ACTIONAID GHANA

IMPLICATIONS OF IMF LOANS AND CONDITIONALITIES ON THE POOR AND VULNERABLE IN GHANA

FINAL REPORT

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Acronyms and abbreviations

AGA	AngloGold Ashanti
BoG	Bank of Ghana
CPP	Convention People's Party
CSO	Civil Society Organization
DACF	District Assemblies Common Fund
ERP	Economic Recovery Programme
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
GETFUND	Ghana Education Trust Fund
GLSS	Ghana Living Standards Survey
GMA	Ghana Medical Association
GNAT	Ghana National Association of Teachers
GNP	Gross National Product
GoG	Government of Ghana
GSE	Ghana Stock Exchange
HIPC	Heavily Indebted Poor Countries [Initiative]
IMF	International Monetary Fund
ISI	Import Substituting Industrialization
LOI	Letter of Intent
LEAP	Livelihood Empowerment Against Poverty
MMDAs	Metropolitan, Municipal and District Assemblies
MoFEP	Ministry of Finance and Economic Planning
NGOs	Non-Governmental Organizations
NHIF	National Health Insurance Fund
NHIS	National Health Insurance Scheme
NHIA	National Health Insurance Authority
NLC	National Liberation Council
NPP	New Patriotic Party
NRC	National Redemption Council
NYEP	National Youth Employment Programme
OECD	Organization of Economic Cooperation and Development
OFI	Operation Feed Your Industries
OFY	Operation Feed Yourself
PAMSCAD	Programme of Action to Mitigate the Social Cost of Adjustment
PAYE	Pay As You Earn
PRGF	Poverty Reduction and Growth Facility
SAP	Structural Adjustment Programme

TEWU	Teachers and Educational Workers Union
SEC	Securities and Exchange Commission
VAT	Value Added Tax

Executive summary

INTRODUCTION

The global financial crisis which affected most economies in 2008 has witnessed the resurgence of the International Monetary Fund (IMF) to its earlier global relevance of providing financing for Economic Stimulus Programme (ESP). Ghana, considered as the hub of IMF success stories in sub-Saharan Africa, borrowed a whopping US$602 million under the Extended Credit Facility (ECF) in 2009 to address structural imbalances in her economy. This was barely two years after Ghana exited the Fund's supported programmes. Ghana's u-turn to the IMF in 2009 raised numerous questions given the concerns about the impact of IMF conditionalities on the Ghanaian economy. ActionAid Ghana accordingly commissioned this study to ascertain the implications of the recent IMF loan and conditionalities on the poor and vulnerable in Ghana. This report seeks to establish the facts about IMF conditionalities attached to the loan; and investigate the implications of the loan on the poor and vulnerable. The report also explores alternative sources of resource mobilization to the Government of Ghana (GoG) and provides some specific recommendations for the attention of stakeholders.

METHODOLOGY

To achieve the objectives of the study, a mix of desk review of relevant documents and key informant interviews were carried out with officials at the Ministries of Finance and Economic Planning (MoFEP), Education and Health as well as the IMF and other key individuals considered essential to this study. In addition 115 households were reached and interviewed as part of this study to ascertain how the poor were faring under the IMF supported programme.

KEY FINDINGS

- **Outcome of Ghana previous relationship with the IMF:** Ghana's relationship with the IMF has at best resulted in stabilization and economic growth which, however, occurred at the expense of employment as evidenced in the era of Structural Adjustment Programmes (SAPs). At worst, the pursuance of IMF policy prescriptions has led to socio-economic hardships and political instability, which together with other factors motivated the overthrow of governments as observed in 1972. Having implemented IMF supported programmes in the past four decades; the structure of Ghana's economy has remained unchanged: largely dependent on cocoa and gold export and highly susceptible to commodity price volatility.

- **Reasons for Ghana's exit and return to the IMF:** Ghana exited the IMF's Poverty Reduction and Growth Facility (PRGF) in 2006 on the premise that an expanded scope and structure of financing [which could not be attained with the IMF] was necessary for the achievement of the government's goal of scaling up investments for accelerated growth. Ghana's departure from the IMF was followed by its successful mobilization of $750 million through issuance of the Eurobond in 2007. Ghana was, however, forced to return to the Fund barely two years later against the backdrop of deteriorating economic fundamentals in 2008 and early 2009 characterised by a 14.5 percent budget deficit, 18.1 percent year end inflation, 31 percent loss of value of the cedi against major trading currencies etc. Also, the need for fiscal consolidation as a result of the impact of the global financial crisis and Ghana's worsened international credit ratings contributed to dwindling her options in 2009; hence the motivation in going for the IMF loan of $602 million. Thus, with the prospect of successfully raising funds from the international capital market undermined, Ghana became increasingly vulnerable as its current account, fiscal deficit, exchange rate, inflation and debt indicators worsened.
- **Conditionalities associated with the IMF $602 million loan:** The loan conditionalities enjoin the GoG to observe a ceiling on the overall fiscal deficits (including grants). Thus, fiscal deficit was expected to decline from 14.5 in 2008 to 9.4 percent of GDP in 2009, then to 6 percent and 4.5 percent of GDP in 2010 and 2011 respectively. Further, GoG was expected to ensure: a floor in the net international reserves translating into a gross reserve cover of three months of imports by the end of 2011; a continuous zero ceiling for the accumulation of new external arrears; and a ceiling on the contracting or guaranteeing of new external non-concessional debt. Inflation was targeted at 14.5 percent at end-2009 and projected to decline to single digits before end-2010. Besides, GoG was expected to meet some indicative targets including a ceiling on the net domestic financing of the government; and a ceiling on the net domestic assets of the Bank of Ghana.

  In addition to these programme targets, some structural conditionalities termed **benchmarks** were attached to the loan. These included: a net hiring freeze in non priority sectors; inflation targeting and monetary tightening; bringing average tariff to cost recovery levels; implementing actions to strengthen revenue collection by the Electricity Company of Ghana; and adoption of plans to restructure the balance sheets of utility companies during 2010-11. Other benchmarks included the appointment of a Minister of State in charge of public sector reform and classification of at least half of the total number of subvented agencies in preparation for their rationalization, divestiture or commercialization.

In comparison with previous IMF conditionalities, the current programme targets and structural benchmarks are in general, not markedly different, however with few exceptions. The only notable change is that, according to the IMF structural conditions are no longer legally binding. In addition, the Fund granted some waivers to Ghana after the country failed to meet some of the agreed programme targets relative to inflation and budget deficit.

- **Implication of the loan on the poor and vulnerable:** The fiscal conditionalities that enjoined GoG to among others, reduce budget deficit to 9.2 percent in 2009 contributed to reducing the rate of economic growth from 7.3 in 2008 to 4.5 in 2009. Given the urgent need to meet these time-bound targets, GoG was compelled to defer statutory payments totalling GH¢ 855 million to the Ghana Education Trust Fund (GETFund), the National Health Insurance Fund (NHIF) and District Assembly Common Fund (DACF).

  Considering the substantial role of the GETfund in educational infrastructural development, it will not be far-fetched to infer that depriving the GET Fund of these payments has undermined its capacity to execute its given mandate. The implication is that the over 4,000 basic schools under trees would not get classroom blocks any time soon as a result of these conditionalities. Also, the IMF structural benchmark of net hiring freeze in the non priority sector has implications on the quality of education in Ghana. This policy has resulted in the ban on recruitment of teachers except those churned out by training colleges, creating in the process, a teacher deficit of 24,560. Thus, out of the 33,185 teacher vacancies declared in 2010 for example, only 8,625 trained teachers were expected to be available to fill these vacancies - a consequence of IMF conditionalities.

  Besides, deferred payments to the NHIF have, in general, negatively affected the timeliness of repayment of claims by District Mutual Health Insurance Schemes (DMHIS). In consequence, the ability of some accredited service providers to acquire the desired quantity and quality of medicines and other supplies to cope with the increasing attendance rate has been adversely affected. Access to quality healthcare has thus been compromised as a result of IMF conditionalities of reining in the budget deficit.

  , In addition to the deferred statutory payments, the study observed that arrears to domestic suppliers increased from Gh¢ 830 million in 2008 to Gh¢ 855 million in 2009, albeit a slight reduction when expressed as a percentage of GDP (i.e. from

4.7 to 3.9 percent), This adversely affected small businesses and job creation. Laborers, artisans, food sellers and their households were found to be badly hit. Furthermore, delaying payment to the DACF meant reducing the capacity of District Assemblies to embark on local level infrastructure projects with consequences on job creation in the rural economy due to lack of funds.

- **Alternative Sources of Resource Mobilization to the Government of Ghana:** The report identified other sources of domestic resource mobilization that the government of Ghana could tap into for development and this include; increasing revenue generation from the mining sector, improving financial transparency and monitoring of multinational companies through training and institutional strengthening, and embarking on a more progressive tax system etc.

RECOMMENDATIONS

To the IMF:

1. Stop attaching specific policy conditions to your loans. All advice given should provide a range of policy options to enable governments to make informed choices about macroeconomic policies.

2. Traditional conditionalities requiring strict fiscal adjustment should be subjected to parliamentary approval in cases where the Fund wants to prescribe that conditionality.

3. Focusing on macroeconomic benchmarks /criteria has not helped in improving pro-poor outcomes. The Fund should therefore be explicit and tie performance criteria to pro- poor programmes to elicit seriousness from implementing governments.

4. Do not only permit, but also support, the active use of fiscal policy to support public investments and public spending to build essential economic and social infrastructure, on which private investment also inevitably relies.

5. Encourage more expansionary monetary options that better enable domestic firms and consumers to access affordable credit for expanding production, employment, and increased contributions to the domestic tax base. Monetary policy should thus maintain low real interest rates, rather than ineffectively trying to keep inflation low with high interest rates which dampen aggregate demand and growth prospects.

To the Government of Ghana:

1. Avoid sacrificing spending in social sectors in order to meet IMF conditionalities, as the impact has been so severe on these sectors.

2. Reform mining laws and policies to generate revenue which can be achieved by reviewing the tax and royalty rates charged on mining and other related profits to reduce the power of the sector minister in negotiating mining deals outside the prevailing tax regime.

3. Review tax and import exemption for multinational companies and firms operating in the Free Zones. Further studies should be carried out to ascertain the net benefit of the free zone policy on Ghana as available data paints a gloomy picture.

4. Strengthen and resource accountability institutions and revenue agencies to better monitor and effectively assess the tax liabilities of multinational companies and ensure their compliance with existing tax legislation. Build the capacity of tax professionals to be able to detect tax avoidance by multinational companies.

5. Introduce a more progressive system of taxation through increasing property and rental tax and use income generated for rural development. This system of taxation is more progressive and would make more revenue available for development on a sustainable basis than over reliance on foreign loans and aid.

6. Explore other flexible lending opportunities when faced with similar crisis in future or negotiate for reduced conditionalities when approaching the IMF in future.

To Civil society:

1. Build your capacity in analyzing financial information that would be made available under the US transparency laws to hold government accountable and promote transparency.

2. Continue advocacy for review of tax and import exemption for multinational companies and firms operating in the Free Zones.

3. Further carry out studies to ascertain the net benefit of the Free Zone policy on Ghana.

SECTION 1: **INTRODUCTION**

Ghana's romance with the International Monetary Fund (IMF) dates back to 1966. Since then, five governments of Ghana have entered into separate but similar forms of loan arrangements with the IMF. The country explored other options and pull out from IMF loans arrangement in 2006. Nonetheless, in 2009, the Government of Ghana (GoG) returned to the Fund by borrowing USD$ 602 million from the institution, motivating the IMF's reversion to its earlier significant role in the economic governance of the country.

While some analysts consider the policies of the IMF as a necessary evil rather than a preferred strategy, others find Ghana's relationship with the Fund as akin to a bad marriage. Others criticise IMF-supported programmes in Ghana as ineffective, unjustifiably restrictive of government spending and unreasonably interruptive of much-needed expansions to the education and health labour force[1]. Ghana's u-turn to the IMF in 2009 has, thus, raised numerous questions given the concerns about the impact of IMF conditionalities on the Ghanaian economy. It is against this backdrop that ActionAid commissioned this study to ascertain the implications of the recent IMF loan and conditionalities on the poor and vulnerable in Ghana (see appendix 1 for full terms of reference). This report seeks to establish the facts about IMF conditionalities attached to the loan; and investigate the implications of the loan on the poor and vulnerable.

To achieve these objectives, a desk review of relevant documents relating to the Government of Ghana's relationship with the IMF was carried out. The literature reviewed includes reports on IMF-supported programmes namely the Structural Adjustment Programme (SAP), the Heavily Indebted Poor Countries (HIPC) Initiative, and the Poverty Reduction and Growth Facility (PRGF). Also, official statistics/records from the Ministry of Finance and Economic Planning, the World Bank and IMF were sourced.

The desk research was complemented with key informant interviews with officials at the Ministries of Finance and Economic Planning (MoFEP), Education and Health as well as the IMF and other key individuals considered essential to this study. This was necessary to validate information obtained and refine insights. Further, 115 households

[1] Goldsbrough, D. (2007). *The IMF and Constraints on Spending Aid*. One Pager Number 35. International Poverty Centre, UNDP, Brasilia.

in Donkokrom, Adawso and Kwamekrom in Kwahu North District were reached with a survey interview. The full list of persons interviewed has been attached as Appendix 2.

Both qualitative and quantitative data collection methods were employed. Quantitative data that was collected and analysed included official statistics/records from the Ministries of Education and Health. In tracking the implications of IMF policy at the micro level, 4 communities in Kwahu North district were reached with focus group discussions (FGD) (see Appendix 3 for sample FGD guide). Other one-on-one interviews were carried out in Accra and in Obuasi in Ashanti region.

Besides Section 1 which covers the introduction, the rest of the report is structured as follows. Section 2 discusses the relationship between IMF and GoG. To better understand the nature of conditionalities and its implications for the Ghanaian economy, the section analyzes what inspired previous governments to seek IMF assistance, and the available conditionalities. It also discusses the macroeconomic policies for the various sub-periods and performance in terms of growth, employment and poverty reduction outcomes. Section 3 explores the motivations for GoG's decision to opt for the recent IMF loan and the associated conditionalities. It also examines the relationship between the current and previous conditionalities in order to hypothesize the potential implication of the current conditionalities. In Section 4, we show how the recent IMF loan has affected the social sectors of the Ghanaian economy and its poverty reduction implications. The penultimate section explores alternatives to IMF loans with the study conclusions are summarised in Section 6.

The study was carried out by Benjamin Addo, David Korboe, Jody Williams and Osman Mensah. The content of this report and the views expressed therein are the sole responsibility of the authors and are not necessarily shared by ActionAid Ghana or other individuals and institutions interviewed.

SECTION 2: GHANA AND THE IMF: GROWTH, EMPLOYMENT AND POVERTY REDUCTION OUTCOMES

2.1 INTRODUCTION

The relationship between the IMF and GoG can be described as having a 'flip-flop cycle' while the economic reforms pursued by Ghana based on IMF policy prescriptions have received mixed reactions. At best, Ghana's relationship with the IMF has resulted in stabilization and economic growth which, however, occurred at the expense of employment as evidenced in the era of Structural Adjustment Programmes (SAPs). At worst, the pursuance of such policy prescriptions has led to socio-economic hardships and political instability, which together with other factors motivated the overthrow of governments as observed in 1972. To better assess the implications of the current USD$602 million IMF loan and its conditions, the study explored existing historical records to clearly establish what went right or otherwise with the state of the economy with or without IMF loans. This section discusses the macroeconomic policies pursued and their associated impact on growth, employment and poverty reduction outcomes within periods corresponding with and without IMF influence.

2.2 IMF AND CPP GOVERNMENT [1960-1966]

From independence in 1957, Ghana enjoyed economic prosperity with a relatively high growth rate, substantial foreign exchange reserve and a strong civil service to guide economic growth.[2] To promote socioeconomic development, the government instituted a policy of free education, healthcare and initiated mass industrialization. However, coupled with external shocks arising from deteriorating price of cocoa, the economic situation retrogressed from bad to worse. In 1965, Ghana was faced with the challenge of dealing with an economic downturn and, needing an external bailout, approached IMF. The Fund proposed a reduction in government spending to levels that could be covered by government revenues in order to fight inflation.[3] The Nkrumah government, however, rejected these conditions. Adopting these policies would have thwarted the expansionist development programmes which included diversification of the Ghanaian

[2] Hutchful, E. (1985). *IMF Adjustment Policies in Ghana since 1966*. African Development, 10 (1), 5.
[3] Aryeetey, E. and Fosu, A. (2000). *Economic Growth in Ghana: 1960-2000*. A Paper Prepared for AERC Growth Project.

economy through import substituting industrialization.[4] Moreover, if Nkrumah had accepted IMF loan and conditionalities, it would have affected the momentum of his economic development strategy.[5] The IMF policies would have forced Nkrumah to cut back on capital spending (i.e. building of schools, hospitals, and particularly his pet economic programme: the import substituting industrialization). Since Nkrumah government was overthrown in 1966, it is impossible to determine whether its policies could have tackled the economic downturn without the IMF support.

This notwithstanding, available data indicates that Ghana's socio-economic situation as of 1965 - a year before the overthrow- was not only gloomy (according to some analysts) but also heralded the nation's economic doom.[6] Besides the high level of debt stock which stood at USD$500 million in 1965 (from a negligible amount in 1960), the external reserve position had deteriorated considerably between 1957 when net reserves stood at US$269 million and 1966 when they were negative at –US$391 million.[7] This outcome resulted in a deteriorating balance of payments position and also the poor credit rating accorded the country. Consequently, inflation ballooned from 0.98 percent in 1964 to 26.4 percent in 1965 (see Fig. 2.1)[8].

[4] Ibid

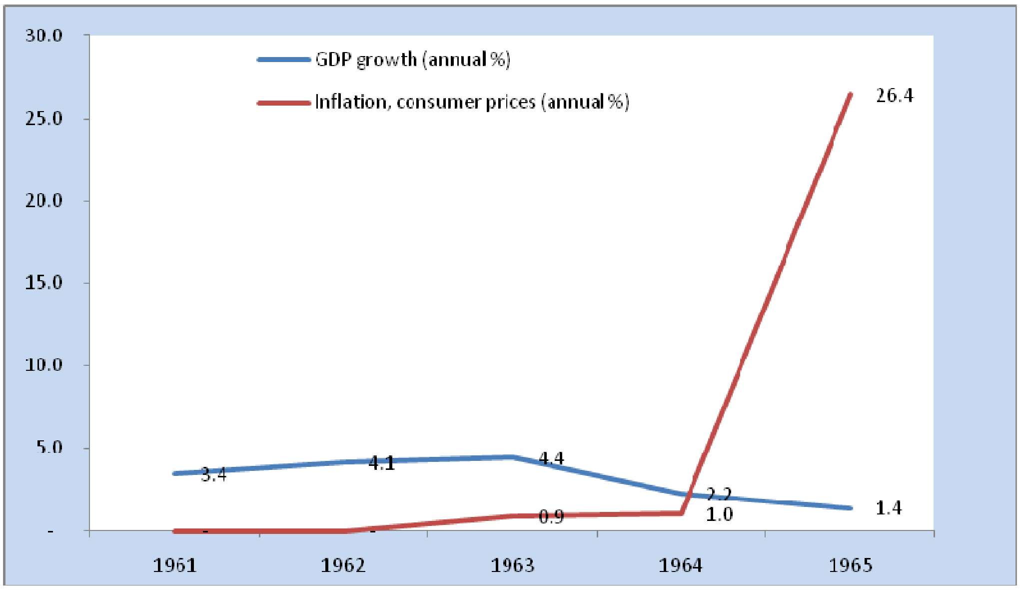
[5] Frimpong-Ansah, J. (1991). *The Vampire State in Africa: The Political Economy of Decline in Ghana.* Africa World Press.

[6] Osei-wusu Adjei, P. and Ohene Kyei, P. (2009). *The Impact of the Global Economic Crises on the Socio-economic Conditions of Vulnerable Groups in Deprived Societies: Historical Experiences and Lessons from the 'Lost Decade' for Africa in the 1980s.*

[7] Frimpong-Ansah, J. (1991). *The Vampire State in Africa: The Political Economy of Decline in Ghana.* Africa World Press.

[8] Ibid

Fig. 2.1 Ghana's GDP and Inflation from 1961 to1965



Source: World Development Indicators, 2009

2.3 GHANA'S FIRST ENCOUNTER WITH THE IMF (1966-1972)

The deteriorating economy with the attendant fall in living standards was the pretext on which the National Liberation Council (NLC) administration ousted the Nkrumah government in February 1966. The administration subsequently approached the IMF for financial support. Just about three months into government, the NLC met the Fund's conditions and subscribed to its policies. Under the NLC, disinflationary policies aimed at stabilizing the macro-economy were implemented. IMF proposed the following conditionalities[9]:

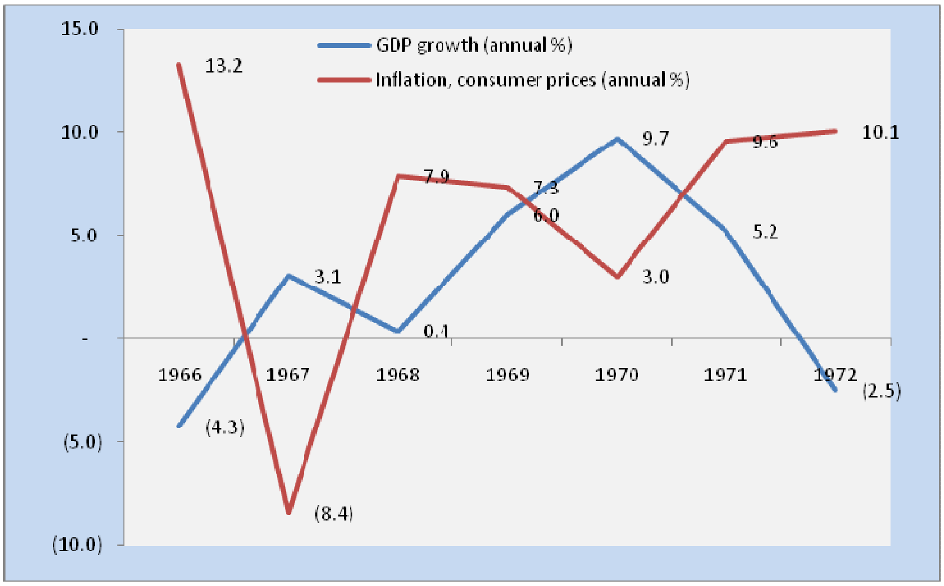
- Reduction in overall government expenditures (affecting mainly the capital budget) and in the size of the deficit, and recourse to non-inflationary sources of borrowing to cover the remaining deficit;
- reduction in bank credits to both the public and private sectors; wage and salary controls;
- Large-scale retrenchments in the public and private sectors. This constituted over ten per cent of total wage labour;
- Devaluation of the national currency (by thirty per cent against the U.S. dollar); and

[9] Ibid

- Short-term rescheduling of the external debt and restrictions on fresh short- and-medium term borrowing.

As indicated in Fig. 2.2, the objectives of stabilization were largely achieved. GDP growth increased from -4.28 percent in 1966 to 6 percent by 1969.

Fig. 2.2 Ghana's GDP and Inflation trend from 1966 to1972



Source: *World Development Indicators, 2009*

The balance of payment moved into surplus and the current account and government budget deficits were also reduced.[10] This caused inflation to decrease from 13.24 percent in 1966 to 6.5 percent by 1969.[11] After the 1969 election, the Progress Party (PP) led by Dr. K. A. Busia also continued to pursue IMF prescriptions. The Busia government implemented market oriented policies and complied with the austerity measures that accompanied the liberalization policies against the advice of J.H Mensah, his finance minister who served the same role during the previous NLC government which had embraced IMF policies.[12] In a recent interview, Mensah said that 'he objected to IMF policies because of worry over the political backlash against the

[10] Killick, T. (1978). *Development Economics in Action: A Study of Economic Policies in Ghana*, Heinemann Educational Books, London.
[11] Frimpong-Ansah, J. (1991). *The Vampire State in Africa: The Political Economy of Decline in Ghana*. Africa World Press.
[12] Ibid

austerity nature of the liberalization policies, which included job losses, and cuts in government social and economic subsidies'[13].

The IMF conditionalities yielded the required stability and improved economic performance. On average, GDP growth increased by 7 percent during 1969-1971 while inflation fell to 3 percent by 1970. Commonly held and entrenched beliefs of the Bretton Woods Institutions are that economic growth cuts poverty and that anyone who cares about the poor should favour the growth-enhancing policies of good rule of law, fiscal discipline or low government consumption, and openness to international trade.[14] Other school of thought, however, are of the view that rapid and sustained poverty reduction requires pro-poor growth: a pace and pattern of growth that enhances the ability of the poor to participate in, contribute to and benefit from growth.[15] The most recent UNECA Economic Report on Africa posits that for growth to lead to significant poverty reduction, high, sustained and employment-generating growth rates, combined with equitable income distribution, is necessary.[16] It is against this background that the study finds an interrogation of the sustained growth recorded between 1965 and 1970 in terms of its effects on employment and poverty reduction essential.

Available data on employment is patchy. However, the implementation of the Aliens Compliance Order in 1970 which sought to create employment spaces for Ghanaian citizens by the deportation of foreigners is symptomatic of the employment situation in the country. While GDP growth between 1965 and 1970 averaged 5.3 percent per annum, formal sector employment for the same period recorded negligible improvement from 396,000 jobs to 398,000, an increase of 2000 over a five year period or about 0.1 percent per annum.[17] Given an average population growth rate of 2.05 percent at the time, an increase of 0.1 percent per annum in formal employment can hardly be considered to have contributed to poverty reduction. Granted that real average monthly earnings per employee increased over the period from 3.8 to 4.0 cedis (representing an improvement of 1.1 percent per annum), if anything at all, the growth may have resulted in more inequality than poverty reduction.

Despite the economic achievement recorded, the structure of the economy remained unchanged; largely dependent on cocoa, making it highly susceptible to cocoa price

[13] Interview with J. H. Mensah, September 10, 2010
[14] Dollar, D. and Kraay, A. (2001). *Growth is Good for the Poor.* Policy Research Working Paper 2587. The World Bank Development Research Group Macroeconomics and Growth
[15]Weisbrot, M., Baker, D., Naiman, R. and Neta, G. (2001). *Growth May be Good for the Poor – But are IMF and World Bank Policies Good for Growth?* Briefing Paper, Center for Economic and Policy Research.
[16] UNECA (2010). Economic Report on Africa 2010. Promoting high-level sustainable growth to reduce unemployment in Africa. United Nations Publication. Printed in Nairobi, Kenya
[17]Boateng, K. (1997). *Institutional Determinants of Labour Market Performance in Ghana*. In Aryeetey, E. and Kanbur, R. (eds.), *The Economy of Ghana, Analytical Perspectives on Stability, Growth and Poverty*. James Currey and Woeli Publishing Services.

volatility.[18] The achieved growth failed to usher the economy onto the path of rapid development. By 1972, the economy found itself in a similar position, in some respects as it was in 1965, with reduced growth and increasing fiscal and current account deficits.[19] The economic difficulties partly emanated from a dramatic fall in income from cocoa exports as a result of price volatilities, foreign competition from especially Cote d'Ivoire, smuggling, and unrealistic producer price among others.[20] The government on the advice of the IMF responded with a massive devaluation of the cedi by 48.6 percent in December 1971 among other austerity measures which included wage freezes and tax increases. Immediately, these measures resulted in widespread socioeconomic hardships which provided the pretext for another coup d'état resulting in the overthrow of the government in January 1972.

2.4 GHANA WITHOUT THE IMF [1972-83]

Under the National Redemption Council (NRC) government (headed by Gen. Acheampong), Ghana rejected IMF involvement. The NRC government adopted measures aimed at legitimizing their seizure of power by reversing the devaluation condition prescribed by IMF. This was followed by the unilateral repudiation of all external debts, which amounted to $94.4 million.[21] The NRC's approach antagonized the donors, who withdrew their support, with serious implications for capital inflows. To address the funding gap, the Acheampong government adopted a policy of self-reliance and intensified the mobilization of domestic resources for national development.[22] The government was highly successful in this regard, especially during 1972-74.[23]

The regime also launched the twin programmes of Operation Feed Yourself (OFY) and Operation Feed Your Industries (OFI) under the catchy slogan of 'grow what you eat and eat what you grow'.[24] What appeared to have marred the domestic mobilization efforts were the oil price hikes of the mid 1970s; political corruption as well as fiscal indiscipline. As a result, the government's tax base shrank disproportionately. The government revenues, which amounted to 21 percent of GDP in 1970, dropped to 9 percent in 1976.[25] The revenue collapse increased the reliance on the banking system

[18] The Federal Research Division of the Library of Congress, Country Studies/ Area Handbook Program

[19] Fosu, K. A. and Aryeetey, E. (2008). 'Ghana's Post –independence Economic Growth: 1960 – 2000'. In Aryeetey, E. and Kanbur, R. (eds), *The Economy of Ghana, Analytical Perspectives on Stability, Growth and Poverty*. James Currey; and Woeli Publishing Services.

[20] The Federal Research Division of the Library of Congress, Country Studies/ Area Handbook Program

[21] Boafo-Arthur, K. (1999). 'Structural Adjustment Programs (SAPs) in Ghana: Interrogating PNDC's' Implementation. *West Africa Review,* 1(1), 1–19

[22] Ibid

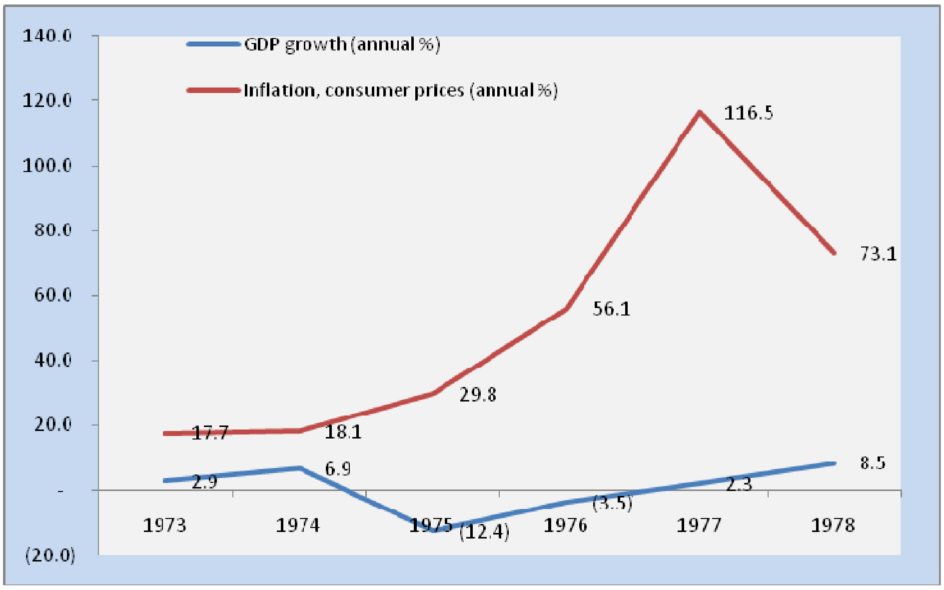
[23] Ibid

[24] Ibid

[25] Aryeetey, E. and Kanbur, R. (eds) (2008). *The Economy of Ghana, Analytical Perspectives on Stability, Growth and Poverty*. James Currey; and Woeli Publishing Services.

to finance expenditures. The loss of monetary control resulted in increased inflation which, together with other factors, led to public insurrection against the regime leading to the palace coup in 1978.

Fig. 2.3: Ghana's GDP and Inflation trend from 1973 - 78



Source: *World Development Indicators, 2009*

As shown in Fig. 2.3, although the NRC government encountered similar external shocks in 1974 with GDP plummeting from 6.85 percent in 1974 to -12 percent record low in 1975, economic growth was restored to 8.5 percent within 3 years with a fall in inflation from 116.45 percent in 1977 to 73.09 percent in 1978. This happened without IMF support. At the same time, formal sector employment increased from 398,000 in 1970 to 455,000 as of 1975, an increase of 2.8 percent per annum with real average monthly earnings per employee reducing from ¢4.035 to ¢3.473, a decline of 2.8 percent.[26]

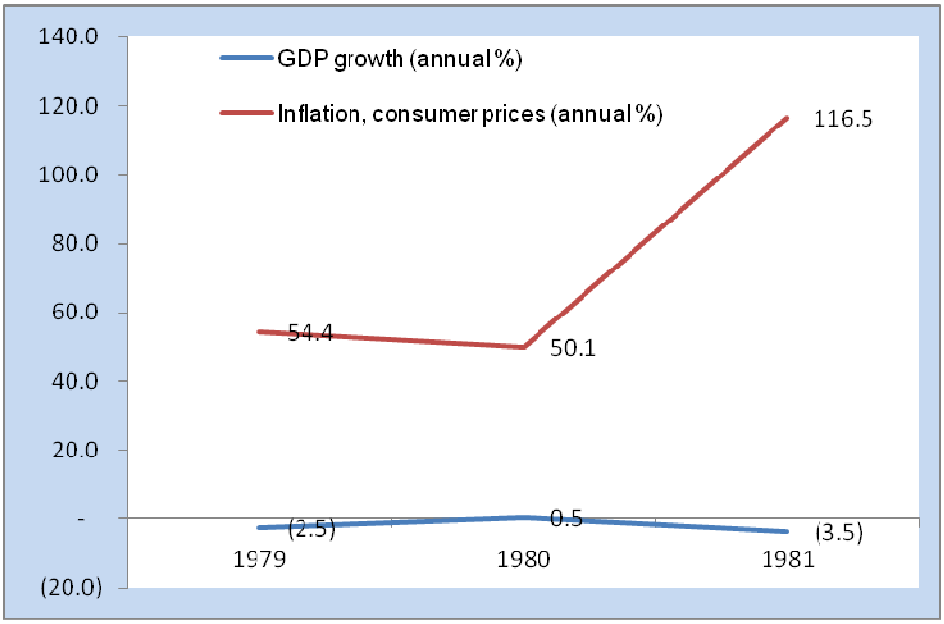
The dearth of data on poverty and inequality trends for the period limits the assessment of how the recovery impacted poverty reduction.

In general, the NRC/SMC I regime, although committed to anti-corruption and self-reliance, tolerated widespread corruption, and never managed to achieve self-sufficiency. Moreover, economic hardship and political corruption gained prominence. In spite of the overthrow of Acheampong in 1978, political instability, economic mismanagement and corruption continued unabated. The IMF intervened, but for a

[26] Boateng, K. (1997). *Institutional Determinants of Labour Market Performance in Ghana*. In Aryeetey, E. and Kanbur, R. (eds), *The Economy of Ghana, Analytical Perspectives on Stability, Growth and Poverty*. James Currey and Woeli Publishing Services

short time as their policy prescription for the ailing economy – the traditional dose of stabilisation measures which comprised devaluation of the cedi by 58 percent against the US dollar – culminated in the overthrow of the SMC II regime which had toppled SMC I.[27] As expressed succinctly by Younger: 'The devaluation of the Ghanaian cedi has come to be seen as the death knell for governments'.[28] This notwithstanding, Ghana's economy experienced a continuous economic decline between 1979 and 1983 recording varying levels of negative GDP growth as well as turbulent inflationary trends as shown in Fig. 2.4 with severe implications on employment. For instance, between 1975 and 1980, formal sector employment dropped from 455,000 to 337,000, a decline of 5.1 percent per annum while real average monthly earnings per employee dipped from ¢3.473 to ¢1.147 indicating a 13.39 percent decline per annum over the period.[29] The implication for poverty reductions is obvious.

Fig. 2.4: Ghana's GDP and Inflation trend from 1979 to 1981



Source: World Development Indicators, 2009

[27]Boafo-Arthur, K. (1999). Structural Adjustment Programs (SAPs) in Ghana: Interrogating PNDC's' Implementation. *West Africa Review,* 1(1), 1–19.
[28]Younger, S. D. (1992). Testing the Link between Devaluation and Inflation: Time-series Evidence from Ghana, *Journal of African Economies*, 1 (3), 369-94
[29]Boateng, K. (1997). 'Institutional Determinants of Labour Market Performance in Ghana'. In Aryeetey, E. and Kanbur, R. (eds), *The Economy of Ghana, Analytical Perspectives on Stability, Growth and Poverty*. James Currey and Woeli Publishing Services.

2.5 GHANA'S SECOND ENCOUNTER WITH THE IMF 1983 TO 2006

To make a precarious situation worst, Ghana was hit by a severe Sahelian drought which resulted in high incidence of bush fires and hunger. This challenge coupled with capital flight and the continuing miserable performance of the economy as well as the mass expulsion of over one million Ghanaians from Nigeria in the same year compelled the Rawlings-led PNDC regime, in the absence of a realistic alternative, to turn to the IMF.[30] Ghana's return to the IMF in 1983 marked the beginning of its longest encounter with the Fund. The IMF prescribed stabilisation programme, the Economic Recovery Programme (ERP) from 1983 -1986, followed by a Structural Adjustment Programme (SAP). The ERP was intended to arrest the downward economic spiral while the SAP sought to correct a number of structural imbalances to ensure a sustained healthy economic growth.[31] Some of the prescriptions which received considerable attention included trade liberalisation, public sector retrenchment, removal of subsidies on food, petrol and such social services as education and health, increased taxes, privatisation, adoption of flexible foreign exchange regime and devaluation of the cedi among others.

The outcome of the economic reform has received mixed reviews in the available literature. According to the IMF and the World Bank, Ghana's economic reform was a success case as it improved growth rates, resuscitated the cocoa, mining and forestry industries; and helped restore the confidence of international financial institutions in the economy.[32] Unlike the experience of the late 1970s and early 80s, growth rates in output started turning positive averaging about 5 per cent per year between 1983 and 1989. The remarkable economic recovery and the subsequent growth rate, however, failed to get Ghana out of poverty as the reforms in the health, education and agriculture sectors as well as the massive retrenchment exercise made a greater percentage of household heads unemployed and vulnerable.[33] In spite of the recovery, formal sector employment, between 1980 and 1989, reduced from 337,000 to 215,000 indicating a reduction of 36.2 percent over the period, while real average monthly earnings per employee increased from 1.147 to 2.321 cedis (a 102 percent improvement) over the period.[34]

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[30] Aryeetey, E. and Kanbur, R. (eds) (2008). *The Economy of Ghana, Analytical Perspectives on Stability, Growth and Poverty*. James Currey; and Woeli Publishing Services.
[31] Ibid
[32] World Bank (1994). *Adjustment in Africa: Reform, Result and the Road Ahead. Washington DC and New York: The The World Bank and Oxford University Press.*
[33] Jonah K. (1989). 'The Social Impact of Ghana's Adjustment Programme, 1983-86'. In Bade Onimode (ed.) *The IMF, the World Bank and the African Debt*, Vol. 2: The Social and Economic Impact, London: Zed
[34] Boateng, K. (1997). *Institutional Determinants of Labour Market Performance in Ghana*. In Aryeetey, E. and Kanbur, R. (eds), *The Economy of Ghana, Analytical Perspectives on Stability, Growth and Poverty*. James Currey and Woeli Publishing Services

The negative effect of the reforms on employment is at times explained with the argument that: 'the restrictive fiscal policies of the 1980s caused a shift in employment from public to informal sectors'.[35] The question is: can the informal sector be considered as an extenuating factor in this case? Available information indicates that small-scale traders, food crop farmers and artisans suffered reduced incomes due to the proliferation of the 'redeployees' to the sector, removal of subsidies on agricultural inputs as well as introduction of tax.[36] Significant numbers of the unemployed and underemployed became economically worse off during the period. Besides, school enrolment rates and health conditions of children in rural and urban poor households deteriorated during the period as a result of subsidy cuts and the introduction of user fees in the utilisation of both education and health services. For instance, net primary school enrolment ratio continuously declined from 80 percent in 1980 to 73 in 1988 and reached 66.8 percent in 1990.[37] With respect to health, the health seeking behaviour of the poor worsened after the introduction of user fees. According to the Ghana Living Standards Survey (GLSS III), fewer poor people (about 25 percent) utilised available hospital facilities compared with a national average of 35 percent owing to the relatively high cost of health services. The overall impact of the reforms on the social sector cannot be fully established because of lack of data. Notwithstanding this, the GLSS (1992) and the Institute for African Development estimated that the poverty levels increased during the period. For instance, estimates from the Institute for African Development indicate that the proportion of rural poor increased from 43 percent in 1970 to 54 percent in 1986 while urban poverty increased from 30.35 percent in the late 1970s to 45.50 percent in the mid 1980s. The reforms succeeded in raising economic growth, but they also imposed of significant economic hardships on vulnerable groups such as women, children and the poor through higher taxation, public sector retrenchment and removal of subsidies.[38]

In 1987, the Ghana government acknowledged of the social cost of the ERP/SAP on the poor, introduced the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD) to address the situation. Regardless of the intent, PAMSCAD did little to actually alleviate the economic hardships faced by the poor and the vulnerable as a result of poor targeting.[39] Besides, formal sector employment continued its decline from

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[35]UNECA (2010). Economic Report on Africa 2010. Promoting high-level sustainable growth to reduce unemployment in Africa. United Nations Publication. Printed in Nairobi, Kenya.

[36]Osei-wusu Adjei, P. and Ohene Kyei, P. (2009). *The Impact of the Global Economic Crises on the Socio-economic Conditions of Vulnerable Groups in Deprived Societies: Historical Experiences and Lessons from the 'Lost Decade'for Africa in the 1980s.*

[37]World Bank cited in Kyei, 1998: Structural Adjustment Programme: Ghana's experience. Technical paper presented at the KNUST, Kumasi, Ghana.

[38]UNICEF (1986). Ghana: Adjustment Policies and Programmes to protect children and other vulnerable groups. Accra: Ghana

[39]Brydon L. and Legge K (1996). *Adjusting Society: The World Bank, the IMF and Ghana*. London and New York: I.B Tauris Publishers.

215,000 in 1989 to 186,000 in 1991, indicating a 44 percent reduction against a population growth rate of 2.1 percent. This cannot be likened to the 1960 formal sector employment of 333,000.[40] Interestingly, real average monthly earnings per employee also showed a trend similar to formal sector employment recording a decline of 10.38 percent from 2.321 in 1989 to 2.080 cedis in 1991, representing about 62 percent decline when set against the 1960 real average monthly earnings of 5.538 cedis.

In spite of the economic hardships, Ghana enjoyed a reasonable political stability and a positive growth rate averaging 4.5 percent per annum between 1992 and 1995.[41] Despite these achievements, the Ghanaian economy did not show any structural transformation necessary for economic take-off. Economic growth during the 1990s, to a large extent, relied on mining, which although attracted the bulk of Foreign Direct Investment (FDI), had a very low labour absorption rate.[42] Labour-intensive sectors such as manufacturing and tourism did not get the needed investment to enhance growth and employment performance.[43] Also, unlike macroeconomic stabilisation, economic policy failed to give adequate consideration to employment.

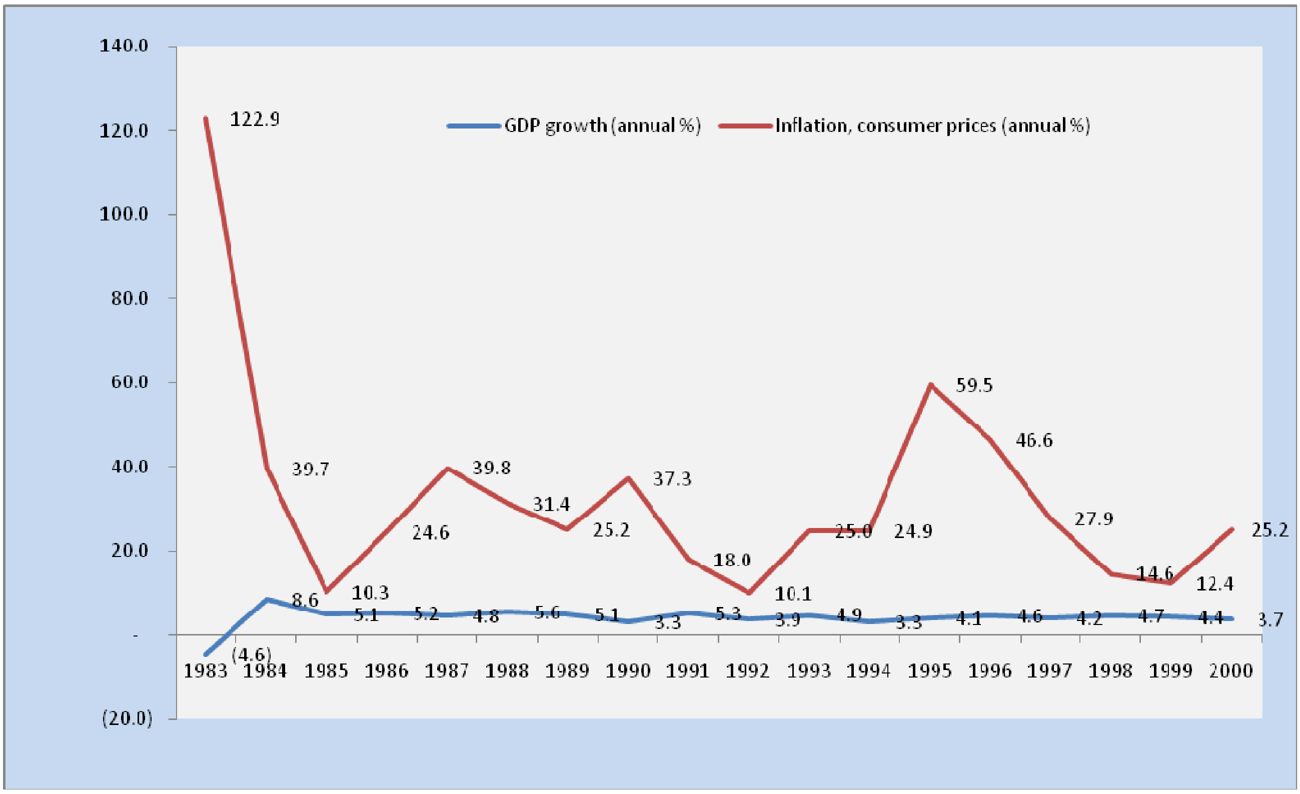
[40]Boateng, K. (1997). 'Institutional Determinants of Labour Market Performance in Ghana'. In Aryeetey, E. and Kanbur, R. (eds), *The Economy of Ghana, Analytical Perspectives on Stability, Growth and Poverty*. James Currey and Woeli Publishing Services

[41]Aryeetey, E. and Kanbur, R. (eds) (2008). *The Economy of Ghana, Analytical Perspectives on Stability, Growth and Poverty*. James Currey; and Woeli Publishing Services.

[42]UNECA (2010). Economic Report on Africa 2010. Promoting high-level sustainable growth to reduce unemployment in Africa. United Nations Publication. Printed in Nairobi, Kenya.

[43]Aryeetey E. and Boateng B. W. (2007). *Growth, Investment and Employment in Ghana*. Working Paper No. 8, Policy Integration Department. ILO. Geneva

Fig. 2.5: Ghana's GDP and Inflation trend from 1983 to 2000



Source: World Development Indicators, 2009

During the closing years of the 1990s, especially as the external economic environment deteriorated with declining export prices and increasing oil prices, the economy exhibited three distinct adverse characteristics.[44] These included high macroeconomic instability, unsustainable external and internal debt, and high poverty levels. The Cedi lost about half of its value and inflation soared above 30 percent in 2000. The macroeconomic instability that ensued coupled with huge election year public spending by government resulted in an unsustainable external and internal debt situation. The external debt increased from US$3,487 million (or 59 percent of GDP) in 1990 to US$5,001 million (or 95 percent of GDP) in 1994. By 1999, Ghana's external debt was estimated by the IMF to be about US$7 billion. The domestic debt situation was no better. The level of poverty was unacceptably high -about 40 percent of the population. According to Ghana Living Standards Survey (IV), food crop farmers, relative to other groups, experienced a marginal change in poverty reduction. Poverty in rural Ghana, especially in the Savannah zones of the country had become more serious and

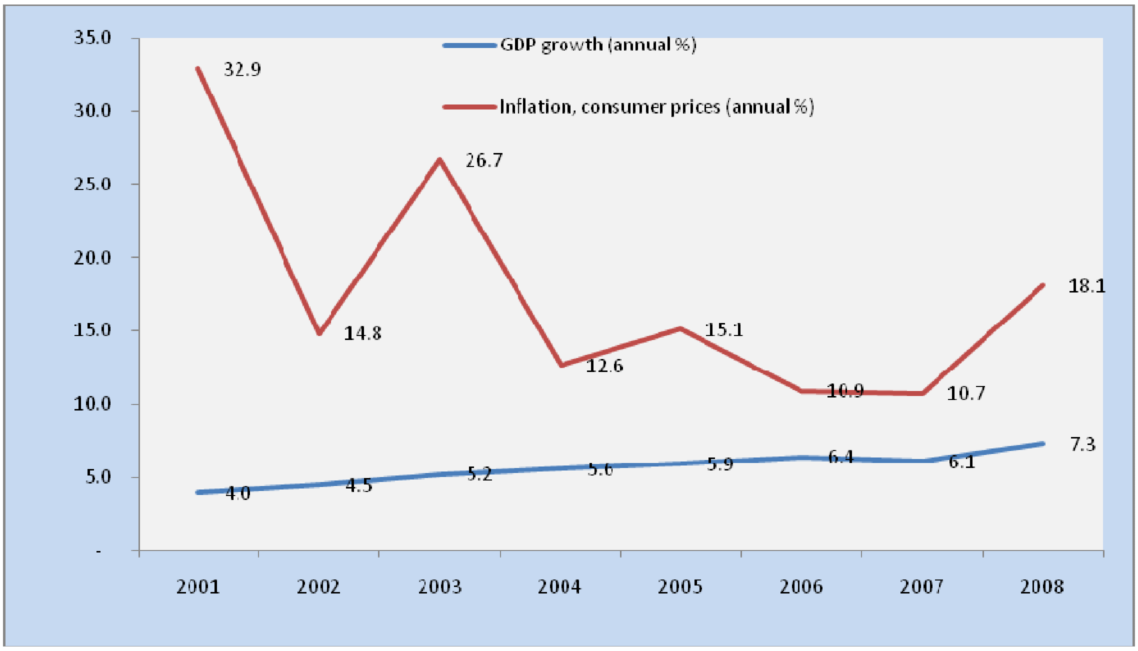
[44]Hutchful, E. (2002). *Ghana's Adjustment Experience: The Paradox of Reform* . UNRISD/ WOELI/ Heinemann/ James Currey.

prevalent. It was estimated that people in these areas, with poverty rate as high as 80 percent in some cases, were about 7.5 percent worse off than they were during preceding decade. The welfare situation of people in rural Ghana deteriorated so much so that access to food, health and educational facilities, secure and stable employment and income, potable water and good sanitation facilities as well as nutrition, among others were a major challenge.

The New Patriotic Party (NPP) government, in 2001 faced with deteriorating economy, enrolled in IMF/World Bank's Heavily Indebted Poor Countries Initiative (HIPC). The basic conditionalities were not different from previous ones. Under the HIPC, monetary policy was strictly limited by macroeconomic stabilisation. In addition to the typical IMF requirements to limit credit to the government and increase foreign reserves, the Bank of Ghana was also encouraged to focus on reducing inflation into the 'low single digits.'[45] This helped as stabilization process proved effective between 2001 and 2007 with annual GDP growth averaging 5.4 percent as shown in Fig. 2.6. The growth was mainly concentrated in the secondary and tertiary sectors, with agriculture employing around 50 percent of the labour force recording a much slower rate of 3.8 percent compared with 7.2 percent and 6.2 percent for industry and services respectively over the period.[46] The growth performance has been attributed to the post 1983 reforms under the SAP. Nonetheless, the agricultural sector continued to contribute more to output, employment, revenue generation and foreign exchange earnings, accounting for about 36.1 percent of GDP in 2006 with the service and industry accounting for 29.2 and 26.3 percent of GDP respectively.

[45]Epstein, G. (2007). Too *much, too soon: IMF conditionality and inflation targeting.* Political Economy Research Institute, University of Massachusetts
[46]UNECA (2010). Economic Report on Africa 2010. Promoting high-level sustainable growth to reduce unemployment in Africa. United Nations Publication. Printed in Nairobi, Kenya

Fig. 2.4: Ghana's GDP and Inflation trend from 2001 to 2008



Source: World Development Indicators, 2009

Contrary to the 1980s and 1990s, Ghana's improved growth performance was associated with a substantial decline in overall unemployment and poverty from 2000[47]. The GLSS (2006) indicated that unemployment dropped to 6.5 percent of the working population while poverty headcount per capita (PPP) of $1 per day reduced from 51 percent in 1992 to 29 percent in 2006. The improvement in employment and poverty reduction were attributed to Ghana's growth and poverty reduction strategy (GPRS) which focused on private sector development and employment creation through public investment in infrastructure and services.[48] The GPRS described the country's medium to long-term macroeconomic, structural and social policies and programmes to promote broad-based growth and reduce poverty. To ensure that public spending benefited the poor and reduced poverty, the GPRS as per its design prioritised among other things, expenditure targeted at providing basic social services to the poor and also assistance to enable the poor to increase their production and productivity.[49] Besides, the utilisation modality of some statutory transfers such as the District Assemblies Common Fund was modified to accommodate poverty reduction and sustainable development,[50] while new ones like the Ghana Education Trust Fund (GETFUND) and the National Health

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[47] Ibid
[48] Ibid
[49] Tsekpo, A. and Jebuni, C. D. (2008). *Budget Implementation and Poverty Reduction*. In Aryeetey, E. and Kanbur, R. (eds), *The Economy of Ghana, Analytical Perspectives on Stability, Growth and Poverty*. James Currey and Woeli Publishing Services.
[50] Ibid

Insurance (NHI) were set up to promote access and utilisation of essential services. Between 2001 and 2007, several pro-poor interventions such as the Livelihood Empowerment against Poverty (LEAP), the Ghana School Feeding Programme, the Capitation Grant, the National Health Insurance Scheme, and the National Youth Employment Programme were introduced, all aimed at poverty reduction.

Although overall growth, employment and poverty reduction improved over the period, a benefit incidence analysis indicates that the gains, in relative terms, may not have significantly trickled down to the poorest of the poor.[51] While the incidence of poverty has been falling since 1991/92; the incidence of poverty in rural areas has risen from 82 percent in 1991/92 to 83 percent in 1998/99.[52] As of 2006, about 86 percent of the total population living below the poverty line in Ghana was living in the rural areas especially rural savannah. The macroeconomic stability and sustained economic growth recorded over the period also resulted in significant increase in inequality. If the objective of pro-poor growth is to see a decline in inequality through faster growth for the poor relative to the non-poor, then 'Ghana has clearly not experienced pro-poor growth'.[53] The sustained economic development in Ghana has done little, if anything at all, to reduce the inequality between northern and southern Ghana.

Like the data on poverty reduction, a critical look at the basic labour market indicators for 2006 also depicts a frail situation despite the overall unemployment rate of 6.5 percent. Wage employment accounted for only 17.5 percent as against 55 percent and 20.4 percent in self-employment and contributing to family work respectively, thus yielding a vulnerability employment rate of 75.4 percent.[54] Besides, it is also estimated that about 26 percent of employed people live in households with income falling below the upper poverty line. These statistics indicate that the GPRS, notwithstanding its focus on employment, has not in any sustainable manner addressed the unemployment situation. The 2010 Economic Report on Africa put it this way: 'Ghana's PRSPs have been employment-centred but lacked effective implementation owing to funding constraints'.[55] In addition to the scarcity of funds, the low priority status accorded employment generation accounted for the ineffective implementation of Ghana's employment generating policies.[56] The absence of clear and time-bound targets for wage employment, unlike macroeconomic stability, makes policy-makers and implementers less accountable for employment generation.

[51] Ibid
[52] Ghana Statistical Service 2007, Patterns and Trends of Poverty in Ghana, 1991-2006.
[53] Ghana Statistical Service 2007, Patterns and Trends of Poverty in Ghana, 1991-2006. Pg 17
[54] GLSS V 2005/2006
[55] UNECA (2010). Economic Report on Africa 2010. Promoting high-level sustainable growth to reduce unemployment in Africa. United Nations Publication. Printed in Nairobi, Kenya. pg. 195
[56] ibid

One main weakness of the GPRS is its over-dependence on macroeconomic stability as a mechanism for accelerated economic growth and poverty reduction without the corresponding structural reforms and physical infrastructural development. The question, however, is whether the GoG is able to modify its macroeconomic policy to meet the needs of a more expansionary thrust that promotes, for instance, value addition in the agricultural sector and industrialisation on a long term basis while involved in an IMF programme?

If previous experience under Nkrumah and the basis of J.H. Mensah's objection to IMF loans during the second republic are anything to go by, one may infer that such a feat could prove herculean. It is therefore not surprising that Ghana had to exit from the IMF's Poverty Reduction and Growth Facility (PRGF) in 2006 on the premise that: '… there is, the need to expand the scope and structure of financing if government is to meet its goal of scaling up investments for accelerated growth from the current 6 percent to 8 percent annually',[57] and subsequently mobilized $750 million through issuance of a Eurobond. With the liberation from the IMF policy prescriptions, the country was able to attain a dramatic growth rate of over 7 percent GDP in 2008. However, it recorded a deficit of 14.5 percent of GDP with a consequential increase in the rate of year-on-year inflation from 12.8 percent in 2007 to 18.1 percent in 2008. Ghana, thus, reverted to the IMF in 2009. An analysis of the reasons which motivated Ghana's reversal to the IMF and the associated conditionalities is presented in the next section.

[57] Public Agenda, Business News of Monday, 20 November 2006 quoting Hon. Kwodwo Baah-Wiredu, Finance Minister in an address to Parliament.

SECTION 3: GHANA'S U-TURN TO IMF AND ASSOCIATED CONDITIONALITIES

3.1 INTRODUCTION

Ghana's exit from the IMF in November 2006 was greeted with high hopes and expectations. Many were of the view that once Ghana had been able to come out of the IMF snares, the country could be put on a path of sustainable growth and prosperity. These hopes were, however, short lived, as barely two years later, Ghana found itself in the same web it had escaped from. What were the reasons for Ghana's exit from the IMF? Did the economic fundamentals changed within this short period that occasioned her return? What conditionalities were associated with the recent USD$ 602 million loan? How different are they from previous ones? This section addresses these questions by examining the reasons that motivated Ghana to return to the IMF and the conditionalities associated with the loan facility.

3.2 WHAT DROVE GHANA BACK TO IMF?

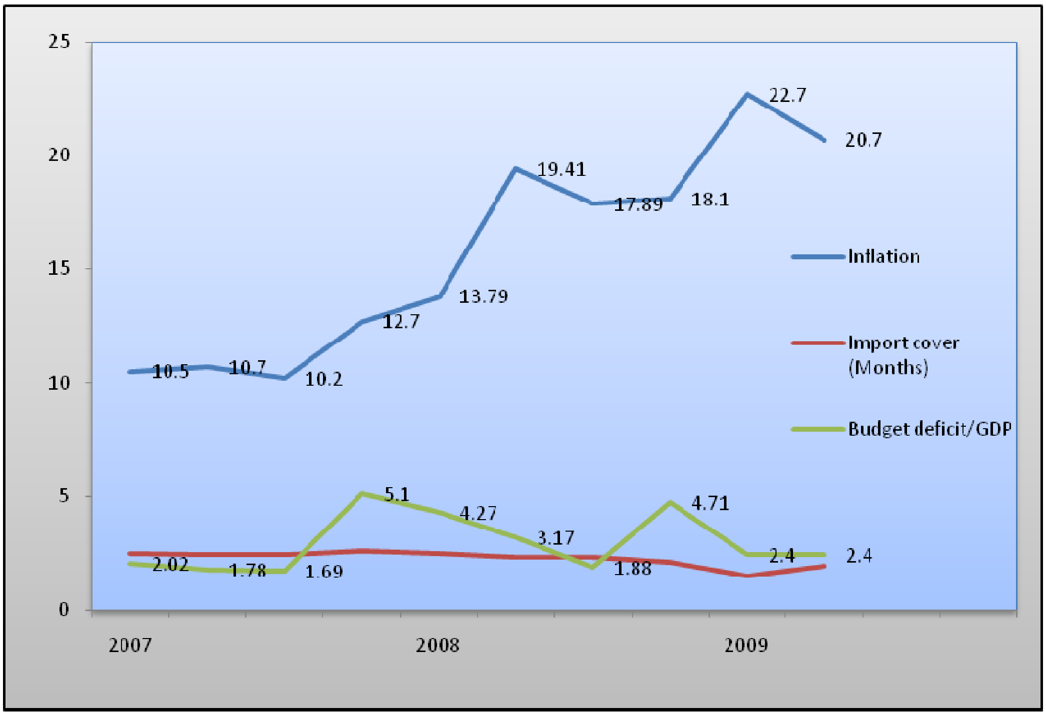
The rationale for GoG return to the IMF for assistance could be explained in three ways. First, Ghana's economic fundamentals in 2008 were deteriorating. Second, there was the need for fiscal consolidation as a result of the global financial crisis. Third, Ghana's worsening credit ratings implied that her ability to borrow from the international financial markets was constrained.

Ghana's economy, in 2008 took a nose dive. The budget deficit ballooned to about 14.5 percent of GDP against a 2007 figure of (9.2 percent). Inflation rose from 12.7 in December 2007 to 18 percent as at year end 2008 against a planned target of 7 percent.[58] Inflation reached 20.34 percent in February 2009, the highest since 2005.[59] In addition, the overall balance of payment recorded a deficit of US$941 million in 2008, compared with a surplus of US$413 million in 2007.[60] Coupled with exchange rate volatility, the cedi began to fall in the third quarter of 2007 losing about 30 percent in value against the major trading currencies.[61] Although the Central Bank spent US$1.2 billion to prop up the cedi between July 2007 and December 2008, the currency still depreciated by 31 per cent against the dollar. While US$918 million was spent for this

[58] GoG 2009 Budget Statement
[59] Ibid
[60] Bank of Ghana Quarterly Bulletin, 2009
[61] Ibid

purpose in 2008 alone, the cedi still depreciated by 25.3 percent underscoring the severity of the crisis[62].

Fig. 3.1 Quarterly Economic Performance of Ghana (2007-2009)



Source: Bank of Ghana Quarterly Economic Bulletin 2007-2009

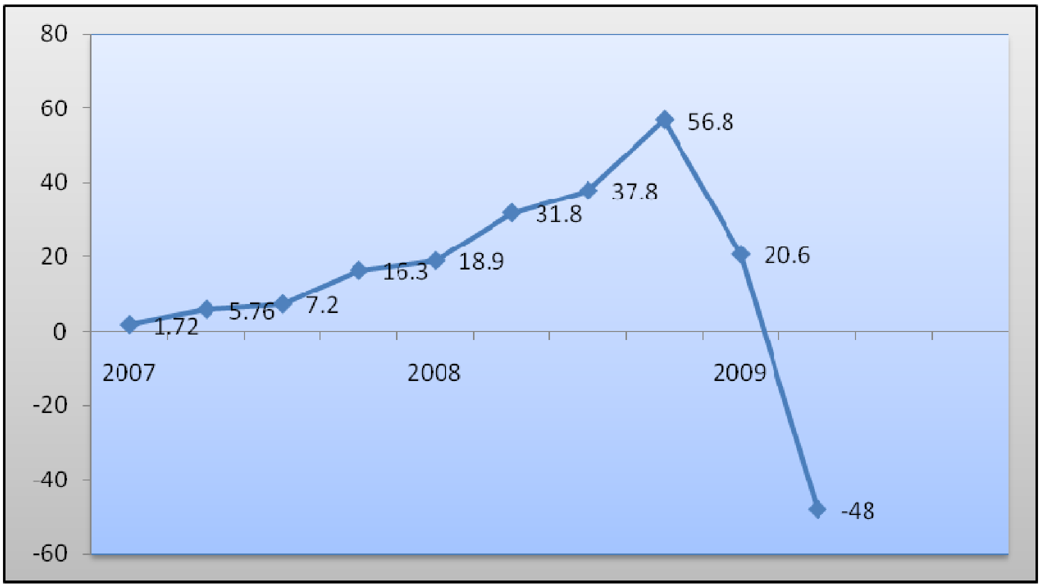
The global economic downturn exacerbated Ghana's economic woes. The crisis, which is partly attributed to global food and fuel shocks in 2008, forced crude oil price to jump from about US$90 per barrel in January 2008 to a record high of US$147 per barrel in July.[63] This led to increased costs of production of firms, reinforcing the slowdown in the later part of 2008 and early part of 2009. In addition, the financial crisis also led to reduced remittances and private capital inflows into the Ghanaian economy. Total private inward transfers received by non-governmental organizations (NGOs), embassies, service providers, individuals, etc. appear not to have been affected by the global credit crunch, although on a month-on-month basis, October 2008 and November 2008 receipts fell short of the corresponding 2007 receipts – which might be a first indication of the financial crisis affecting remittances.[64]

The Ghana Stock Exchange (GSE) was not unaffected by the effects of global economic downturn. While the stock market performed creditably in 2008 with end of

[62] Ibid
[63] GoG 2009 Budget Statement
[64] Ibid

year gain of 58.06 percent against 2007 figure of 31.84 percent,[65] the same cannot be said of 2009. The all-share index in 2009 recorded negative gain of -46.58 percent.[66] In addition to the effect of the global financial crisis, rise in local interest rate in 2009 and resultant increase in money market instruments accounted for the stock exchange's poor performance (see figure 3.2). The poor performance of the stock exchange had a system-wide effect on investor confidence in the economy in 2009 thus reducing the fiscal space in relation to government options to resuscitate the economy.

Figure 3.2: Quarterly Performance of the Stock Exchange (2007-09)



Source: Bank of Ghana Quarterly Economic Bulletin 2007-2009

Ghana's worsen international credit ratings contributed to her dwindling options in 2009 and explain her motivation in going for an IMF loan. At the time Ghana raised US$750 million from the international capital market in September 2007; her sovereign rating was B+ positive. Ghana's sovereign rating (by Standard and Poor's) worsened from B+ in 2007 to B in 2008.

The above developments presented new challenges for the new government in 2009. Thus, the country's prospect of successfully raising funds from the international capital market was undermined. By June 2009, the country was becoming increasingly vulnerable, as its current account, fiscal deficit, exchange rate, inflation and debt

[65] Ghana Stock exchange, review of Stock Market performance in 2008
[66] Ibid

indicators worsened. As the Minister of Finance and Economic Planning put it 'Ghana contracted the loan to correct the identified imbalances in the country's economy".[67]

3.3 IMF CURRENT LOAN TO GHANA: WHAT ARE THE CONDITIONS?

The IMF approved US$602 million loan to Ghana in 2009 to support its stabilization programme for a three-year period. To further relieve concerns about whether countries would be able to ride out of the global financial crisis, the Fund approved a general allocation of Special Drawing Rights (SDR) to all member countries[68]. Ghana, besides the $602 million loan, benefited an estimated SDR 283 million ($420 million) in the third quarter of 2009.[69] The government rather than drawing on the SDRs, opted to further strengthen Ghana's international reserve position by about 25 percent in line with its programme arrangement with the Fund to maintain confidence in the country's ability to meet its external financial obligations[70].

The support of $602 million forms part of the IMF Extended Credit Facility (ECF), which was created under the newly established Poverty Reduction and Growth Trust (PRGT). The ECF, according to the IMF, succeeds the PRGF as the Fund's main tool for providing medium term support to Low Income Countries (LICs), with higher level of access, more concessional financing terms and more flexible programme design features, as well as, streamlined and more focused conditionality[71]. The main goal of the program is to eliminate Ghana's large fiscal imbalances by 2011 and put in place strengthened institutions for public financial management (PFM)[72].

The IMF support to Ghana constitutes one of its largest arrangements in Africa in 2009 relative to countries such as Cameroun, Kenya and Tanzania[73]. Access under this facility is 105 percent of Ghana's quota (SDR 387.45 million) somewhat above the norm for a fifth time PRGF-user (70 percent of quota). This reflects the programme's strength and balance of payment needs[74].Compared to Cameroun, Kenya and Tanzania, Ghana has the largest quota in IMF (see Table 1). This could partly explain the variations in IMF financing to these countries (Box 1).

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[67] GoG 2009 Budget Statement
[68] The SDR released forms part of an agreement reached in April 2009 among Group of 20 member nations to boost global liquidity through a $250 billion allocation of SDRs to the IMF's 186 member countries.
[69] John Lipsky opening address at the Meeting with the Parliament Ghana, February 17, 2010
[70] ibid
[71] IMF Factsheet, Extended Credit Facility
[72] IMF 2009 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility, p.19
[73] John Lipsky opening address at the Meeting with the Parliament Ghana, February 17, 2010
[74] IMF 2009 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility, p.19

Table 1 IMF's Members Quota and Voting Power

	QUOTA		VOTES	
Member	Millions of SDRs	Percent of Total	Number	Percent of Total
Ghana	369.0	0.17	3,940	0.18
Kenya	271.4	0.12	2,964	0.13
Tanzania	198.9	0.09	2,239	0.10
Total	185.7	0.09	2,107	0.09

Box 1

Quota subscription generates most of the IMF's financial resources. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy. A member country's quota determines its maximum financial commitment to the IMF, its voting power and has a bearing on its access to IMF financing.

Source: *IMF Factsheet: IMF Quota, Nov. 5, 2010.*

As per Ghana's initial Letter of Intent (LOI) dated June 26, 2009 the programme is expected to meet some quantitative performance criteria and structural benchmarks for 2009-2010. These quantitative targets and structural benchmarks which constitute the conditionalities under the ECF arrangement are summarized in Tables 1 and 2.

Table 2 Ghana: Quantitative Programme Targets[1] (December 2008 – December 2009)
(Cumulative from the beginning of calendar year unless otherwise indicated)

	2008	2009				2010	
	Dec. Act	March Act.	Jun. Proj.	Sept. Prog.[2]	Dec. Prog.[2]	Mar. Prog.[3]	June Prog.[2]
Quantitative Performance Criteria							
Overall fiscal deficit of the government(ceiling; in millions of cedis)[4]	2,558	344	788	1,470	2034	192	742
Net international reserves of the Bank of Ghana (Floor; millions of U.S dollars[5]	1301	-404	-637	-728	-404	-81	-37
Continuous Performance Criteria							
Non-accumulation of external arrears(ceiling; millions of U.S dollars)	0	0	0	0	0	0	0
Contracting or guaranteeing of new external nonconcessional external debt (ceiling; millions of U.S. dollars)[6]	…	…	…	300	300	300	300
Oil and gas sector[7]	…	…	…	300	300	300	300
Other sectors	…	…	…	0	0	0	0
Inflation consultation							
Twelve month consumer price inflation(percent)[8]							
Outer band (upper limit)	…	…	…	19.5	17.6	15.2	12.7
Inner band(upper limit)	…	…	…	18.5	16.6	14.2	11.7
Central target rate of inflation	18.1	20.5	19.7	16.5	14.6	12.2	9.7
Inner band(lower limit)	…	…	…	14.5	12.6	10.2	7.7
Outer band (lower limit)	…	…	…	13.5	11.6	9.2	6.7
Indicative Target							
Net domestic financing of the government (ceiling, millions of cedis)[9]	479	243	591	828	1033	47	92
Net domestic assets of banks of Ghana (ceiling ;millions of cedis)[10]	299	41	382	662	146	-103	-128

As shown in Table 1, GoG was expected to comply with such programme performance criteria as: a ceiling on the overall fiscal deficits (including grants); a floor on the net international reserves; a continuous zero ceiling for the accumulation of new external arrears; and a ceiling on the contracting or guaranteeing of new external non concessional debt. Besides, GoG is expected to meet some indicative targets. These included: a ceiling on the net domestic financing of the government; and a ceiling on the net domestic assets of the Bank of Ghana. In addition, failure to achieve specific targets for the twelve-month rate of consumer price inflation is expected to trigger discussions or consultations with the Fund.

As per the arrangement, fiscal deficit was expected to decline to 9.4 percent of GDP in 2009, then to 6 percent and 4.5 percent of GDP in 2010 and 2011 respectively.[75] A net public debt rise of 67 percent of GDP was expected in 2010, up from 42 percent in 2006. By 2014, the projected fiscal correction is expected to help reduce debt to below 60 percent of GDP.[76]End of year inflation for 2009 was targeted at 14.5 percent and projected to decline to single digits before end-2010. Net international reserves was targeted to stabilize in 2009 and expected to rise in 2010-11 with the resulting gross reserve cover of three months of imports by the end of 2011.[77] GoG indicated in its Memorandum of Economic and Financial Policy (MEFP) which accompanied the second LOI, policies intended to achieve these targets and also to correct the breaches recorded relative to its first year (end-September 2009) performance criterion under the Extended Credit Facility (ECF) arrangement. For instance, to correct any deviations with respect to the fiscal deficit, GoG committed to postpone investment projects to contain expenditure. The assumption is that once macroeconomic stability is achieved, the private sector will undertake the necessary investments for growth. Is this assumption not too far-fetched in the context of Ghana? Given that substantial public investment in basic infrastructure [i.e. collective goods] will be necessary to accelerate and sustain growth; will the postponement in investment projects to contain expenditure not jeopardize the basis for long-term growth and development?

The achievement of these time-bound targets is not only a prerequisite to access the disbursements under the arrangement, but also serves as a de facto measure of government performance. These targets are often referenced by government functionaries and political elites to justify their actions and arguments. Although these targets are supposed to be a means to an end,[78] they are hardly treated as such. It will not be an over exaggeration to posit that these targets have fallaciously become ends in themselves. As a result, their real impact in terms of development results – for instance on poverty, hunger, illiteracy, vulnerability, maternal and infant morbidity and mortality – is often overlooked. In so far as these targets are important, it is problematic to treat them as development goals. Given that it is not under every circumstance that a

[75] Alum, P. (2009). Ghana gets $602 million IMF Loan, Readies Oil Production. Poverty Reduction Loan, IMF African Department
[76] ibid
[77] ibid
[78] Initiative for Policy Dialogue (IPD), 2002 Nigeria Country Dialogue January 17–22, 2002

reduction in inflation, as it is generally assumed, helps the poor; sometimes reduced inflation equally hurts the poor especially in the short run.[79] It is thus essential to extend the discussion beyond the achievements of these performance targets to cover the development outcomes. The associated implications of these time-bound targets are discussed in the next chapter.

In addition to the quantitative programme targets, there are structural benchmarks attached to the loan. (See Table 2 for summary). The focus of these benchmarks is on strengthening revenue administration, public financial management, public debt management, pay and payroll management, and cost recovery in energy pricing.

Table 2 Ghana: Structural Benchmarks under PRGF Arrangement, 2009-2010

Measures	Timing	Macroeconomic rational (MEFP)
I. PRIOR ACTION • Adoption of budget to limit fiscal deficit to 9.4 percent of GDP in 2009	Implemented	A first toward fiscal and debt sustainability
• Adoption of measures to yield at least 1.0 percent of GDP to offset projected expenditure over	implemented	To preserve macroeconomic stability and avoid crowding out private sector credit
• Selective public sector hiring freeze, with exemption mainly limited to health and education trainees.	implemented	To strengthen control of high and growing public payroll
• Reinstatement of automatic bi-weekly price adjustment for petroleum products	implemented	To eliminate energy subsidies
II. STRUCTURAL BENCHMARKS Tax policy and revenue administration • Complete comprehensive review of zero- rated VAT items and the nature and scope of tax exemptions and discretionary waivers, as defined in paragraph 32	End –Sep.2009	Strengthen revenue mobilization as part of the fiscal consolidation strategy
• Cabinet approval of a modernization strategy for revenue administration, as defined in paragraph 35	End –Dec.2009	Strengthen revenue mobilization as part of the fiscal consolidation strategy
Public expenditure management • Review of the effectiveness of the existing budget information management systems, and	End-Dec.2009	Strengthen monitoring and control of budget execution

[79] Heller, W. W. (1969). Business: How Inflation Helps--and Hurts--the Poor, Friday, Nov. 28, 1969.

decision on whether it should be modernized or replaced.		
Public sector reform and payroll management • Steps to strengthen oversight and control of public service recruitment and staffing, as defined in paragraph 45-47	End –Sep. 2009	To strengthen oversight and control of the high and growing public payroll
• Establish institutional responsibility for the reconstructing, commercializing, or liquidation of subvented agencies	End-Dec.2009	To promote fiscal savings by rationalizing subvented agency numbers
Monetary policy • Adoption and launch of program to strengthen communication of the framework for inflation targeting and disinflation over program period	End-Dec.2009	To support the disinflation program

Besides the structural benchmarks summarised in Table 2, GoG in its second LOI proposed additional structural benchmarks (see Appendix 3). As per one of the conditions in the 2010 LOI, GoG committed to bring the average tariff to cost recovery levels. In the energy sector, GoG proposed a new electricity tariff structure, which requires an average increase of at least 33 percent in electricity by no later than June 2010.[80] By this, GoG is expected to implement actions to strengthen revenue collection by the Electricity Company of Ghana; and adopt a plan to restructure the balance sheets of utility companies during 2010-11. IMF also enjoins the country's independent Public Utility Regulatory Commission to develop an automatic tariff adjustment formula for electricity and water. What are the likely implications of this increase on the poor? Will this increase not hinder poor consumers' and small local companies' access to energy?

In relation to one of the benchmarks, GoG intended to implement a net hiring freeze in the low priority sectors. As a result, GoG proposed head count in the public education sector and educational establishments to remove ghost workers on the payroll.

Besides the requirement of government to appoint Minister of State in charge of public sector reform, GOG is expected to classify at least half of the total number of subvented agencies in preparation for their rationalization, divestiture or commercialization. This is reminiscent of the policies applied in the 1980s when Ghana implemented the ERP and SAP, which also required the divestiture or rationalization of subvented organizations which resulted in the massive retrenchment of workers.[81]

[80] IMF Letter of Intent, 2009 , p.12
[81] Ibid, p.12

There is not much observed differences between the current and previous conditionalities or benchmarks. The only notable change is that structural conditions are no longer legally binding. In addition, the Fund granted some waivers to Ghana after the country failed to meet some of the agreed programme targets attached to the conditionalities relative to inflation, and budget deficit.

In the light of the foregoing, it is clear that the IMF sees stabilization policies as the key to Ghana's economic growth and prosperity. To the IMF, reducing inflation, deferring statutory payments, and reining in government spending will promote economic growth and prosperity for Ghanaians.

To what extent did GoG apply these conditionalities? What are the implications of these policies and conditionalities on the poor and vulnerable?

SECTION 4: IMPLICATIONS OF IMF CRISIS-RESPONSE PROGRAMME

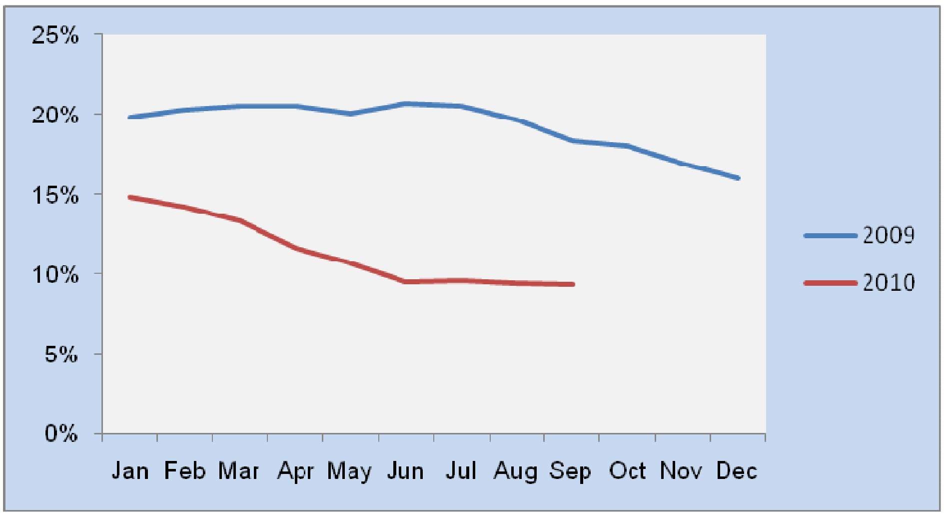
4.1 INTRODUCTION

This section discusses how the recent loan has affected the social sectors (i.e. health and education) of Ghanaian economy. The section starts with a brief analysis of the performance of the Ghanaian economy in 2009 under the IMF guidance and examines its implication on the poor and vulnerable households. The section then analyses how the conditionalities/ benchmark under the recent loan has affected access of the poor to education, health and employment (livelihood).

4.2 IMPLICATIONS OF IMF CONDITONALITIES ON THE ECONOMY

Conditionalities on fiscal policy required GoG to reduce budget deficit to 9.2 percent. As a result, fiscal deficit fell from over 14.5 percent of GDP in 2008, to 9.4 percent in 2009. Consequently, Ghana's economic growth rate reduced from 7.3 percent in 2008 to 4.1 percent in 2009. Inflation declined from 20.7 percent in June 2009 to 9.38 percent in September 2010 (see Fig. 4.1).

Fig. 4.1 Monthly Inflation between 2009-10



Source: MoFEP, 2009

Ghana's has also enjoyed stable and stronger currency in relation to major currencies. External performance has also improved, with gross reserve cover strengthening to $3.3 billion at the end of August 2010. This is equivalent to almost three months of import cover against 2.3 month in same period in 2009.

Although these developments have helped in reducing inflation from 18.1 percent in December 2008 to 9.38 percent in October 2010, these have been achieved at the expense of job creation/employment which affects the poor. Thus, while higher inflation negatively affects the purchasing power of households and reduces real wage/income particularly, those on fixed income[82], inflation has been found to contribute to job creation/employment which ultimately benefits the poor[83]. Thus, evidence suggests that an increase in (unanticipated) inflation is associated with a decline in unemployment, which relatively benefits the poor[84]. When inflation creates a labor shortage, full-time jobs open for people willing to accept lower wages that would normally be working either part-time or not at all.

Further, other studies show that moderate rates of inflation, i.e. inflation up to 20 percent or more) have no predictable negative consequences on the real economy)[85].Thus, while it is agreeable that very "high levels of inflation, above 40%, can have some serious impact on growth and possibly the income distribution, there is "very little justification for monetary policy oriented toward keeping inflation in low single digits, especially when employment and poverty are significant problems".[86] Lower inflation is thus commendable and good for the poor but should not be pursued at the expense of job creation/employments as is being with witnessed under the current IMF supported programmes.

Ghana economy has however witnessed a declining public investment which has further jeopardized economic growth. Revenues in 2009 fell by 2.5 percent of GDP below projected levels, despite overrunning the wage bill by 0.6 percent of GDP and domestic interest costs by 0.6 percent of GDP. Faced with limited revenues and meticulously

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82 Bruno, M. and Easterly, W. (1998). Inflation Crises and Long-Run Growth, *Journal of Monetary Economics*, 41, pp. 3 – 26; and Epstein, G. (2000). "Myth, Mendacity and Mischief in the Theory and Practice of Central Banking". PERI Working Paper, www.peri.umass.edu.

83 Heller, W. W. (1969). *Business: How Inflation Helps--and Hurts--the Poor*, Friday, Nov. 28, 1969.

84 Romer, C. and Romer, D. (1998). Monetary Policy and the Well-Being of the Poor."
NBER Working Paper 6793 (November 1998).

85 Bruno, M. and Easterly, W. (1998). Inflation Crises and Long-Run Growth, *Journal of Monetary Economics*, 41, pp. 3 – 26; and Epstein, G. (2000). "Myth, Mendacity and Mischief in the Theory and Practice of Central Banking". PERI Working Paper, www.peri.umass.edu.

86 Epstein G. (2009). *Rethinking Monetary and Financial Policy: Practical suggestions for monitoring financial stability while generating employment and poverty reduction*. ILO, Employment Sector working Paper No. 37. P.5

going by IMF dictates of deferring domestic payments to local suppliers, the GoG in 2009 accumulated new domestic payments arrears to suppliers of goods and services to the tune of GH¢ 855 million against a 2008 figure of GH¢830 million (see Table 4.1). These arrears affected payments in the energy, roads and other Ministries, Department and Agencies (MDAs) projects. As it will be discussed extensively in later part of this section, deferring payment to suppliers has serious implication on the poor access to employment and livelihood.

Table 4.1: *GoG Outstanding Arrears, 2008-09*

Item	GH¢ millions		Percent of GDP	
	2008	2009	2008	2009
Domestic suppliers	830	855	4.7	3.9
Statutory funds	301	574	1.7	2.6
Total	1,132	1,429	6.4	6.5

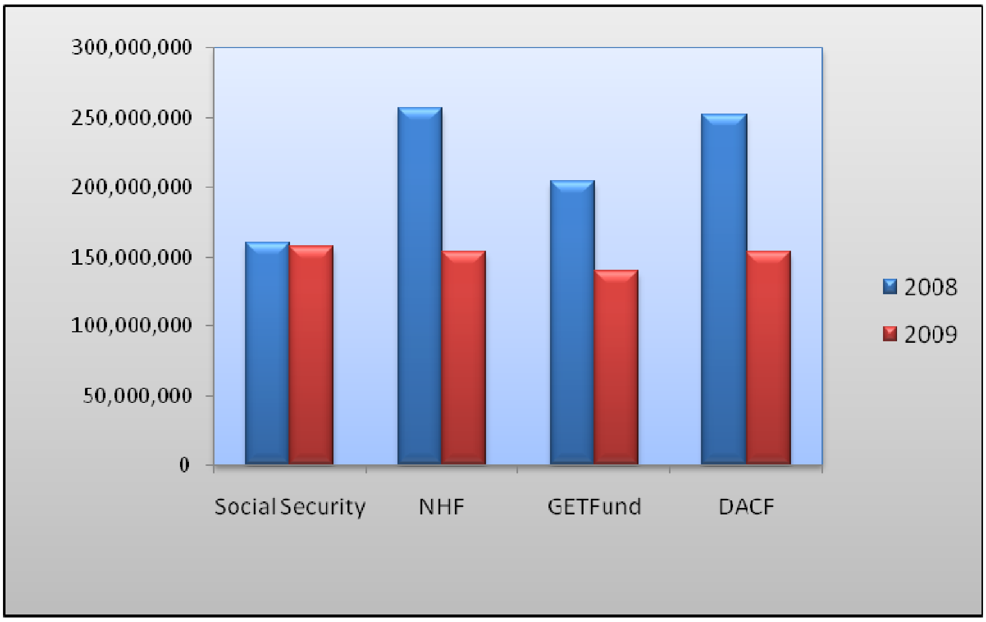
Source: IMF, Country Report, June 2010

Further, GoG deferred its own statutory payments that were meant to finance projects in various sectors and this totaled about 2.6 percent of GDP.[87] Transfer to statutory funds such as Social Security Fund, the National Health Fund NHF, the Ghana Education Trust Fund (GETFund), and District Assemblies Common Fund (DACF) that were not paid in 2009 amounted to GH¢ 574 million against 2008 figure of GH¢301 million. [88] The accumulation of payment arrears constitutes proxy borrowing by Government which locks up working capital of suppliers of goods and services to Ministries, Departments and Agencies (MDAs) of government.

Figure 4.2 shows the amount of statutory allocation made into the various fund in 2008 and 2009. Statutory allocation into the NHF and DACF in 2009 fell by about 40 percent against the amount disbursed in 2008. A similar observation was made in respect of allocation into the GETFund.

[87] IMF Country Report No. 10/178 (p.32)
[88] IMF, Country Report, June 2010.

Fig. 4.2 GoG Statutory Payment in 2008-09



Source: MoFEP, 2009

To what extents are the poor and vulnerable access to education, health, employment and livelihood affected by these conditionalities and benchmarks imposed on the GoG by the IMF? Does delaying payment to these statutory funds affect the poor and vulnerable? The next section examines the implication of the IMF conditionaliites and benchmarks on the poor access to health, education and employment.

4.3 IMPLICATIONS OF IMF CONDITONALITIES ON SOCIAL SECTORS

4.3.1 Educational sector

GETFund was intended for infrastructure development and improvement across all sectors of public education in Ghana. However, depriving the Fund as shown in Fig. 4.3 above robs the Fund's capacity to execute this given mandate. As the Board of Trustees of GETFund lamented, 'the GETFund is on its knees with a debt overhang'. An allocation of GH¢80 million for 2009 was not received and as such no disbursements were made in that year.[89] It is reported that as of 2009, about 4,000 basic schools in Ghana were found to be under trees, 5,000 in dilapidated structures, and 7,500 without

[89] GETfund Review and Outlook, 2001-2009 Review Report

sanitary facilities.[90] Given this precarious situation of education financing in Ghana, the delay of payments into the GETFund to meet IMF benchmarks and conditionalities is unfair (to say the least) to poor school children who desperately need basic school infrastructure. Studies suggest that dropout rate for girls in particular are high in schools without sanitary facilities. [91]

In addition, the IMF structural benchmark of net hiring freeze in the education sector has serious implication on the quality of education in Ghana. The Ghana Education Service indicates that out of the 33,185 teacher vacancies declared in 2010 for example, only 8,625 trained teachers were expected to be available to fill these vacancies.[92] In addition, out of the 20, 988 pupil teacher vacancies to be filled in 2010, only 3,000 have been approved by the government leaving a deficit of 20,988 pupil-teachers. In Upper West, Upper East, Northern and Brong Ahafo regions, the trained-teacher/pupil ratio is 1:175 against the MDG benchmark of 1:25. Moreover, the demand for new teachers to reduce the backlog of untrained teachers is more than double the current output from training colleges. GES estimates that the total additional number of teachers needed at primary schools is 33,185 in 2010/11 academic year. By the IMF conditionality, the GES cannot fill these vacancies. When presented with these facts, the IMF representative faults GoG for refusing to clean the ghost teachers on its payroll. “If you’re paying teachers, but do not know the number of teachers on your wage bill, there is no need for top-ups” he observes. Checks from GES corroborated GoG’s ban on recruitment of teachers.

The IMF argument of ghost names in the teacher payroll as the justification for the net hiring freeze conditionalities cannot stand the test of scrutiny in the face of the quantum of teacher shortage in the educational sector as analyzed above. Already, Ghana’s pupil-teacher ratio of about 34 percent for the primary level and 17.08 for the secondary level is worrying if the country is to meet the MDG goal of 1:25[93]. Rather than evolving policies to reduce this figure, the IMF supported programmes are denying deprived schools access to not only qualified teachers but also non-qualified ones. Are there no other effective ways of addressing the issue of ghost names on the payroll other than

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[90] Ibid

[91] Pridmore, P. (2007). The Impact of Health on Education Access and Achievement: Across-national review of research findings. CREATE Pathways to Access. Research Monograph No. 7. Brighton: CIE, University of Sussex; 2. UNICEF/IRC (2005) 'Water, Sanitation and Hygiene Education for Schools.' Roundtable Meeting: Roundtable Proceedings and Framework for Action

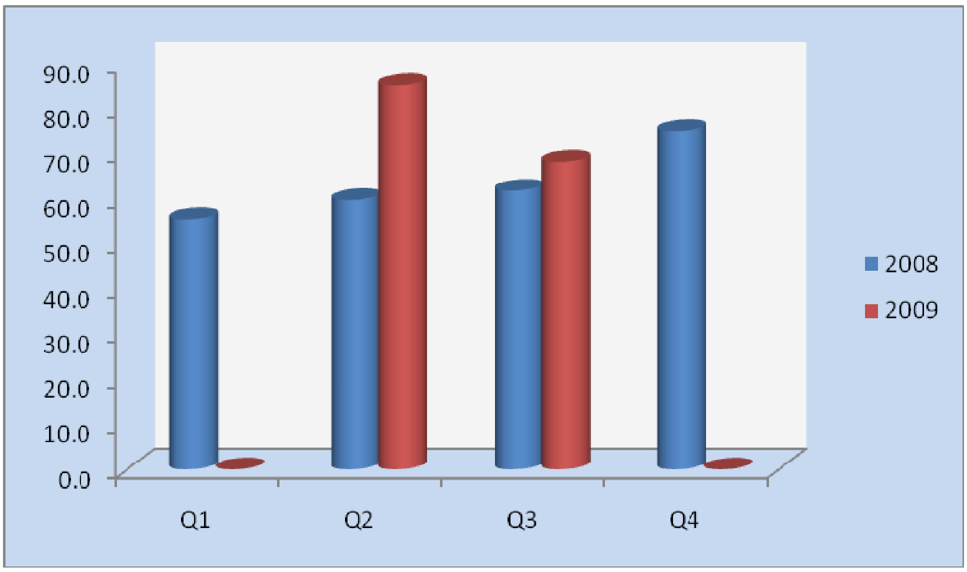
[92] The Ghanaian Times, Education News of Wednesday, June 16, 2010

[93] This statistics is contained in a teacher Attrition survey carried out by the Ghana National Association of Teachers and Teachers & Educational Workers (TEWU) in 2009.

putting a net hiring freeze on an already under staffed schools? Using ghost names on the payroll as the justification for the hiring freeze appear more of a pretext to reduce government expenditure on education than curbing the problem. If this were not the case, the IMF should have advised the GoG to adopt the number of best practices around the world that could easily address the problem of ghost names on the payroll. Policy measures such as decentralizing the teacher recruitment and payment systems, community involvement in the management of public schools etc would achieve effective results without denying already deprived schools of the supply of teachers.

Furthermore, delaying funds to the District Assemblies Common Fund (DACF) as a consequence of IMF conditionalities has implications for educational and health infrastructure in deprived communities. DACF, set up under the 1992 Constitution, enjoins the central government to allocate not less than 5 percent of total national revenue into a Fund. Presently 7.5 percent of national revenue is supposed to be allocated into the fund for onwards disbursement to MMDAs. The DACF constitutes a large chunk of resources to District Assemblies infrastructural development, social protection and pro-poor spending at the local level. The Constitutional requirement provides that the allocation be made at the end of every quarter (with one quarter in arrears) and so it is usually at the end of the quarter that the Ministry of Finance and Economic Planning (MFEP) determines the amount available for allocation. However, as shown in Figure 4.2 below, GoG could not meet this constitutional requirement in 2009 under the IMF conditionalities. As can be seen, no disbursements were made in the first and last quarters of 2009. This was not the case in 2008 even though the Ghanaian economy faced similar challenges.

Figure 4.3 DACF Disbursements (in millions)



Source: MoFEP, 2010

Given the dilapidated nature of school infrastructure and the huge infrastructural gap in the public schools and the fact that DACF serves this purpose at the local level, delaying payment to this fund will have negative repercussions on educational financing.

4.3.2 Healthcare Delivery

The mandate of National Health Fund is to make funds available for the operation of the National Health Insurance Scheme which provides basic healthcare services to Ghanaians, especially the poor and vulnerable households. In 2008, approximately 12, 518,560 people, representing 55 percent of the population, had registered with the NHIS. The breakdown includes 50 percent of females, 55.7 percent of widows and 64.6 percent of the aged. These form the most vulnerable groups in the Ghanaian population.[94] As indicated in Fig. 4.2 above, GoG allocation into the NHF in 2009 fell by 40 percent as compared to 2008. Further, the health budget in 2009 saw a 20 percent reduction in real terms against the previous year. This decrease is due almost entirely to IMF advice to the government to cut back on expenditure in order to restraint GoG budget deficit.

Reducing funding to the NHF means that subscribers to the NHIS would not get access to quality healthcare. Coupled with the numerous challenges facing the NHIS schemes in terms of improving the quality of health care to subscribers[95], stifling the scheme of funds has negatively affected the ability of accredited service providers to acquire medicines both in terms of quality and quantity to cope with the increasing attendance[96]. The scheme was reported to be on the verge of collapse by the Ghana Medical Association due to huge outstanding insurance claims owed service providers by the National Health Insurance Authority (NHIA).[97] This is corroborated by the scheme chief executive who in a newspaper publication indicated that "'healthcare providers across the country have run out of essential logistics to provide healthcare services to our subscribers; most service providers are turning away NHIS subscribers whilst others have threatened to close down, situations which have consequences for the

[94] 2008 Citizens Assessment of the NHIS by the National Development Planning Commission, May 2009
[95] Findings of a research commissioned by SEND-Ghana, a civil society organisation and World Bank, Ghana office have revealed that a National Health Insurance Scheme (NHIS) does not promote quality health care delivery to subscribers.
[96] Ibid
[97] This was made known by the President of GMA at an at an awards and press soiree in Accra posted on 17th May 2010 at highlifetoday.com

government."[98] In more specific terms, the Korle-Bu teaching hospitals, which have huge unpaid claims, are reported to be running out of drugs at their pharmacy department and have threatened to discontinue accepting NHIS cardholders if the arrears are not settled with dispatch.[99] The dire situation and uncertainty about claims funding, had forced some facilities to demand cash payment before services are rendered thus defeating the goals of the scheme to put healthcare within the reach of the poor and vulnerable groups – all a consequence of IMF stabilization policies.

4.3.3 Income and Employment

One of the IMF conditionalities/benchmarks under the recent loan was for GoG to delay payment to domestic suppliers. The stock of domestic expenditure in arrears at the end of 2009 was GH¢830 million against a 2008 figure of GH¢850 million.[100] Furthermore, government of Ghana in 2009 did not embark on any investment projects in fulfillment of the IMF conditionality of reining in the budget deficit. The accumulation of these payment arrears constitutes proxy borrowing by Government which locks up working capital of contractors and suppliers of goods and services to Ministries, Departments and Agencies (MDAs). However, if payments to contractors are in arrears, their ability to pay their creditors and workers are reduced thereby forcing financial institutions to keep their interest rates high. Over two years, there has been a raging brouhaha between the Bank of Ghana (BoG) and the Commercial Banks regarding lending rates, which has degenerated into a blame game. While the BoG is faulting the Banks for not reducing lending rates to support the Central Bank's prime rate reduction, the banks blame it on default in payments. As a result, the spread between lending rate and deposit rate in Ghana has been widening over the years and has earned Ghana the reputation of having the highest lending rate in sub-Sahara African[101]. This leaves the poor masses to languish in poverty.

Further, since no new opportunities are opened up by way of award of new contracts as a result of IMF conditionalities, laborers, artisans, food sellers and their households are badly hit. The frustration of some food sellers interviewed sums up how the poor are being affected by IMF conditionalities. *"I used to make about GH¢360 worth of sales every evening for selling food (Banku) in 2007 and 2008, these days (September, 2010), I sell around GH¢60 per day".* When asked further what accounted for the sales

[98] The Heritage Newpaper, September 19, 2009
[99] Ibid
[100] IMF, Country Report, June 2010.
[101] Prof. Doodornu Revealed in a forum, organised by Citi FM, an Accra-based radio station, under the theme, 'The Interest Rate Debate, Dancing to Whose Tune?' captured in the Ghanaian Journal on March 16, 2010

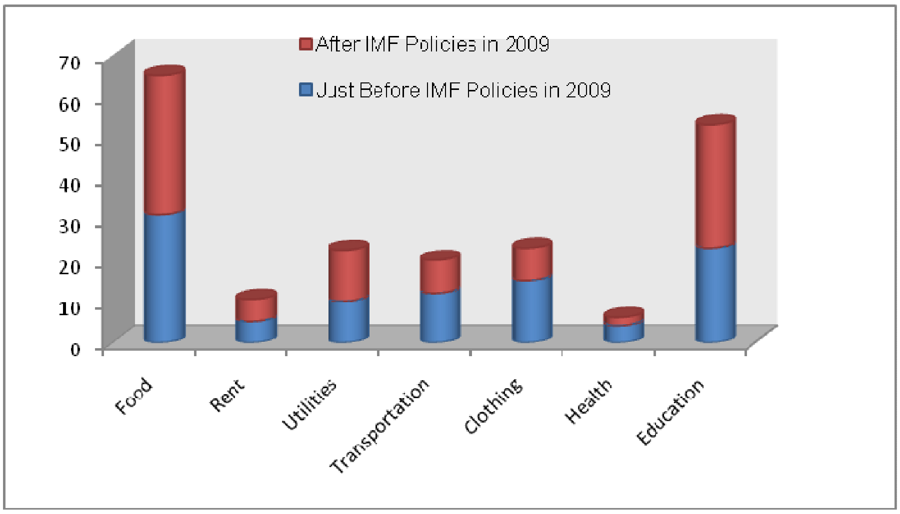
drop, they said that their clientele were mainly laborers and artisan many of whom have no jobs of late.

Furthermore, delaying payment to the DACF means that District Assemblies were unable to embark on infrastructure projects which create jobs in the rural economy due to lack of funds.

The findings of a survey interview held at Donkokrom, Adawso, Kwamekrom in Kwahu North District indicated that labour income (i.e. incomes from wage employment, agriculture and non-farm self-employment), which form the largest portion of the household income experienced declines. The decline in incomes is attributed to low demand for food crops in the area. Focus groups perceived that remittances were either shrinking or steady compared to a year ago.

GoG increase in electricity tariffs upon advice of the IMF has hit the vulnerable and the poor hardest. For instance, in June 2010, the Public Utility Regulatory Commission (PURC) proposed average increase of 89 percent and 36 per cent in electricity and water tariffs respectively. Therefore, the steep increases in the utility tariffs imply that this was a condition that needed to be met in order for the government to get other tranche of the loan. However, these hikes in utility tariffs have had a great effect on the poor and very poorest in Ghanaian society that ultimately undermines their right to energy.

Fig. 4.4 Household Budget Allocations



Source: Field survey, September 2010

Interview with the households indicated that the deterioration in the labour market is affecting the youth who rely on the labour market, especially the construction sector for much of their income.

Interview with households indicated that their purchasing power has been reduced due to low demand for goods and services, and declining remittances. The main coping mechanisms for these households include reduction of the quality and quantity of food consumed.

The effect of the recent loan on employment and therefore household income is consistent with Ghana's previous encounters with IMF policies as explained in chapter 2 and also experiences from other countries that have implemented IMF policies and conditionalities. One study found that countries that have implemented IMF programmes see labour share as a percentage of national income trending downwards as the programme progresses but when these countries emerge from IMF programmes, labour share of GDP begin to trend upward. According to this study, it takes about 10 years for participating countries to catch up with countries that never participated in IMF programmes.[102]

Given the consequences of IMF conditionalities on heath, education, employment/livelihood as discussed above, one is tempted to ask whether there are no alternatives sources of resource mobilization in Ghana other then turning to the IMF for assistance . The next section explores this issue.

[102] Vreeland J.R. (2002). The effect of IMF programmes on labour, *World Development,* 30 (1), 121-139

SECTION 5: ALTERNATIVE SOURCES OF RESOURCE MOBILIZATION

5.1 INTRODUCTION

The analysis and discussions of IMF conditionalities and benchmarks since 1966 reveals that the Fund stabilization and growth programmes have only been achieved by cutting back on public expenditure (instead of looking for other avenues to mobilize resources). The findings so far in this report also point to a consistent trend; that anytime the Ghanaian economy faces some difficulties, political leaders quickly approach the IMF for assistance. It thus appears that without IMF assistance, the Ghanaian economy cannot achieve any meaningful sustainable growth and stability. Does this hypothesis hold true? This section identifies other sources of domestic resource mobilization and argues that the government of Ghana can increase revenue generation from the mining sector, increasing financial transparency and monitoring of multinational companies through training and institutional strengthening, and embarking on a more progressive tax system.

5.2 INCREASE REVENUE GENERATION FROM THE EXTRACTIVE SECTOR

While taxation allows the government to collect revenue to spend on agreed national and local development plans and help in the redistribution of revenue to achieve more equitable development, mining taxation in Ghana has emphasized influencing and encouraging mining companies to invest in the extractive sectors with less focus on generating revenue for development.[103] Available data indicates that Ghana loses revenue from the extractive sector in four main ways:

- lower tax rates and tax exemptions,
- negotiation of tax breaks in mining contracts by mining firms,
- manipulation of tax base allowances by mining firms,
- Tax avoidance and mis-invoicing and tax evasion by mining firms.[104]

[103] Breaking the resource Curse, How transparent taxation and fair taxes can turn Africa mineral wealth into development, March 2009
[104] Ibid

Although the Minerals and Mining Act 2006 pegs royalties at payment at 3-6 percent on a sliding scale, no mining company has ever paid more than 3 percent in royalties. According to one study, Ghana lost between US$387.74m (if royalties were to be paid at 6 percent) and US$1.163bn (if royalties were to be paid at 12 percent) between 1990 and 2007.[105] One estimate states that the Ghana government would have "collected more than half of the country's debt repayment if additional royalties were paid at the rate of 12 percent. In each year, additional royalties would have exceeded HIPC debt relief payments.[106] It suffices to mention that Ghana and indeed many African countries were advised by the World Bank Group in the 1990s to reform their mining laws in order to attract foreign direct investments.[107] The World Bank thus played a very key role in the present legal mining regime in many African countries including Ghana.[108] Although in its early stage, available research on the role of tax incentives on investment decisions of multinational companies shows that tax incentives do not play dominant role in these decisions and that firms would have behaved in the same way (i.e. invested in Ghana) in the absence of such incentives.[109] Further, considering the high prices of gold in the last decade, the investment decisions of these multinational would not have changed had these tax incentives not been granted.

The Government of Ghana should therefore consider reviewing the tax and royalty rates charged on mining profits. While government effort is acknowledged with regard to attempt to reviewing these rates[110], several challenges still remain. Issues relating to stability pacts, taxes and exemptions and mis-invoicing etc are yet to been addressed.

Contrary to the OECD Guidelines which advises multi-national companies to refrain from negotiating for tax breaks outside the statutory framework, the major multinational mining firms in Ghana have negotiated mining deals outside the existing tax regimes. As a consequence, Anglo Gold Ashanti (AGA) and Newmont Ghana Ltd have stability pacts[111] with the Government of Ghana that shields them from the legislative review that

[105] Ibid

[106] Breaking the resource Curse, How transparent taxation and fair taxes can turn Africa mineral wealth into development, March 2009, p29

[107] see Felix Remy, 'Mining Reform and the World Bank', published by the World Bank Group's Oil, Gas, Mining and Chemicals Department, www.ifc.org/ogmc. The report provides a detailed overview of how the WB contributed in defining Africa legal mining regime of lower royalties and taxes.

[108] see Felix Remy, 'Mining Reform and the World Bank', published by the World Bank Group's Oil, Gas, Mining and Chemicals Department, www.ifc.org/ogmc

[109] Muller, Frans and Tudler 2004 and GTZ 2006

[110] GoG has taken the initiative to increase mining royalties from the 3 percent to 5 percent by amending Section 25 of the Minerals and Mining Act 2006 (Act 703).

[111] Stability pact is an agreement companies enter into with their host government to protect their investments. It virtually freezes the national laws such that any new tax laws that are passed after the agreement will not affect the company in question, especially if the laws are likely to erode the projected financial benefits of the company or if they are likely to place the companies in a disadvantage position. These revised rates will affect AGA operations from 2025.

came into effect in March 2010. If the stability pact should stand, as is presently the case, AGA will only be affected in 2025 - when its pact expires.[112] The provision in the Mining and Mineral Act that gives the sector Minister the leverage to strike deals and grant exemptions to mining firms outside the existing legislative framework should be amended. As a democratic country, under no circumstance should tax negotiations with complex multinational companies be left in the hands of one person who can easily be pressured by these international giants. Neither should Ghana struck agreements which exempt certain actors from the existing laws.

Still on the mining sector, GoG could get more revenue from mining firms if VAT exemption and import tax exemption on 500 mining items are revisited.[113] An interview with CSOs and local suppliers of mining goods and equipment in Obuasi reveal that some mining companies import mining items under the exemption policies and later sell them at the local market while local importers of mining goods do not enjoy such exemptions thus creating unfair competition.[114] It is inconceivable to fathom why a country with serious developmental challenges should relax its tax system to multinationals loosing huge revenue in the process.

Yet another way of improving government revenue from the extractive sector is for the government to review the company and financial laws to ensure that mis-invoicing/transfer pricing[115] are reduced to the barest minimum. It is estimated that between 2002 and 2006, Africa lost an average of US$10bn as a result of trade mis-invoicing.[116] The report observed that this data could be an under underestimation, "given the lack of trade data in Africa and given that this figure does not count trade invoices between subsidiaries of the same parent group of companies".[117]

[112] Interview with community Development Manager of AGA, September 2010

[113] Ibid

[114] Interview with executives of Rights and Development Networks (Coalition of NGOs), and dealers of mining equipments in Obuasi, Ashanti.

[115] Trade mis-invoicing /transfer pricing occurs when companies either under-declare the value of their exports or overstate the prices of their imports in order to reduce the profits it declares in the country where it is registered as a taxpayer.

[116] Cited from a report by the US based Global Financial Integrity, Centre for International Policy, Washington DC, 2008 'Illicit Financial Flows from Developing Countries 2002-2006', Dev Kar and Devon Cartwrigh-Smith.

[117] Cited from Breaking the resource Curse, How transparent taxation and fair taxes can turn Africa mineral wealth into development, March 2009

5.3 INCREASE FINANCIAL TRANSPARENCY AND MONITORING OF MULTINATIONAL COMPANIES

With lessons from the extractive sector and going beyond, it is clear that promoting financial transparency and monitoring hold the key to any attempt to explore alternative sources of revenue in Ghana. The secrecy in tax negotiations and exemptions granted to multinational companies and firms operating in the Free Zones companies should be reviewed.

In particular, the Ghana Free Zone Act 1995 (ACT 504) exempts free zone companies from the payment of all indirect taxes and duties as well as given them ten-year tax holiday on profit and a reduced tax rate of 8 percent when the ten-year holiday expires. In addition shareholders of free zones are exempted from paying withholding tax on dividend. Act 504 also permits free zone companies to locate in areas particularly in rural areas. Coupled with the fact that free zone companies can sell 30 percent of their goods locally, it pose greater challenge to ensuring transparency and accountability considering the fact that there is no serious monitoring and evaluation processes for the various tax incentives granted to these companies in Ghana.[118] There is also some evidence that free zone companies exploit the tax system, by folding up after 10 years and re-registering the company in a different form or selling their interest to other companies in order to benefit for another 10 years tax holiday.[119] It is estimated that Ghana loses between 9-12 percent of total tax revenue collection from free zone companies as a result of these exemptions.[120]

The net benefit of free zones policy to the country should be examined more critically as present research shows that Ghana is losing out heavily.

The need for financial transparency is even more pressing in the light of a new research finding that shows that between 1970 and 2008, Africa lost US$854 billion in cumulative capital flight. This is enough to alleviate poverty and stimulate economic growth.[121] It is further estimated that about US$1 trillion is illegally moved out of developing countries every year, of which about two-thirds is due to commercial tax evasion. Furthermore, this illicit outflow from Africa has accelerated by 25 percent between 2000 and 2008: the period of high prices for natural resources and international trade.

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[118] A study by the Tax Justice Network (2009) on Ghana found that no serious monitoring and evaluation processes for the various tax incentives in the country were in place.
[119] Ibid
[120] Ibid
[121] DanWatch and Concord Danmark (2010). Golden Profits on Ghana's Expense – An example of incoherence in EU policy, May 2010

The Government of Ghana can achieve financial transparency by strengthening legal provisions that relates to contracts. Through enacting entrenched provisions that supersede any stability agreement that prevent future governments from re-negotiating contract provisions as is the case presently. The GoG may also coordinate with ECOWAS and/or the African Union to harmonize their fiscal regimes to reduce the unhealthy competition for FDI in the mining sector-precursor of the harmful tax competition. With common tax regimes in Africa, multi-national companies that want to remain in business will have no other option, but than to abide by existing tax systems. As discussed earlier in this report, most African governments have lost heavily in granting tax exemptions to mining companies and the key lesson going forward should be that, competing for FDI by lowering taxes only enriches multinational companies to the detriment of the poor and vulnerable. This is germane in situations where there are no developed forward and backward linkages between the mining industry and the local economy given the very low labour absorption rate of the industry.

Financial transparency can further be enhanced if accountability institutions are resourced and independence guaranteed and empowered to monitor the activities of multinational companies. This is underpinned by research findings that show that many revenue agencies in Africa lack the requisite capacity audit the complex financial books of multinational companies to verify their tax liability.[122] The government of Ghana should therefore invest in strengthening the capacity of revenue agencies and provide technical expertise in monitoring large taxpayers.

It is refreshing to mention that Ghana stands to benefit from the US financial transparency law[123] which requires that oil, gas and mining companies that are registered with the U.S. Securities and Exchange Commission (SEC) should disclose how much they pay to foreign countries and the U.S. government for oil, gas, and minerals. It is estimated that this legislation covers about 90 percent of the world's largest internationally operating oil and gas companies and eight of the world ten largest mining companies[124]. In Ghana, many mining, oil and gas companies such as Newmont Mining, Anglo-Gold Ashanti, Gold Fields Ghana, Goldenstar Resources (and others) are registered with the US Security and Exchange Commission. This legislation will provide Ghanaian citizens and CSOs with much needed information to hold government accountable and promote transparency.

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[122] Breaking the resource Curse, How transparent taxation and fair taxes can turn Africa mineral wealth into development, March 2009

[123] This provision was based on the Energy Security through Transparency Act (S. 1700), which is part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. It was given presidential assent on July 21st 2010.

[124] This information was cited from Publish What You Pay, PWYP Press Push for U.S. Transparency Legislation – Some Points for PWYP Coalition Press Releases, July 13, 2010 United States.

5.4 EMBARK ON MORE PROGRESSIVE TAX SYSTEM

One way of improving domestic resource mobilization is for the Government to embark on a more progressive tax system where higher income earners pay greater taxes on earnings than people with lower income. Thus, the tax system should be a means of wealth re-distribution in society. One way of achieving this goal is to strengthen the collection of property or rental income tax. Given the high property prices and the large number of rental properties in Accra[125], taxation of property and rental income is estimated to yield revenue to the tune of 1-2 percent of GDP[126]. As observed in other reports[127], if properties in affluent areas of Accra, for instance, such as Airport Residential, Cantonments, East Legon, etc with values in excess of $400,000 are taxed at 1-2 percent of the value of the property (as it pertains in other countries), the nation can generate huge revenue that can be channeled in supporting educational and health infrastructure in the rural areas. This system would be fairer as it will allow for resource re-distribution in Ghana.

The existing legislation/policies that grant income tax exemptions to expatriate employees should be reviewed. Expatriate staff earns far higher salaries than local employees and under no circumstances should the government waive the payment of PAYE by these individuals while the poor tomato seller is asked to pay some form of taxes. This assertion is informed by a research report[128] in the mining sector which revealed that some expatriate staff do not pay PAYE taxes as a result of agreements reached with the government. This is against the fact that these staff received salaries far higher than local employees. Reversing this trend is more progressive than VAT[129] which greatly affects the poor. Similarly, it was recently reported that oil companies were exploiting the loopholes within the tax system by bringing in expatriate employees to work in the country for 28 days, then returning to their home country and returning sometime three months later to work for another 28 days without paying any form of PAYE to the government[130]. While oil firm concerned denied any wrongdoing, a view shared by the Ghana revenue authority[131] the practice of these firms go contrary to the

[125] A strategic assessment of the housing sector by CHF International (2004) found high property value and a larger number of rented properties.
[126] Prichard. W. and Bentum, I. (2009). Taxation and Development in Ghana:Finance, Equity and Accountability, Ghana Report; Tax Justice Network and Isodec.
[127] This issue of property and rental taxation has been analyzed in more detail in a study by Mensah. S. (2004)" Ghana's Economic Growth Puzzle: What is to be done?
[128] Akabzaa and Ayamdoo 2009
[129] An analysis by the Tax Justice Network (2009) found sales tax as more regressive and affects the poor more than income tax.
[130] Monday, 11 October, 2010 edition of the Daily Graphic newspaper,
[131] Ghana Revenue Authority issued a statement affirming the position of the law. They quoted Art. 12.8 of the GNPC Model Petroleum Agreement which governs the expatriate staff of the oil companies It states that Foreign National Employees of Contractor, its Affiliates and its Subcontractors shall be exempt from the income tax and withholding tax liabilities if they are resident in Ghana for thirty (30) days or less in any Calendar Year."

established law. Thus the law only exempt expatriates from paying income taxes if one work for only 28 days within a year and months. It is further acknowledged that Ghana's oil exploration law is subject to abuse and exploitation by oil companies[132].

[132] Submission by the Chairman of the Finance Committee of Parliament, James Avedzi on Joy News of 13th October 2010.

SECTION 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 CONCLUSIONS

The discussion so far in this report has shown that the IMF economic blueprint is driver primarily by its quest to attain macroeconomic stability. Although the Fund has largely succeeded in achieving its goal of stabilizing the macroeconomy in successive years, stability has been achieved against the backdrop of high unemployment, poverty and increased inequality. IMF policies have thus not contributed to shared growth and income redistribution in Ghana. IMF required GoG to reduce spending on health, education and development. In effect, the IMF demands the poor in Ghana to have lower standard of living**.**

While the Fund sets targets and benchmarks for measuring results in relation to macroeconomic stability, the same cannot be said for employment generation, poverty reduction and inequality. Further, the IMF stabilization goals have been achieved as a result of cuts in social or pro-poor spending particularly in health, education and local development. As the analysis in this study attests, the government of Ghana deferred its statutory payment into the GETFund (for education infrastructure), NHF (healthcare delivery) and DACF (local development) while freezing recruitment into the educational sector to align with IMF demands. It is therefore clear as the evidence shows that the low priority areas mentioned in the GoG letter of intent to the IMF (in meeting its benchmarks and targets for loan) were related to health, education, employment and district assemblies.

It is also evident from this study that Ghana like many African countries has lost millions of dollars in revenue from the extractive sector as a result of poor advice from the Bretton Wood Institutions in the 1990s. While mining communities face serious environmental and socio-economic challenges, (as a result of the extractive activities of mining firms) these firms have made millions of dollars in profits, in part because of very low royalty rates, import/tax exemptions etc.

It is abundantly clear from the foregoing that IMF polices are neither pro-poor nor promote sustainable growth and development. As the study shows, Ghana has not seen any structural transformation under the IMF's watch resulting in the country being declared by the Fund as highly indebted in 2001 after implementing its programmes for nearly two decades. The GoG therefore needs to rethink the practice of relying on IMF.

The report concludes that IMF recent loan and its associated conditionalities have had adverse consequences on the social sectors of the Ghanaian economy.

6.2 RECOMMENDATIONS

To the IMF:

1. Stop attaching specific policy conditions to your loans. All advice that you give should provide a range of policy options to enable governments to make informed choices about macroeconomic policies.

2. Traditional conditionality requiring strict fiscal adjustment should be subjected to parliament approval in cases where the Fund wants to prescribe that conditionality.

3. Focusing on macroeconomic benchmarks /criteria has not helped in improving pro-poor outcomes. The Fund should therefore be explicit and tie performance criteria to pro- poor programmes to elicit seriousness from implementing governments.

4. Do not only permit, but also support, the active use of fiscal policy to support public investments and public spending to build essential economic and social infrastructure, on which private investment also inevitably relies.

5. Encourage more expansionary monetary options that better enable domestic firms and consumers to access affordable credit for expanding production, employment, and increased contributions to the domestic tax base. Monetary policy should thus maintain low real interest rates, rather than ineffectively trying to keep inflation low with high interest rates which dampen aggregate demand and growth prospects.

To the Government of Ghana:

1. Avoid sacrificing spending in social sectors in order to meet IMF conditionalities, as the impact has been so severe on these sectors.

2. Reform mining laws and policies to generate revenue which can be achieved by reviewing the tax and royalty rates charged on mining and other related profits to reduce the power of the sector minister in negotiating mining deal outside the prevailing tax regime.

3. Review tax and import exemption for multinational companies and firms operating in the Free Zones. Further studies should be carried out to ascertain the net benefit of the free zone policy on Ghana as available data paints a gloomy picture.

4. Strengthen and resource accountability institutions and revenue agencies to better monitor and effectively assess the tax liabilities of multinational companies and ensure their compliance with existing tax legislation. Build the capacity of tax professionals to be able to detect tax avoidance by multinational companies.

5. Introduce a more progressive system of taxation through increasing property and rental tax and use income generated for rural development. This system of taxation is more progressive and would make more revenue available for development on a sustainable basis than over reliance on foreign loans and aid.

6. Explore other flexible lending opportunities when faced with similar crisis in future or negotiate for reduced conditionalities when approaching the IMF in future.

<u>To Civil society:</u>

1. Build your capacity in analyzing financial information that would be made available under the US transparency laws to hold government accountable and promote transparency.

2. Continue advocacy for review of tax and import exemption for multinational companies and firms operating in the Free Zones.

3. Further carry out studies to ascertain the net benefit of the Free Zone policy on Ghana

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APPENDIXES

APPENDIX 1: TERMS OF REFERENCE

RESEARCH TOPIC: THE IMPACT OF IMF POLICIES AND CONDITIONALITIES ON FINANCING HEALTH AND EDUCATION IN GHANA

1.0 Introduction:

The idea behind the new project under the IMF umbrella, is that, following the coming of the Global Financial Crisis (GFC), many countries went back to IMF for funding. As a result, the IMF has once again become very relevant globally, due to its critical role in financing for the Economic Stimulus Programme (ESP). Due to this, although the Rockefeller Brothers Fund (RBF) had pulled out of the IMF advocacy after the initial financing of the project, this (the resurgence of the IMF) has made them be once again interested in carrying on works around IMF and alternative sources of financing. This is particularly as a result of the IMF's recent self-promotion trumpeting minor reforms.

The concept behind the new project is that in response to the current financial crisis, domestic resource mobilization (DRM) needs to be considered as an alternative to the conditions from the IMF as well as alternative sources of funding. Tax policy work is already going on at ActionAid UK and therefore the need to domesticate it in other country offices. Due to the importance of this, it will be important for some of the project countries to combine both IMF monitoring and the tax justice work.

2.0 Objectives of the Study

The main objective of the study is to find out the impact of the IMF loan of $602million on the vulnerable and disadvantaged sections of the Ghanaian society especially women and children. The study will enable AAG understand:

- The conditionalities associated with the loan
- The impact of the loan on the ground

3.0 Scope of the Study

- The main concentration of the research is: *to find out the impact of IMF loan on the vulnerable in the society with emphasis on women and children*.

- Where possible the study could come out with alternative sources of resource mobilization for the government.
- It would be interesting to have an analysis of whether the loan helped in its aim of restoring the Ghana economy to health and whether it solved the worst impact of the crisis.

The research will be nationwide in scope.

4.0 Constraints/Roles and Responsibilities

The timelines for the research/study is as below:

Activity	**Deadline**	**Responsibility**
Field data Collection	June-July 2010	Consultant
Submit draft research report to AAG	Mid-July 2010	Consultant
Feedback to consultant	End of July	AAG
Validation meeting	2^{nd} week August	AAG/Consultant/CSOS
Final report submitted to AAG	End of August	Consultant

4.1 Specific roles and responsibilities

- Gather and analyze data on issues identified
- Submit first draft report to AAG
- Incorporate AAG's inputs
- Make a presentation of the draft to AAG and stakeholders for validation
- Submit five copies of final draft

4.2 Specific roles and responsibilities

- Sign contract agreement with researcher
- Effect payment as contained in Contract

- Make input into first draft of report
- Provide platform for validation of research by the researcher
- Tease out the advocacy issues

5.0 Approach and Methodology

- **Use** participatory research approach for data collection
- Design questionnaire –to involve actors such those in the health and education sectors such as GNAT/TEWU-TUC/GNECC/CSOS
- Field research: impact of IMF loan on the vulnerable especially women and children
- Use AAG field staff and partners to support consultant gather data

6.0 Deliverables/Outputs

- Proposal from Consultant
- Signed contract between AAG and Consultant
- Designed questionnaire with active involvement of stakeholders
- Draft report
- Validation report
- 5 copies of final report
- Advocacy issues teased out by consultant and stakeholders

APPENDIX 2

MEETINGS WITH SELECTED KEY INFORMANTS

Name	Position	Organization
Sebastian C. Dessus	Lead Economist	World Bank
Wayne Mitchell	Country Director	IMF
Rev. Henry Amoako	Director of Employment	Ghana Education Service
J. H. Mensah	Former Minister of State	
Patrick Amoah	Budget Officer	Ministry of Education
Samuel Koboe		
Dr. Kwabena Duffour	Minister	Ministry of Finance and Economic Planning
Mr. Seth Tekper	Deputy Minister	Ministry of Finance and Economic Planning
Mrs. Emelia Aning	Director, Administration	Ministry of Education
Mrs. Effie Simpson Ekuban	Acting Chief Director	Ministry of Finance and Economic Planning
Mrs. Gladys Ghartey	Head, World bank Unit	Ministry of Finance and Economic Planning
Ohene Adu	Community Development Manager	AngloGold Ashanti (AGA)
Joseph Quacoo	Sen. Com & Social Relation Officer	AngloGold Ashanti (AGA)
Dr. Afiaza Zakaria	Health Advisor, Ministry of Health focal point for NHIS	Ministry of Health
Mr. D. Senaya	Director of Budget	Ministry of Health
Malik Ibin Ibrahim	Journalists/ executive member of RADNET	Rights and Development Networks (Obuasi)
Godson Nuworkpor	Senior Officer	CHIRAJ, Obuasi
Rufus Bory	President	Small Scale Mining Association

APPENDIX 3

Ghana: Prior Actions and Structural Benchmarks Under ECF Arrangement, 2009-11

Measures	timing	Implementation status	Macroeconomic rational
.Tax policy and revenue administration • Complete comprehensive reviews of zero-rated Vat items and the nature and scope of tax exemption and discretionary waivers	End –Sep 2009	**Delayed**. A number of exemptions have been eliminated (MEFP para. 26). A full review of the extent, nature and scope for scaling back exemptions has been initiated, and will be completed by end-September 2010(structural bench)	Strength revere mobilisation as part of the fiscal consolidation strategy
• Cabinet approval of a modernized strategy for revenue administration	End –sep. 2009	**Implemented**. Presidential assent to legislation establishing the Ghana Revenue Authority was given at end -2009	As above
• Appoint senior GRA management (commissioners) and adopt criteria to ensure that the large Taxpayer office covers businesses accounting for at least 70 percent of the total tax revenue	End-Jun. 2010	New benchmark(MEFP para. 28)	As above
• Increase the VAT threshold to no less than Ghc 45000as the first stage of a phased increase	End-Dec. 2010	**New benchmark** (MEFP para. 27)	As above
• Adopt a tax regime for small business tax payers for introduction in the 2012 fiscal year.	End-Dec.2011	**New benchmark** (MEFP para. 27)	As above
2. **Public expenditure management** • Review the effectiveness of the existing budget management information system, and decide on whether it should be modernized or replaced	End Dec. 2009	**Implemented early.** The existing system will upgraded through new software and hardware and additional modules. A project implementation committee has been established, chaired by the Deputy Minister of Finance. Funding is being identified	As above

• Roll out GIMFIS to 14 selected pilot MDAs	End- March 2011	**New benchmark**	As above
<u>3. Public Debt Management</u> • Develop and publish a debt management strategy for Ghana	End –Dec. 2010	**New benchmark** (MEFP para. 41)	To support the achievement of public debt sustainability.
• Develop and submit to cabinet for approval procedures for appraisal and selection of public investment project considered for external non concessional loans	End – Dec.2010	**New benchmark** (MEFP para. 41)	As above
<u>4. Public sector reform and payroll management</u> • Steps to strengthen oversight and control of public service recruitment and staffing.	End –Sep. 2009	**Partially met.** The selective hiring freeze remains in place and new recruits by agencies included on the payroll database are audited on monthly basis to verify consistency with budget provisions. The headcount of the Ghana Education Service was conducted by end- August. Only limited progress was made in the planned migration of all subverted agencies to the automated payroll database by end of September 2009, largely reflecting inadequate funding for software and consultants	To strengthen oversight and control of the high and growing public payroll.
• Establish institutional responsibility for the restructuring, commercialization, or liquidation of subverted agencies	End – Dec.2009	**Implemented early.** The Ministry for the public sector has been appointed to head this project.	To promote fiscal savings by rationalizing subverted agency numbers
• Migrate to the automated payroll system (IPPD2/3) all remaining non-security subverted agencies	End –July 2010	**Revision of the earlier September 2009 benchmark (see above)**	As above

• Submit for cabinet approval list of subverted agencies to be commercialized or liquidated	End-Dec.2010	**New benchmark**	As above
• Complete pay comparability survey for public and private sectors for a sizeable number of public sector career streams	End June 2011	**New benchmark**	As above
5. Energy sector management • New electricity tariff structure, with the average increased at least 33 percent, will become effective no later than June 1, 2010, as part of phased approached to bring the average tariff to cost recovery levels	2nd ECF review	**Prior action for 2nd ECF review.**	To avoid energy sector SOC losses , which have historically posed serious burdens on the budget
• Implementation additional required increase in electricity tariffs to bring the average tariff to cost recovery	3rd ECF review	**New benchmark(**MEFP para. 38)	As above
• Submit to parliament legislation establishing clear rules for the transparent reporting of revenue and spending in the budget, rules governing possible revenue retention by GNPC, and audit requirements.	End-Dec.2010	**New benchmark**(MEFP para. 35)	Ensure transport and prudent management of Ghana's oil incomes
• Develop strategy for restoring financial and commercial viability to Tema oil refinery.	End –Dec. 2010	**New benchmark**	As above
6. **Monetary and financial policy** • Adoption and launch of program to strengthen communication of framework for inflation targeting and disinflation over program period.	End-Dec.2009	**Implemented early.** A redesigned website to strengthen the communication of the bank of Ghana's inflation targeting policy framework was launched in November 2009	To support the disinflation program
• Develop strategy to fully strengthen Ghana Commercial Bank balance sheet.	End-July,2010	**New benchmark**	To contribute to continued financial sector stability

Appendix 4

FOCUS GROUP DISCUSSION GUIDE

Introduction

***Purpose**: The study intends to assess recent changes in households living conditions such as changes in employment, salaries, wages, remittances, sales etc. In 2009, the Government of Ghana (GoG) subscribed to IMF loan and the conditionalities attached to the loan may have had effects (i.e. positive or negative) on households' living conditions. For this reason, we are interviewing a number of households to estimate the possible changes of their living conditions as GoG applies the IMF conditions. We are here to learn from you and make sure that your voices can be heard.*

***Confidentiality and consent:** Your response status will be treated confidentially. You do not have to answer any questions that you do not feel comfortable with, and you may end this talk at any time you want to. However, your honest answers to these questions will help us better understand your needs for loans. The interview will take about **30 minutes**. Would you be willing to participate?"*

At present, what are the 3 major income sources of your household?

Compared to a year ago, have incomes changed for your household? If yes, how have they changed?

Compared to a year ago, have changes occurred in the income-earning activities that your household practices? If yes:

Which types of change?

What are the main reasons that have caused these changes?

In the last year, has person(s) in your household lost their job?

If so, how many approximately?

What are the main reasons for job losses?

Compared to a year ago, have staple food prices changed? If yes, which prices have changed and for which food items?

If there have been changes, what were the reasons of changes?

Expenditure category	At present (%)	One year ago (%)	Main reasons of changes
Rent			
Electricity			
Transportation			
Food			
Clothing			
School fees			
Medical bill			
Telephone			
Water			
Other(s)			

Have there been changes in the types of food that people are buying and consuming? If yes, what has changed in the diets?

What are households like you doing to respond to changes in the activities, income and prices that have occurred in the past year?

Are some of these behaviors different from what households used to do a year ago? If yes, what is different?

When do you think that your household's income is getting better compared to a year ago? Why?

Does any member of your household receive some support currently? If yes:

What types of support?

Who benefits from each type of support? Who decides on who should benefit from the support?