly that Ghana was borrowing to fund part of the rigid expenditure and use of goods and services and capital expenditure. There seemed to be no way out of dependence on debt at that time and Ghana, whose debt-to-GDP ratio had peaked at 89.2 percent (the highest over the past three decades) had fallen into a debt trap.

Figure 14: Fiscal balance, inflation and GDP growth



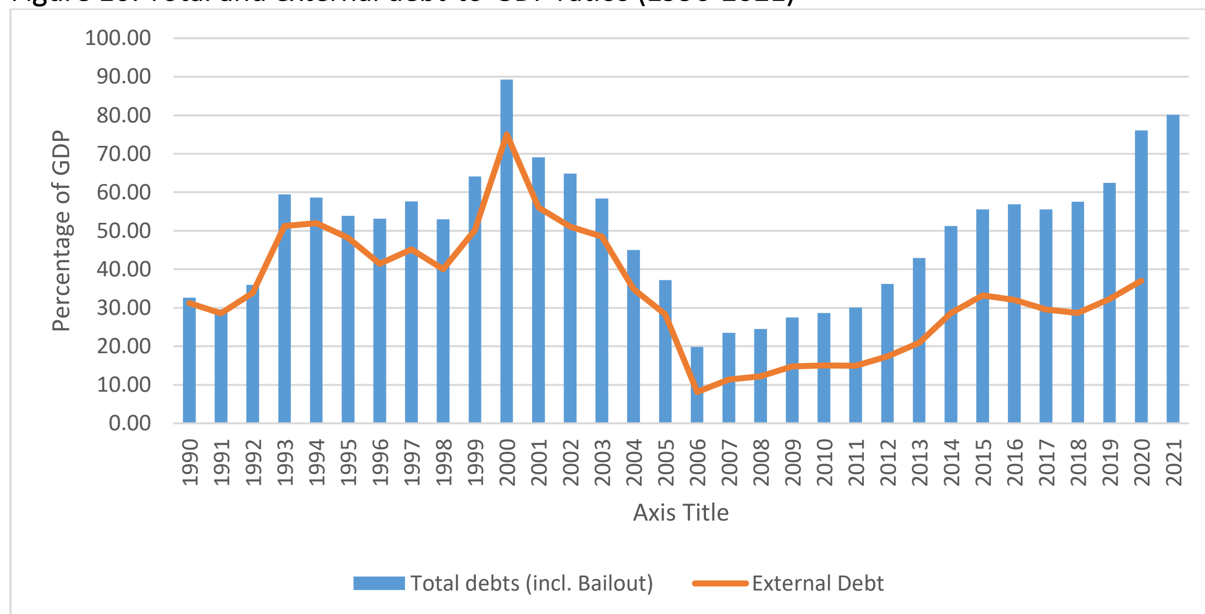
Source: Ministry of Finance and Ghana Statistical Service. The 2021 ratios are projections.

Figure 15: Fiscal balance and changes in exchange rate, 1990-2020 (%)



Source: Ministry of Finance

Figure 16: Total and external debt-to-GDP ratios (1990-2021)



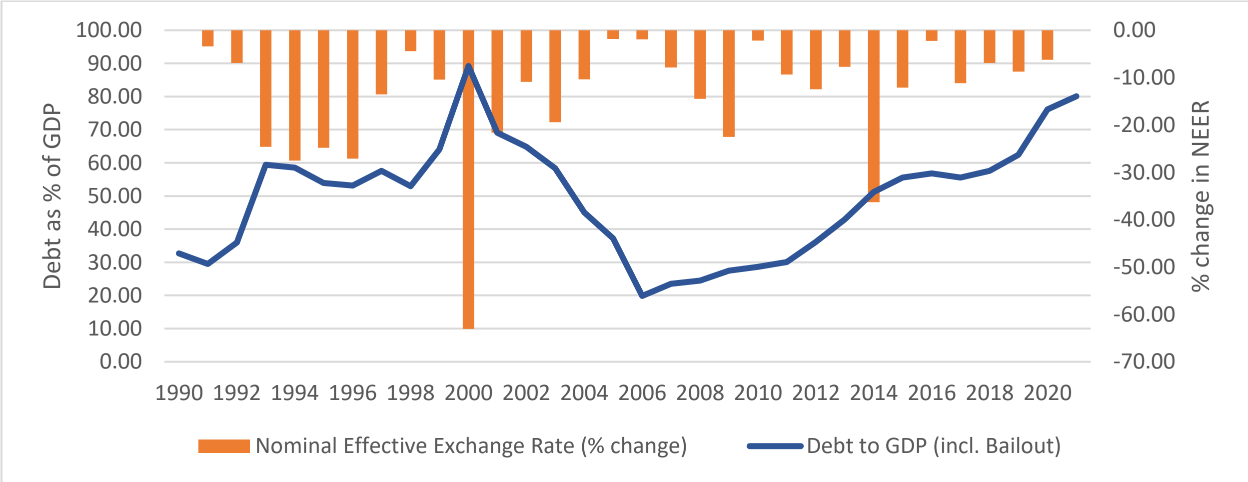
Sources: Bank of Ghana

In 2001, the government chose to take advantage of the World Bank and IMF Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). The economy over the period was characterized by a depreciating cedi, significant inflation, and very low foreign reserves. The severe crisis was exacerbated by large debt-servicing obligations, which impacted negatively on the budget and balance of payments. At the time of the HIPC completion

point, the goal was to reduce the net present value of foreign debt to a maximum of 150 percent of exports or 250 percent of government income for small, open economies (IMF, 2001). The HIPC initiative achieved relative success as it reduced Ghana's debt to lower and sustainable levels and this freed up fiscal space for capital expenditure on schools, hospitals and other social infrastructure. Indeed, by the time Ghana was at the completion point under the HIPC initiative in 2004, not only had the debt-to-GDP ratio declined substantially from 89.2 percent in 2000 to 45 percent by the end of 2004 and to 19.9 percent in 2006, Ghana's debt service as a ratio of total revenue and grants had also declined over the same period from 72.4 percent in 2000 to 22.6 percent in 2004 and further to 19.8 percent in 2006. By the end of 2006, Ghana's debt profile had fallen to sustainable levels, in line with expectations. However, as noted by the IMF (2001), reducing a single debt measure to a sustainable level at a point in time is no surety against future debt problems; and debt relief under the HIPC program only provides a foundation, but not a guarantee, for HIPC countries' long-term debt sustainability (IMF, 2001).

After completing the MDRI, the debt sustainability that was achieved was short-lived and a steady uptrend of debt accumulation began in 2007 (Figure 17). As a result of the discovery and commencement of commercial production of oil as well as high commodity prices from 2011, Ghana became an attractive destination for investors, and this led to a steady increase in lending to and borrowing by Ghana at very good interest rates. This, however, led to a debt trap when commodity prices came crashing in 2013.

Figure 17: Debt ratio and changes in exchange rate, 1990-2020



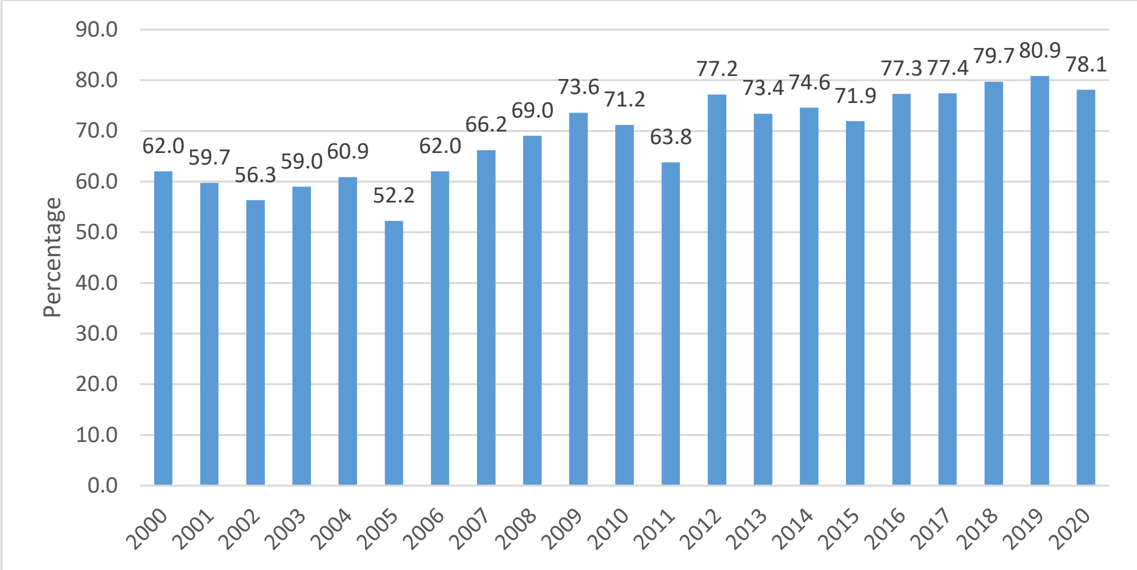
Source: Ministry of Finance and Bank of Ghana

Over the period 2011-2013, the production of oil in commercial quantities and the commodity price boom over that period sustained Ghana as the share of commodity exports in total exports rose and remained above 70 percent (Figure 18)[11], and this gave the government a false sense of

[11] Commodities included are gold, cocoa, crude oil, aluminum ore, manganese ore and sawn wood.

improved fiscal space. In spite of the huge borrowing over that period, debt service remained less burdensome, although it rose from about 18 percent of total revenue in 2011 to about 28 percent in 2013 (Figure 5). As the price of oil and other commodities began to fall by 2014, Ghana resorted to the debt market to deal with the impact of the commodity price drop. At the same time, the cedi depreciated sharply and given the almost 100 percent increase in external debt from about 15 percent of GDP in 2011 to 29 percent in 2014, Ghana's relative debt stock (in cedis) began to rise sharply. Indeed, as observed by Jones (2016), the loss in value of the cedi against the US dollar in 2014 partly contributed to the increase in the relative size of the debt (in cedis) from 30 percent of GDP in 2011 to 51.2 percent in 2014 (Figure 16).

Figure 18: Share of raw commodities in export revenue, 2000-2020 (%)



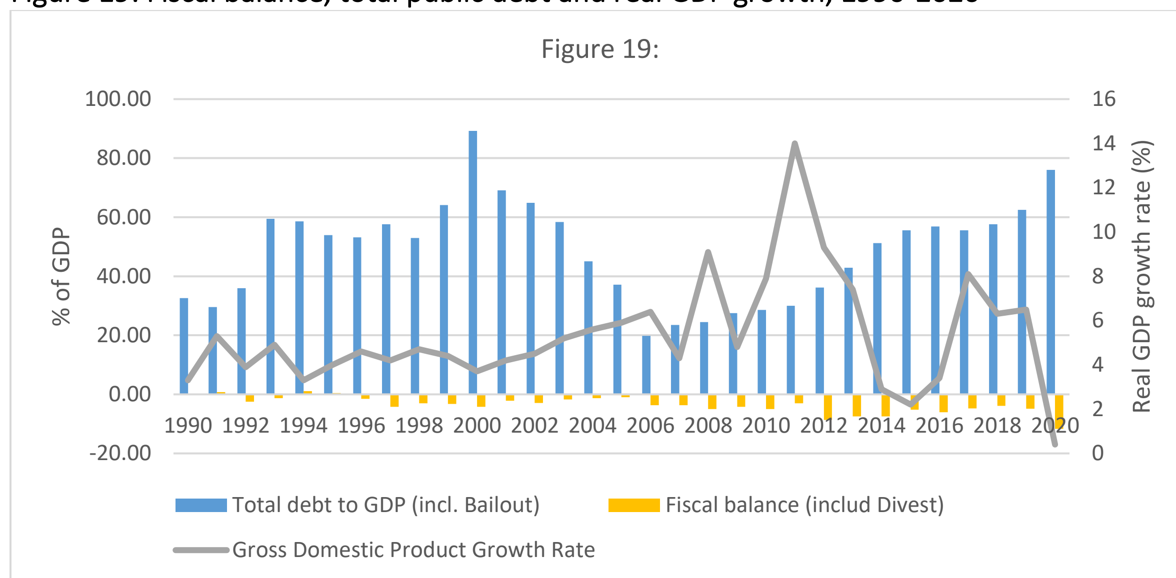
Source: Authors' computation using data from Observatory of Economic Complexity

It can be observed from Figure 19 that episodes of worsening deficits were accompanied by increments in debt stock (mainly driven by external debt) and vice versa. The rapid economic growth between 2007 and 2013 led to an increased willingness and desire of investors to lend to the country, which was met with the Ghana's willingness to borrow (Jones, 2016). The energy crisis of 2014-2015 also compelled Ghana to resort to borrowing to build energy infrastructure to a level that would be able to meet growing demand for energy in an expanding economy. These factors no doubt contributed to the increment in Ghana's debts.

In recent times, the devastating effect of the COVID-19 pandemic brought fiscal slippages to Ghana's public finances. For instance, in 2020, the large, unanticipated fiscal obligations required to manage the socio-economic fallout from the global pandemic led to the highest fiscal deficit over the last 30 years of 11.7 percent of GDP (excluding financial and energy sector-related costs). Although Ghana has been on a path to recovery as real GDP growth rate was projected to increase from 0.4 percent in 2020 to about 6 percent at the end of 2021, the simmering effects

of the fiscal slippages led to a projected lower fiscal gap of 9.7 percent at the end of 2021. Clearly, the chronic fiscal deficits in the last two years have caused Ghana’s debt stock to increase from 62.4 percent to about 80 percent as of the end of 2021 as the government increased its borrowing from both local and external sources.

Figure 19: Fiscal balance, total public debt and real GDP growth, 1990-2020



Source: Ministry of Finance, Ghana Statistical Service and Bruegel database

4.2 Fiscal challenges and recurring macroeconomic instability

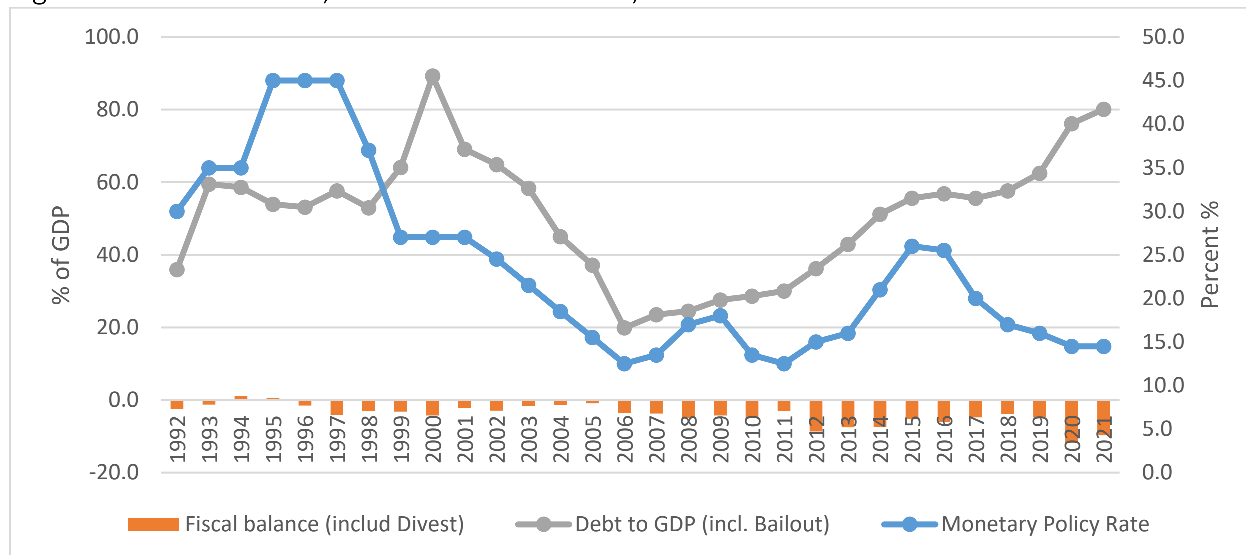
This section discusses the links between fiscal deficits and measures of macroeconomic instability such as inflation, depreciation of the cedi and interest rates. Figure 14 shows the trends in deficits and inflation between 1990 and 2020. It can be observed that between 2000 and 2005, improvements in the budget balance were mirrored by a reduction in inflation. Some lagged effects observed as worsening the budget balance in 2006 and 2021 resulted in rising inflation rates the following year or two. Also, after a budget surplus in 1994, inflation began to fall in 1995. This is not surprising as some studies have found that inflation occurs when deficits are financed by increasing the supply of money (Friedman, 1968; Aretis and Sawyer, 2006). Such expansionary monetary policy action may not contemporaneously reduce inflation, but the effect may be lagged.

Figure 15 shows the trends in deficits and the rate of change in the exchange rate between 1990 and 2020. Indeed, a lagged effect is also observed as episodes of worsening fiscal deficits are followed by the depreciation of the cedi in the following year or two. When fiscal deficits are financed by expansionary monetary policy, this may impose some inflationary pressures. High rates of inflation may increase the price of inputs used in production and in manufacturing export products. Thus, the exports may become less competitive on the global market, leading to the depreciation of the local currency. The impact of this process may take a long time to be felt, hence the lagged effect observed in Figure 15.

Theoretically, it can be noted that fiscal deficits can cause interest rates to increase when financed by borrowing at unsustainable levels. This leads to reduced investor confidence and the

demand for high premiums to induce the purchase of government debts due to the fear of default, and may result in an increase in interest rates. Figure 20 shows that in periods when fiscal deficits are being realized and debts are also rising, the interest rate assumes an upward trend, i.e., 1990-1992 and 2006-2014. Moreover, when the fiscal deficit was declining between 2000 and 2005 (perhaps due to the debt relief programs, debts and interest rates headed downwards. Indeed, between 1994 and 1999, although fiscal deficits were growing, debt accumulation was largely stable, as was the interest rate.

Figure 20: Fiscal balance, debts and interest rate, 1992-2021



Source: Ministry of Finance and Bank of Ghana

4.3 Non-sustainable high economic growth rate and unemployment

Another effect of fiscal deficits is growth rate volatility. Generally, fiscal deficits, when persistently addressed by borrowing, could lead to unsustainable debt levels. Lenders would then demand a high premium before lending and hence, the interest rate rises and investment levels fall. This further reduces aggregate demand and output levels, with negative implications for unemployment rates.

From Figure 19, very low deficits were recorded over the early 1990s until 1996 and 2001 to 2005, while 1997 to 2000 and 2006 to 2010 as well as 2012 to 2018 had moderately high and high levels of deficits[12]. Following the trough in 1992, there was an improvement in the budget balance between 1993 and 1997, where surpluses were recorded. In this period, average real GDP growth however was 4.2 percent with low volatility of 0.61 percent (Table 4).

[12] The classification of high and low deficits is done and interpreted following the threshold level of -4 percent estimated by Akosah (2013).

When moderately high deficits were recorded (1997 to 2000), average growth of 4.25 percent and volatility of 0.36 were recorded. For the period 2001-2005 with high budget deficits, the average real GDP growth was much higher at 5.06 percent while volatility was 0.64 percent. The next two periods – 2006-2010 and 2012-2018 – recorded high fiscal deficits and very high average growth rates (6.5 percent and 5.66 percent, respectively); these periods were the most turbulent periods, with volatility of 1.8 percent and 2.6 percent respectively

Table 4: Fiscal balance, volatility of growth and average growth, 1993-2018

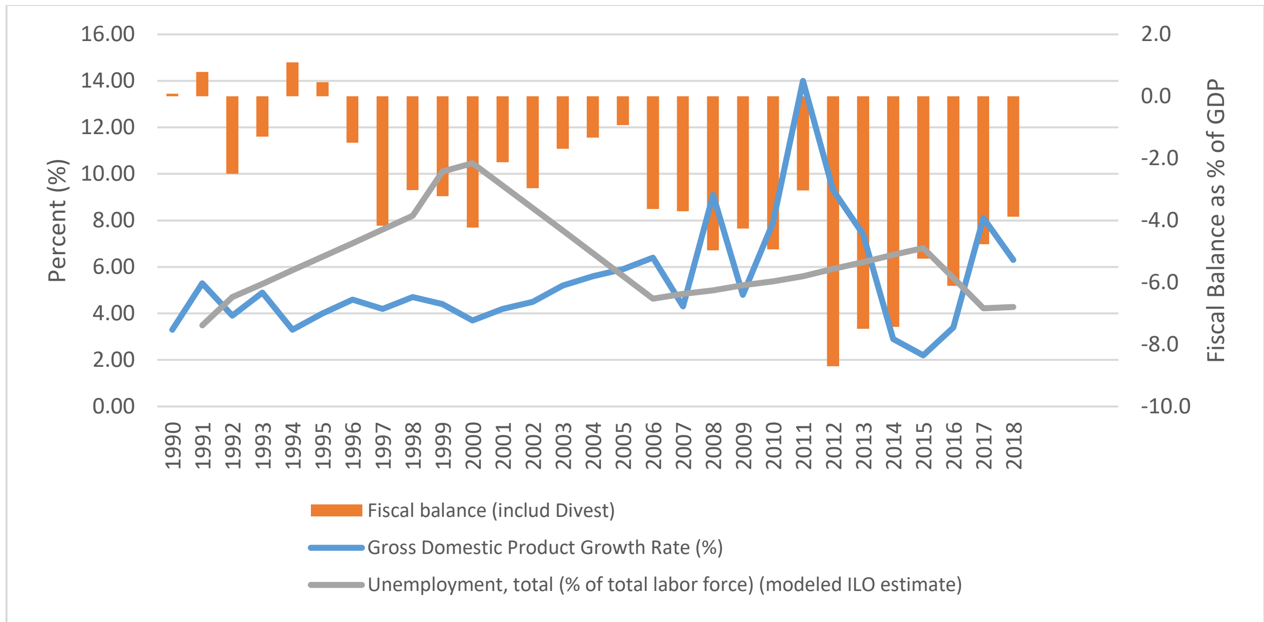
	Description of fiscal balance	Mean	Standard deviation
1993-1996	Low deficits	4.20	0.61
1997-2000	High deficits	4.25	0.36
2001-2005	Low deficits	5.08	0.64
2006-2010	High deficits	6.50	1.81
2012-2018	High deficits	5.66	2.60

Source: Authors' computation using data from the Ministry of Finance and Ghana Statistical Service

Based on the graphical analysis (Figure 19), an increase in budget deficit ratio seems to induce higher growth volatility, which exposes the economy to further vulnerabilities. Moreover, the above trends show that budget deficits within 2 percent-4 percent of GDP seem to ensure relatively stable economic growth in the case of Ghana.

Figure 21 shows whether or how the unstable episodes of high growth rates may affect unemployment. It can be concluded that no apparent relationship is observed between economic growth and unemployment rates. This simply suggests that unemployment is not directly caused by turbulence in growth rates. Indeed, Ghana's economic expansion over the last two decades has not resulted in job creation and has been tagged as "jobless growth", As noted by Aryeetey et al. (2021), Ghana's growth pattern as driven by the services sector is contrary to the manufacturing export-led structural transformation that took place in East Asia.

Figure 21: Fiscal deficits, economic growth and unemployment, 1990-2018



Source: Authors' computation using data from the Ministry of Finance, Ghana Statistical Service and the World Development Indicators

Alternatively, to gauge the extent of the impact of Ghana's economic expansion on unemployment, we obtained estimates of the Okun's Law[13] equation of the form

$$U_t - U_{t-1} = \beta(Y_t - Y_{pot}) + \varepsilon_t \qquad (1)$$

Where U_t and U_{t-1} represents the unemployment rate in the year t and previous year respectively; $\boldsymbol{Y_t}$ is the real GDP growth rate in year t, Y_{pot} is the potential real GDP growth rate (we use Ghana's medium-term average rate of 6 percent). The coefficient β is expected to be negative and significant to confirm that higher deviations of growth in real GDP from the potential or average real GDP growth rate leads to a reduction in unemployment.

Our estimates of the Okun's Law for Ghana over the period and sub-periods (see Table 5) confirms our earlier conclusion of a jobless growth trajectory over the last three decades. Not only were the coefficients noticeably positive (with the exception of the sub-period 1992-1999) but also statistically insignificant, implying that Ghana's unstable episodes of high growth rates have not affected unemployment since 1992.

Table 5: Estimates of Okun's Law based on potential GDP growth rate of 6% (1992-2021)

Coefficient β	Std. error	p>|t|	No. of Obs.	Period
0.0134	0.1302	0.919	30	1992-2021
-0.0185	0.3850	0.963	8	1992-1999
0.0002	0.1418	0.999	10	2000-2009
0.0225	0.2256	0.922	12	2010-2021

[13] Okun's Law posits the relationship between an economy's unemployment rate and its GDP or GNP growth rates

Instead, the structural transformation that has taken place in Ghana has been characterized by the movement of resources from the agricultural sector to the services sector, which are both low-productivity sectors when compared to the manufacturing and overall industrial sectors. Indeed, since 2005, job patterns have remained unchanged, with unemployment rate remaining relatively flat (with marginal increases until 2021 when it spiked to 13.4 percent) indicating that in spite of growth performance, unemployment remains a concern.

5 Proposed solutions

We have clearly demonstrated in this paper that Ghana has faced enormous fiscal challenges since the start of the Fourth Republic, as the country has had to deal with recurring, large fiscal deficits, sharp debt buildups, large debt-service costs, and sharply declining public investment ratios. As we saw in Section 4, these challenges have resulted in serious macroeconomic difficulties in the form of recurring macroeconomic instability, which, together with the sharply falling public investment ratio, has denied the country the ability to sustain high economic growth rates, thereby causing the low-income levels, high unemployment rates and widespread poor standard of living the country is witnessing.

Therefore, to be able to achieve a sound and stable macroeconomic environment on a long-term basis, sustainably high economic growth, strong job creation, and improved standard of living for the people of Ghana, the fiscal challenges must be effectively and sustainably addressed. To do this, appropriate strategies should be devised to address the fundamental causes of the fiscal challenges – the poor revenue mobilization, expenditure management difficulties, and negative economic shocks. We, therefore, propose that the government adopts the following policy measures:

A. ***Improve revenue mobilization by addressing the fundamental causes of poor revenue performance in Ghana. Specifically, the Government should:***

1. *Help sustain high economic growth rates by pursuing fiscal policies that accelerate public investment and maintain low fiscal deficits at the same time*

Two important factors that have been widely understood to cause high and sustainable economic growth – a critical determinant of government revenue performance in Ghana as shown in Section 3 – are a stable macroeconomic environment and increased public investment. This is because these two factors boost private investments and enhance economic activities in general. Yet, to achieve sustained macroeconomic stability in Ghana, there is the need to maintain low fiscal deficits since large fiscal deficits have been the major cause of the country's recurring macroeconomic instability, as we saw in Section 4. This means that there is a causal

chain running from fiscal outcomes to macroeconomic outcomes, and vice versa (i.e. reverse causality). Therefore, to ensure high economic growth rates in Ghana on a sustainable basis in order to improve government revenue performance to help address the country's fiscal challenges, the government should maintain low fiscal deficits and, at the same time, ensure increased public investment. To achieve this essential balance, efforts should be made to realign expenditures in favor of public investment against public consumption, however politically tempting the opposite may be. The government should also understand that low fiscal deficits, which help create stable macroeconomic environment, open up the possibility of increased fiscal spending in the future without having to undermine fiscal prudence, since they lead to sustainable economic growth and thus improved revenue generation. It, therefore, implies that governments in Ghana should put a stop to their penchant for the implementation of policies that lead to significant increases in the fiscal deficit in the name of boosting economic growth and development, since the macroeconomic instability that emerges from such increases in the deficit usually works to cancel out potential growth effects of the policies.

2. *Significantly increase revenue generation from the extractive sector*

As we saw in Section 3, Ghana has the potential to generate as much as US$4.32 billion in additional revenue from the extractive sector (oil and mining) annually. This can only be achieved if the government of Ghana moves away from the current system of overreliance on concessionary arrangements with very limited participation interests in the sector, since that has failed the country in terms of government revenue generation from the sector, despite the large economic rents (super-normal profits) that are generated from the sector annually. As countries in the developing world that are able to generate substantial amounts of revenue from the sector (such as Botswana and Nigeria) do, the government of Ghana should get actively involved in the sector. This should be done by the government (i) purchasing controlling interests in the Ghanaian operations of the large-scale oil and mining companies; and (ii) having fully state-owned firms operating in the oil and mining subsectors. However, the government should (iii) use production sharing agreements for new oil and mining contracts when funds are unavailable for such active involvement. To fund this active involvement in the extractive sector, the government may have to scale down its traditional public investment programs (such as in infrastructure) for a while and direct the funds involved to the extractive sector so that more money could be raised later to help address the fiscal challenges, including ensuring accelerated public investment in the traditional areas.

3. *Pass the Exemptions Bill Submitted to Parliament in 2019, Review the Other Existing Exemptions, and Refrain from the Overreliance on Exemptions as a Means of Attracting Investment*

First, the government should get passed the Exemptions Bill that it submitted to Parliament in 2019, as a matter of urgency. After all, according to the government's own calculations, the country stands to gain about 1.6 percent of GDP in additional revenue if the Bill is passed and implemented. This can help improve Ghana's revenue performance, and thus help address the country's fiscal challenges. In fact, in the presence of comparatively large revenue underperformance in Ghana as discussed in Section 3, the failure of the government to push through this revenue-generating bill is incomprehensible. Second, the government should conduct a thorough review of all the other existing exemption packages with the goal of getting rid of those that do not make economic sense in terms of government revenue lost vis-à-vis variables such as employment creation for Ghanaians and foreign exchange inflows (not mere foreign exchange earnings) that support the cedi. Mere contributions to GDP by foreign-owned firms should not serve as a justification for continuous loss of government revenue through exemptions, since contributions to GDP, unlike to GNP (gross national product), may not necessarily benefit Ghanaians. Third, the government should understand that, as numerous studies have shown, fundamental factors like political stability, macroeconomic stability, the quality of infrastructure, law and order, and supply of skilled labor are far more important attractors of investment, both foreign and local, than provision of tax incentives/exemptions. For instance, the United Nations Conference on Trade and Development (UNCTAD) (2000) argues as follows:

"*As a factor in attracting FDI, incentives are secondary to more fundamental determinants, such as market size, access to raw materials and availability of skilled labor… Thus, it is generally recognized that investment incentives have only moderate importance in attracting FDI."*

The government of Ghana should therefore concentrate on improving the political and economic climate/fundamentals as a means of attracting investment so as to reduce the overreliance on tax exemptions, since tax exemptions are estimated to cost the country so much in government revenue annually, as discussed in Section 3.

B. Address the expenditure management difficulties in order to help address the country's fiscal challenges. Specifically, the government should:

4. Reduce the degree of rigidity in the country's budget to enhance fiscal consolidation so as to help maintain low fiscal deficits and improve public investment

To be able to bring down the fiscal deficit on sustainable basis through fiscal consolidation, and to help increase public investment, the government should reduce the degree of rigidity in the country's budget. The government should therefore:

i. *Reduce the size of earmarked expenditure as a ratio of total revenue and grants by reviewing the existing earmarked funds and scrapping those that are less essential*

As pointed out in Section 3, the passage of the Earmarked Funds Capping and Realignment Act, 2017 (Act 947) has put the brakes on the increasing nature of earmarked expenditure as a share of total revenue and grants since 2017, as the ratio has been hovering around 25 percent since then. However, to help reduce the degree of rigidity in the country's budget, the government should review the existing earmarked funds with the goal of closing down the non-essential ones so that the monies involved are redirected through the general budgeting process. After all, as argued by Boakye (2017), closing down an earmarked fund does not mean that the program that was being funded would come to a halt. What would be gained is fiscal flexibility, which is needed to ensure the success of the government's fiscal consolidation efforts. The present and future governments should also refrain from establishing new earmarked funds, unless they are essential.

ii. *Reduce the compensation bill ratio to match international standards*

To help reduce the degree of rigidity in Ghana's budget in order to help address the country's fiscal challenges, the compensation bill ratio should be reduced to match international standards. Through a consultative process with public sector workers and other stakeholders, the reduced ratio should be set as a ceiling, beyond which Ghana's compensation bill ratio cannot rise. The reduction in the ratio should be achieved gradually over a given number of years, say 3 to 5 years, in order to minimize the impact on public sector workers. This can be achieved by the government ensuring that the growth rate of the compensation bill falls below the growth rate of total revenue and grants over the given number years, which will naturally lead to a gradual reduction in the ratio of the compensation bill to total revenue and grants. It is important to point out that the presence of an agreed ceiling in line with international standards would serve as a check on wage demands by public sector workers. But for the ceiling to work, the political and governing class should display modesty regarding how they spend state resources on themselves so as to serve as a positive example to public sector workers in their wage demands.

iii. *Minimize borrowing to reduce debt service expenditure by significantly reducing waste and corruption*

Again, to help reduce the degree of rigidity in the country's budget, the government should reduce debt service expenditure, the most rigid and currently the biggest expenditure item in the country's budget. It should, however, be understood that contrary to popular perception, the government cannot do this by placing a moratorium on borrowing. This is because the government is currently forced to borrow, given that the sum of the three rigid expenditures has exceeded total revenue and grants since 2013. What should be done to help reduce the rate of

borrowing to minimize the debt service expenditure over time is to cut down waste and corruption. Cutting down waste should include doing away with non-essential travels by government officials; cutting the size of the entourage during travels, while using low-cost means for these travels; refraining from purchasing expensive vehicles for official use; substantially cutting down the use of official vehicles and requiring government officials (both civil servants and politicians) to use their private vehicles as is done in other countries; stemming the rent-seeking behavior of government officials by requiring officers in government establishments to carry out their official duties mostly in their offices and conference rooms instead of going to hotels to attract *per diem*; and refraining from the practice of creating positions for party affiliates with little or no regard for value-for-money issues (Boakye and Mensah, 2021). To significantly reduce corruption, officials in government institutions who are found to have engaged in corrupt practices should be vigorously prosecuted irrespective of their party affiliations. To do this, the Ghana Audit Service should be made to work directly with the Attorney-General's Department or the Office of the Special Prosecutor for the prosecution of suspected corrupt officials it identifies through its audit work. The autonomy of the Auditor-General should also be strengthened by removing all forms of political interventions and manipulations.

5. *Make Fiscal Populism in Ghana less effectual by:*

i. Requiring all governments to implement nationally agreed long-term development plans

Through broad consultative processes that involve the political parties, civil society organizations, and other stakeholders, the National Development Planning Commission (NDPC) should lead the preparation of long-term development plans that are well-costed, have well-projected funding and are broken down into series of medium-term and annual plans. All governments that come to power within the implementation period of a long-term plan should be required to continue to implement the plan (and its associated medium-term and annual plans). Thus, the current system whereby each new government is not only permitted but required to prepare and implement a new development agenda, which is usually full of populist policies, should be scrapped. This would not only help ensure policy/project continuity, but it would also help make fiscal populism less effectual, thereby helping to minimize the overspending that is normally associated with fiscal populism, which lead to large deficits, sharp debt buildups and large debt-service costs.

ii. Strengthen the fiscal responsibility rules and their compliance mechanisms

In 2018, Ghana, through the passage of the Fiscal Responsibility Act, 2018 (Act 982), joined a growing number of countries that have set up numerical fiscal responsibility rules to ensure fiscal

sustainability and macroeconomic stability. The rules are that (a) the overall fiscal balance on cash basis for a particular year shall not exceed a deficit of 5 percent of GDP for that year; and (b) an annual positive primary balance shall be maintained. The Act further states that Parliament may pass a vote of censure on the Minister for Finance when he/she breaches the deficit limit by more than 1 percentage point. Even though the Act permits the Minister for Finance to suspend the rules due to a *force majeure,* or unforeseen economic circumstances or both, it requires the minister to present to Parliament for approval "plans for restoring the public finances of the country within a reasonable period after the *force majeure* or unforeseen economic circumstances have elapsed" (Fiscal Responsibility Act, 2018 (Act 982)). In addition to the fiscal responsibility rules, the President also set up a Fiscal Responsibility Advisory Council (or Fiscal Council) to develop and recommend to the President fiscal responsibility policies for the maintenance of prudent and sustainable levels of public debt.

While the setting up of the fiscal responsibility rules and the Fiscal Council are laudable moves, there are a number of limitations. First, the 5 percent of GDP fiscal deficit limit ratio is too large by international standards. More importantly, it is 2 percentage points above the fiscal deficit limit of 3 percent of GDP that the West African Monetary Zone (WAMZ) considers to be prudent for member states (including Ghana). Second, the fiscal rules have limited institutional coverage, as they are limited to the central government's fiscal operations. Therefore, the government's extra-budgetary fiscal activities, like the amounts spent on the financial sector intervention and the borrowings that take place through agencies like the Road Fund, Ghana Education Trust Fund and ESLA PLC, which have contributed to the country's public debt buildups, are not covered. Third, the effectiveness of the Fiscal Council is questionable, as it acts not only as an advisory body to the President on fiscal responsibility policies, its term of office ends with that of the President, implying that it is not operationally independent from the government and cannot thus help institute strong monitoring and compliance mechanisms for the fiscal responsibility rules.

Yet, properly designed fiscal responsibility rules, in terms of simplicity, flexibility and enforceability, have been found to provide important checks on populist tendencies of governments, which has thus led to fiscal discipline in many countries in practice. For instance, writing for the IMF, Eyraud et al. (2018) find that "well-designed rules are indeed effective in constraining excessive deficits." Therefore, to help make fiscal populism less effectual in Ghana in order to ensure better fiscal outcomes, the country's fiscal responsibility rules need to be strengthened by addressing the limitations described above.

C. Prepare for negative economic shocks by:

6. Ensuring that the country's fiscal position stays strong at all times

Since negative economic shocks are unexpected events that negatively affect the economy with differing magnitudes, the government cannot be expected to fully prepare for the fiscal effects of all negative shocks. However, because negative shocks cause greater fiscal damage when the country's prior fiscal position is weak, the government should ensure that Ghana's fiscal position stays strong at all times, while building strong fiscal buffers, including the Ghana Stabilization Fund. To achieve these, full implementation of the above recommendations is essential.

6 Measuring success: goals and targets

This section proposes goals and targets to ensure fiscal responsibility, which is a major pillar of the Compact. Table 6 indicates policy actions/reforms required to ensure the attainment of the goals and targets. Comments, which provide valuable additional information about the goals, targets and the required policies/reforms, are also provided.

Table 6: Fiscal/macroeconomic goals and targets for the Compact period, 2025-2050

Policy issue/indicator	Goal	Target		Required policy action/reform		Comments
		Short-to-medium term	Long term	Short-to=medium term	Long term	
Overall fiscal balance	Reduction in the overall fiscal balance to match the WAMZ criterion in the medium term, and attainment of a balanced budget in the long term	Overall fiscal balance: deficit of 3 percent of GDP by 2027	Achieve and maintain a balanced budget starting from 2035	Re-introduce the fiscal responsibility rule which existed prior to 2020 (COVID-19)		To achieve the fiscal balance targets, policy actions have to be directed towards government revenue and expenditure
Government revenue	Increase in total government revenue as a ratio of GDP to match middle-income country average	Increase total government revenue as a ratio of GDP from the current 15.3 percent to sub-Saharan African average of 20.5 percent by 2027	Increase total government revenue as a ratio of GDP to at least middle-income country average of 22.6 percent starting from 2030	1. Immediately pass the Exemptions Bill 2. Set up a committee to review the other existing exemptions 3. Increase the government's interest by purchasing stakes of up to 30 percent in the Ghanaian operations of the large-scale oil and mining companies by 2028 4. Use production-sharing agreements for new oil and mining projects, if funds are not available to buy controlling interests	1. Purchase controlling interests of up to 55 percent in the Ghanaian operations of the large-scale oil and mining companies by the end of 2030 2. Strengthen the Ghana National Petroleum Corporation (GNPC) so that it becomes an independent operator by 2030	1. To take a controlling interest, the government may have to renegotiate with the large-scale oil and mining companies 2. To strengthen GNPC, the government has to get actively involved in the corporation's funding and strategic direction 3. To improve its capacity, GNPC should acquire skills be sending employees abroad for further education and training It should also not shy away from hiring foreign skilled personnel to strengthen its capacity

Total government expenditure		Management of expenditure growth to achieve the medium- and long-term deficit targets, while re-aligning expenditure in favor of public investment	Reduce total government expenditure as a ratio of GDP from the projected 27.4 percent in 2022 to 23.5 percent by 2027	Manage expenditure to reflect revenue growth to achieve the long-term fiscal balance target			
	Compensation of employees	Reduction in the wages and salaries and compensation-to-total revenue ratio to match international standards	Reduce the compensation bill-to-revenue ratio from 45.2 percent in 2021 to 35 percent by 2027	Reduce the compensation bill-to-revenue ratio to at most 30 percent starting from 2030 onwards, and maintain this ratio as a ceiling over the long term	1. Ensure compensation bill growth falls below revenue growth to achieve the reduction in the ratio 2. Hold stakeholder consultations to ensure collective buy-in for the reduction in the ratio 3. Radical appraisal of public sector employment to promote productivity enhancing measures		1. Reduction in the compensation bill ratio does not mean that public sector workers would be paid less than before 2. Maintaining the ratio at a ceiling of 30 percent from 2030 means that, from that period onwards, revenue growth will dictate the compensation bill growth 3. For both the reduction process and the ceiling to work, the political and governing class should display modesty in how much they spend on themselves
	Earmarked expenditure	Significant reduction in earmarked expenditure-to-total-revenue ratio	Reduce the ratio of earmarked expenditure to total revenue from about 25 percent currently to 20 percent by 2027	Reduce the ratio of earmarked expenditure to total revenue to 15 percent starting from 2030 onwards	1. Set up a committee in 2025 to review the existing earmarked funds, with the goal of closing down the non-essential ones. 2. Refrain from establishing new earmarked funds		

	Debt service	Reduction in interest payment to match the middle-income country average of 10.1 percent of total government revenue	Reduce interest payments as a ratio of total government revenue from 47.8 percent in 2021 to 30 percent by 2030	Reduce interest payments as a ratio of total government revenue to 10.1 percent by 2035	In addition to pursuing the above revenue and expenditure policies, the government should: 1. Get rid of waste and corruption to minimize borrowing 2. Reform the prosecutorial process to allow the Audit Service to directly work with the Attorney-General's Department or Office of the Special Prosecutor for the prosecution of suspected corrupt officials 3. Reform the Auditor-General's Office to make it interference-proof		Cutting down waste should include: 1. Doing away with non-essential travels by government officials 2. Cutting the size of entourages during travels, while using low-cost means for these travels 3. Refraining from purchasing expensive vehicles for official use 4. Substantially cutting down the use of official vehicles and requiring government officials (both civil servants and politicians) to use their private vehicles as done in other countries 5. Stemming the rent-seeking behavior of government officials regarding *per diem* by requiring officers in government establishments to carry out their official duties mostly in their offices and conference rooms instead of going to hotels to attract *per diem* 6. Refraining from the practice of creating positions for party affiliates with little or no regard for value-for-money issues

Fiscal populism	Making fiscal populism not impactful on fiscal outcomes	1. Election-year fiscal balances do not depart from non-election year trends starting from 2028 2. Expenditure on social interventions, such as on Free SHS, should be targeted to those who are actually in need		1. Amend the Fiscal Responsibility Act to reduce the fiscal balance ceiling from a deficit of 5 percent of GDP to 3 percent of GDP 2. Pass an Act of Parliament by the end of 2025 to reform the Fiscal Council to make it more independent 3. Prepare, through broad consultative processes, a 25-year national development plan by the end of 2027		1. The national development plan should be made binding on all governments that come to power within the period of the plan. This would require an amendment to the Constitution 2. The long-term plan should be broken down into short- and medium-term implementation plans
Real GDP growth	Achieving and maintaining rapid real GDP growth	Accelerate real GDP growth from the average of 5.4 percent since the beginning of the Fourth Republic (1993-2021) to an average of 7 percent from 2025 to 2030	Increase and maintain real GDP growth at an average of 8 percent from 2031 to 2050	1. Realign public expenditure in favor of public investment by increasing public investment as a ratio of total government revenue from the current average of about 15 percent to 30 percent by 2027 2. Maintain macroeconomic stability by sticking to the fiscal balance targets above and creating enough fiscal buffers to manage economic shocks	Further realign expenditure to increase public investment to at least 40 percent of total government revenue starting from 2030	

7 Principles for engagement and successful delivery

The proposed solutions, goals and targets aimed at ensuring fiscal responsibility in Ghana demand the steadfast commitment of all stakeholders for their successful implementation and realization. This requires a major reorientation of stakeholders' mindsets and behaviors regarding fiscal responsibility, since continuing with business as usual would hinder effective implementation of the proposed solutions for the realization of the goals and targets. This section, therefore, outlines the key principles and behavioral changes needed for success.

First and foremost, the political and governing class has to lead by example. This means they should be prudent and modest regarding how much of public resources they spend on themselves, in order to send a positive signal to the citizenry to moderate their own fiscal demands. As we stated in Section 5, this will not only help to curb waste and corruption to limit borrowing, but it will also help in securing public sector workers' support for measures to reduce the relatively high public spending on compensation. Leading by example also means the political class must come to terms with the harmful effects of fiscal populism on the public finances, and stop promising ever increasing amounts of fiscal largesse or giveaways to the electorate in their quest for power.

Another key stakeholder whose cooperation will be critical for success is public sector unions, whose persistent wage agitations have largely led to the increasing proportion of government revenue allocated to expenditure on compensation since the beginning of the Fourth Republic. Cooperation by unions, which in Ghana have high political bargaining power, requires that they be realistic in their wage demands, especially in difficult fiscal times. Unions must also appreciate that excessive government spending on compensation, which may benefit them temporarily, is usually not in their interest in the long term, since it contributes to poor fiscal and macroeconomic outcomes, which end up affecting their economic wellbeing. That said, wage or salary harmonization across the public sector is very critical. The huge disparities between those on Single Spine and the others has led to wage agitation and labor unrest.

Ghanaians in general also need to be reoriented regarding their fiscal demands on and expectations of the government. More fundamentally, citizens must be made to understand that there are unavoidable trade-offs involved when fiscal policy decisions or choices that are populist in nature are implemented, since these policies, which may offer short-term benefits to the people, usually lead to poor economic outcomes in the long term due to fiscal and macroeconomic complications that tend to develop later. This would help voters to better assess electoral promises and policy proposals by the political class, thereby facilitating informed public debates on the proposals and ultimately influencing support for policies that are more fiscally prudent.

The media and civil society organizations must also become better informed about fiscal responsibility issues so that they can reflect this understanding in their activism on economic and social issues, and thus help to moderate citizens' fiscal demands and expectations. Moreover, it is important for the media to strive to keep fiscal responsibility issues on the public agenda at all

times, while reducing the undue focus on divisive partisan politics and other less productive issues.

To ensure a successful reorientation of mindsets and behaviors, there should be public education to help all stakeholders understand the country's present fiscal difficulties and the bold policy reforms needed to address them. Indeed, some of the reforms would require sacrifices by all Ghanaians in the short term in order to secure the desired long-term benefits. The public education can be carried out by state agencies like the National Commission for Civic Education (NCCE). The media and civil society organizations must also help to promote sound fiscal policies by supporting public education on fiscal responsibility.

8. Key questions for consultation and public dialogue

In this final section, we draw on the evidence and discussions in prior sections to outline the key questions relating to fiscal responsibility that should guide the public consultation and dialogues. Additionally, we suggest ways to effectively engage with key stakeholders and ordinary citizens for the consultation and dialogues.

Key questions

- How can the country significantly increase the revenue it generates from its extractive sector, seeing that it currently generates incredibly less revenue from the sector compared with its peers?
- In what ways can the revenue system (tax and non-tax) be reformed to widen the base, limit exemptions, and plug leakages?
- Given the limitations to available resources, what expenditures should be prioritized to maximize the effects of public spending on long-term economic growth and development?
- We have seen in this paper that the government of Ghana spends a significantly larger share of its revenue to pay for workers' compensation than its peers, while public investment, which is critically needed to help modernize and grow the economy for the benefit of all, is seeing its share of revenue fast declining. What should the government do about this?
- What measures should be adopted to improve the targeting of social expenditures (e.g., on education and health) to engender efficiency while still protecting the poor?
- Can the fiscal rules and the Fiscal Council put in place in 2019 be expected to make a significant impact on fiscal responsibility in Ghana, and why?
- How can fiscal rules and institutions, as well as public financial management laws, be strengthened to minimize fiscal populism?
- What is required to improve the effectiveness of existing financial accountability mechanisms in curbing corruption and waste in government expenditures?

Suggestions for Effective Engagement

To ensure a successful outcome of the consultation and dialogues, it is critical to adopt effective processes of engagement. We, therefore, suggest that the consultation and dialogues regarding fiscal responsibility should take the following form:

- Meetings/dialogues with the following key national bodies: (i) Council of State; (ii) Parliament (targeting the Leadership, Finance Committee, and Public Accounts Committee); and (iii) National House of Chiefs;
- Meetings/dialogues with the following key fiscal policymakers and stakeholders: (i) Ministry of Finance; (ii) Bank of Ghana; (iii) Auditor-General; and (iv) Fiscal Responsibility Advisory Council;
- Meetings/dialogues with leaders of (i) political parties; and (ii) labor unions;
- Roundtable discussions with (i) experts from academia and think tanks; and (ii) private sector groups (including leading business associations and professional bodies);
- Public forums/town hall meetings in each of the 16 regions, or in each of the southern (Accra), middle (Kumasi), and northern (Tamale) belts of the country.

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