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1. Introduction

Ghana's public sector is fairly large and diverse. Of the different components of the public sector (central government, public enterprises and local authorities), the central government plays a dominant role in resource mobilization, raising resources for financing not only its expenditures, but also for meeting a substantial proportion of public enterprises' and local authorities' demands for public funds. The central government also directly provides a good part of the economic and social services, with the local authorities playing a relatively less important role. Public enterprises, playing a major role in virtually all sectors of economy (power generation, transport, mining, manufacturing, forestry, trade, oil refining and distribution, and so on), have accounted for the bulk of public investment.

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This paper is concerned with reviewing the major recent developments in Ghana's public sector finances, with a view to developing a better understanding of how Ghana has managed these finances since the inception of the economic reforms programme in 1983.

2. Recent Developments

Available data on Ghana's public sector finances suggest major developments in four areas. These relate to (a) revenues of the Government of Ghana, (b) public enterprises, (c) size of public sector deficit, and (d) financing of the deficit.

2.1 Revenues:

The Government of Ghana's revenues (tax plus nontax) have registered a remarkably impressive growth - from 5.6% of GDP in 1982 to as much as 13.4% merely five years later, with the figure budgeted for 1989 being appreciably higher, 14.3%. One may ask; what are the sources of this growth? According to the data presented in Table 1, taxes accounted for 92% of the growth in revenues between 1982 and 1987 (details for 1988 and 1989 are not available). Of the tax revenue growth between these two years, roughly one-half was accounted for by export duties. This reflects substantial increases in the contribution of the cocoa sector: with the unbelievably massive depreciation of the Cedi (from Cedis 2.75 per US dollar in April 1983 to Cedis 150 per US dollar in February 1987 and to 286 per US dollar in October 1989)

Table 1: Sources of Growth in Government of Ghana's Revenue

	% of GDP				Growth between 1982 and 1987 (% points)	% share in revenue growt between 1982 and 1987
	1982	1987	1988	1989		
1	2	3	4	5	6	7
Revenue	5.6	14.1	13.4	14.3	8.5	100.0
Tax revenue	4.8	12.6	NA	NA	7.8	91.8
Tax on income, profits and capital gains, of which:	1.6	3.0	NA	NA	1.4	16.5
Individual	(0.8)	(1.1)	(NA)	(NA)	(0.3)	(3.5)
Corporate	(0.7)	(1.9)	(NA)	(NA)	(1.2)	(14.1)
Other taxes	(0.1)	(0.0)	(NA)	(NA)	(-0.1)	(-1.2)
Domestic taxes on goods and services, of which:	2.2	3.6	NA	NA	1.4	16.5
Gen. sales tax	(0.2)	(1.1)	(NA)	(NA)	(0.9)	(10.6)
Excise tax	(1.6)	(2.4)	(NA)	(NA)	(0.8)	(9.4)
Other taxes	(0.4)	(0.1)	(NA)	(NA)	(-0.3)	(-3.5)
Taxes on international trade and transactions, of which:	1.1	6.0	NA	NA	4.9	57.6
Import duties	(0.7)	(2.4)	(NA)	(NA)	(1.7)	(20.0)
Export duties	(0.0)	(3.6)	(NA)	(NA)	(3.6)	(42.4)
Other taxes	(0.4)	(0.0)	(NA)	(NA)	(-0.4)	(-4.7)
Other taxes	0.0	neg.	NA	NA	neg.	neg.

Neg. = Negligible. NA = Not Available.

Note: Figures may not tally due to rounding off.

Sources: Based on data obtained from various sources.

and the consequent massive increases in the cocoa export prices in Cedi terms, export duty on cocoa has emerged as a major revenue earner in Ghana. What is more, with the cocoa farmer's share in the f.o.b price having been substantially raised (from 25% for the 1986/87 crop year to 36% for the 1987/88 crop year and to about 45% for the 1988/89 crop year) as part of the government's programme of improving producer incentives, the improvement in the cocoa sector's contribution to tax revenue can be entirely attributed to changes in the tax base, and not to any change in the tax rate. Indeed, the contribution of tax rate change has been in the negative.

No other sector seems to have contributed in a significant way to improvement in the tax revenues of the central government.[1] This reflects, at least partly, the continued low level of private sector activity in Ghana: private sector accounts for only about 28% of the gross credit of commercial banks, with the government and public enterprises accounting for most of the balance - 69%. The government claims to have done a lot in recent years to stimulate private sector investment activity, but the results so far do not appear to be very promising. As a result, the government is greatly concerned. This is how the Secretary for Finance and Economic Planning recently articulated the

1. Improved administration of the tax system is also claimed to have contributed to larger tax collections. Detailed information to substantiate this claim (e.g., reduction in tax arrears, increase in the number of tax assessees) however is not available.

government's concern: "...the reality is that private investments in manufacturing have been disappointing, in spite of some improvement in investment laws, in spite of the divestiture programmes, in spite of the vastly improved macro-economic environment, with better guarantees for profit and dividend repatriation, not to mention the actual record of arrears clearance, in spite of our subscription of the MIGA, and in spite of bilateral agreements on investment protection.... We are concerned that if no significant investments flow especially into domestic resource based industries, the transformation process would be that much more difficult; success, on the other hand, will put us on the path to real industrialisation. Accordingly, we are taking these questions seriously and would welcome a frank exchange of views on them."[2]

The World Bank's view in the matter is that private investors are not coming forward in a big way because the government has not done enough to inspire their confidence. This is what the Director of the Bank's West Africa Department said recently: The private sector's response "has not been as encouraging as one would have hoped. To be sure, a few sectors of the economy have benefited from substantial increases in private investment. Perhaps the most striking example is the surge of investment in gold mining, which will yield substantial increases in export

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2. See Home Front: Ghananian News and Views (London), Volume 8, No. 2, March-August 1989, p. 6.

revenues over the coming years. But in areas outside mining, private investment has been more modest. There is some evidence that private investment has grown in the small scale manufacturing and agricultural sector. For example, a recent survey shows a substantial increase in new plantings of cocoa over the last five years. In the medium and large scale manufacturing sector, the little private investment that has taken place has been directed mainly at rehabilitation and, only in a few cases, expansion. In the aggregate, however, there is a need for an acceleration of private investment in the productive sectors. The measures taken by the government so far, especially infrastructural development and the liberalization of trade and foreign exchange markets, have all been designed to stimulate private sector activity. But clearly a lot more is required to inspire the confidence of private investors.... The regulatory environment hindering private sector activity will need to be reviewed and revamped and the judicial system supporting economic activity has to be strengthened. Ultimately, the private sector's response to the government's initiatives will depend upon the confidence they place on policy continuity, government actions in support of legitimate private economic activity, and on the enforcement of property rights by the state."[3]

3. <u>Ibid</u>., p. 3

Closely related to the issue of why the private sector is not investing is the issue of capital flight. An average Ghananian does not have many options to choose from when investing his savings and the rate of interest he can expect on his saving deposits continues to be substantially lower than the inflation rate. For example, according to the latest available data, in 1987, while the deposit rate was 17.6%, consumer prices rose by as much as 39.8%. The numbers may be different now (November 1989), but there is reason to believe that the real deposit rate continues to be significantly negative. This, now combined with the relatively free availability of foreign exchange, clearly suggests that many Ghananians may be managing to hold their savings in foreign currency-denominated financial assets rather than in Cedi-denominated ones. One wonders about how to explain this unintended outcome. Something seems to have gone wrong with the sequencing of reforms. The whole thing urgently needs to be looked into, so that appropriate measures may be put in place as soon as feasible.

2.2 Public Enterprises

A major issue in Ghana's public sector finances relates to the public enterprises' dependence on the budget. Given the commanding role assigned to public enterprises in virtually all sectors of the economy, and given their large operating losses, low productivity and increasing illiquidity, public enterprises have been a major burden on the government in terms of (a) direct support through equity contributions, loans and subventions, and (b) indirect support through tax, loan and interest arrears, absence of dividends and, in some cases, inability to repay government-guaranteed foreign loans. Some quantitative estimates of the burden involved are available, but they are not very meaningful. Take, for example, the Government of Ghana's 1989 budget which includes a provision of Cedis 5 billion, or 2.5% of government expenditures, for financial support for the rehabilitation and expansion of certain public enterprises (e.g., Bonsa Tyre Company, Nsawam Cannery, Aboso Glass Factory). There is reason to believe that this figure is a gross underestimate. For one thing, it includes no provision for financing the cash losses of public enterprises. It would be too much to expect that none of the public enterprises will require any major budgetary support on this account. What is more, the above estimate totally ignores the issue of indirect government support to public enterprises.

Meaningful estimates of public enterprises' burden on the government are not available, at least partly because public enterprises in Ghana have not produced their financial accounts, let alone audited statements, since 1984. This is unfortunate, especially because absence of detailed, uptodate financial accounts and related data not only makes it almost impossible to attempt any meaningful work on the financial performance of public enterprises,[4] but it also hinders the task of assessing the incentive environment public enterprise managers operate in.[5]

The above remarks should not be taken to mean, however, that the Government of Ghana is totally insensitive to what goes on in the country's public enterprise sector. Indeed, as a part of its ongoing economic reforms programme, it has prepared a detaild two-year action plan which, inter alia, aims to reduce, if not eliminate, the public enterprises' financial burden on the government budget. Guidelines defining the criteria for current and capital budgetary transfers to public enterprises have been prepared, with the government intending to rigorously enforce them.

In addition, the government has advertised for the divestiture of 32 public enterprises.[6] The modes of divestiture include a range

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4. See Anand P Gupta, "RCFL's Performance", The Economic Times, March 14-15, 1989 (RCFL stands for Rashtriya Chemicals and Fertilizers Limited, the largest public enterprise in India's fertilizer sector). A study such as this would have been almost impossible to do in the absence of detailed, uptodate financial accounts and related data.

5. For a review of the incentive environment Indian public enterprise managers operate in, see Anand P. Gupta, "Financing Public Enterprise Investments in India", Economic and Political Weekly, Vol. XXIII, No. 51, December 17, 1988.

6. Before the reform programme began, the Government of Ghana had a majority interest in 181 enterprises, either through direct ownership (93) or indirectly through wholly-owned banks or as subsidiaries of other public enterprises. In addition, the Government had a minority interest (direct or indirect) in a further 54 enterprises. The 32 public enterprises identified for the first phase of divestiture programme are: State Fishing Corporation; Ghana Sugar Estates Limited; Farms in the State Farms

of options: outright sale, public or employee share issues, leasing, management contracts, and liquidation. Despite some initial difficulties, the governmenthas made good progress: 10 public enterprises were effectively liquidated by end-1988, with agreements reached for the sale of the government's interest in six joint ventures by end-August 1989.

Two questions arise here. First, given the nonavailability of financial performance data since 1984, how did the government go about in identifying the candidate public enterprises for divestiture and in determining the valuation of their assets? Second, what precisely are the public finance implications of the divestitures completed so far? This is especially important as the government has already begun divesting its interests even in enterprises not included in the divestiture list (of 32 enterprises), with a view to mobilizing additional domestic and

Corporation Group; Food Production Corporation; Bast Fibre Dev. Board; Some Hotels in the State Hotels Group; Tema Shipyard and Drydock Corp.; Two Worlds Manufacturing Co.; Neoplan (Gh) Ltd.; Willowbrook (Gh) Ltd.; Victory Industries; Ghamot Enterprises Ltd.; NIC Soaps and detergents; NIC Metal Fabrication; NIC Farms; GEA Packaging; Kwahu Dairy Farms; Ghamot Textiles; Gava Farms; Ghamot Motor Engineering Co. Ltd.; GEA and Associates; GIHOC Mosquito Coil; GIHOC Vegetable Oil Mills Co. Ltd.; GIHOC Nzema Oil Mills Company Ltd.; GIHOC Motors and Machine Shop Ltd.; GIHOC Paper Products and Printing Co. Ltd.; Overseas Knitwear Fabric Ltd.; Famekwa Trading Co. Ltd.; Metalico Limited; DL Steel (Gh) Ltd.; Labadi Pleasure Beach Complex; and State Companies in the Mining Sector.

external financial resources.[7] No answers to these questions presently are available.

2.3 Size of Deficit

What is the size of Ghana's public sector deficit? According to the International Monetary Fund, Ghana had a surplus equal to 0.5% of GDP in 1987, against a deficit of 5.6% of GDP in 1982.[8] The revenue and expenditure figures reported in Government of Ghana's 1989 budget also suggest that Ghana no longer has a deficit in her public sector finances: the figures suggest surpluses of 0.4% of GDP for 1988 and 0.8% for 1989. But things get confused when one looks at some other data reported recently, as can be seen from the data presented in Table 2. One wonders what really is going on.

A close scrutiny of the available data, however, reveals that Ghana continues to have a deficit in her public sector finances. It seems the figures of deficit or surplus reported by the International Monetary Fund and by the World Bank in some of its publications do not reflect capital expenditures financed through external project aid. If proper adjustments are made for these exclusions, total expenditures will work out to be substantially

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7. Examples of such divestitures are: the divestiture of the Cocoa Board's majority ownership in its insecticides plant; the divestiture by the State Gold Mining Corporation of its majority interest in one gold mine.

8. See International Financial Statistics, May 1989, p. 250.

Table 2: Ghana's Public Sector Deficit

Source	1982	1983	1984	1985	1986	1987	1988	1989
1	2	3	4	5	6	7	8	9
1. International Financial Statistics (Government deficit or surplus as % of GDP)	-5.6	-2.7	-1.8	-2.2	0.1	0.5	NA	NA
2. Government of Ghana's 1989 Budget (Surplus as % of GDP)	NA	NA	NA	NA	NA	NA	[illegible]	0.8
3. World Development Report 1989 (Central govt.'s overall surplus/deficit as % of GNP)	NA	NA	NA	NA	NA	NA	NA	0.6
4. Adjustment Lending: An Evaluation of Ten Years of Experience[1] (Fiscal deficit as % of GDP)	-5.6	-2.7	-1.8	-2.2	0.1	NA	NA	NA
5. Trends in Developing Economies 1989 (Overall deficit as % of GDP)	NA	NA	-3.1	-4.1	-5.5	-4.9	-5.5	NA
6. Memo items								
6.1 GDP at current prices (Millions of Cedis)	86,451	183,638	270,561	343,048	511,373	746,000	1,057,900	1,312,100
6.2 GDP at 1985 prices (Millions of Cedis)	315,826	318,041	326,428	343,048	360,884	378,207	401,656	425,755

NA = Not Available

1. A recent (1988) World Bank publication.

higher, and with total revenues remaining unchanged, Ghana's surpluses will turn into substantial deficits. In view of this, one can argue that it is the data reported in the World Bank's <u>Trends in Developing Economies</u> (Table 2, row 5) which depict the real story of Ghana's public sector deficits in recent years, and not the IMF or any other data. Incidentally, the TDE data also tally with those on public savings and investment.

2.4 Financing of Deficit

The TDE data on deficit are available only for five years - 1984 to 1988. A careful look at the data suggests that a major change has taken place in the scheme of financing Ghana's public sector deficit during these five years. To elaborate, in 1988 the deficit (5.5% of GDP) was financed such that external flows (official capital grants and external borrowings) added up to 6.2% of GDP, with the government transferring resources equivalent to 0.7% of GDP to the domestic banking system. On the other hand, in 1984 the deficit (3.1% of GDP) was financed as follows: external flows: 1.9% of GDP; domestic banking system: 0.7% of GDP; and domestic nonbanking system: 0.5% of GDP. In other words, between 1984 and 1988, Ghana's dependence on external inflows for financing her public sector deficit has grown very substantially.

3. Concluding Remarks

This paper provides a perspective on how Ghana has managed her public sector finances since the inception of the economic reforms programme in 1983. It reveals that Ghana continues to have a deficit in her public sector finances - Ghana's current public sector deficit (5.5% of GDP) is of about the same size it was before the commencement of the economic reforms programme. This is contrary to the general perception of Ghana having succeeded in eliminating her public sector deficit, and that too over a relatively short period.

The paper also shows that between 1982 and 1987 the Government of Ghana's tax and nontax revenue as % of GDP grew by 8.5 percentage points (from 5.6 to 14.1%), with export duties alone accounting for roughly one-half of this impressive growth. With the government revenues growing, government consumption expenditure has also grown - from 6.5% of GDP in 1982 to 10.6% in 1987. In other words, government consumption expenditure increases alone have absorbed 48.2% of the revenue growth - and as much as 113.9% of the growth in collections from export duties. The Ghana policy-makers need to ponder over this development.

Finally, a word must be said about capital spending which has risen from negligible level in 1983 to 8.3% of GDP in 1988. This is indeed a major achievement: capital spending has been used for rehabilitation of the country's economic and social infrastructure which was allowed to deteriorate throughout the 1970s. However, with public savings being relatively small (e.g., 2.6% of GDP in 1988), the government has chosen to finance the shortfall (in resources required to finance higher levels of capital spending) through external resources, which Ghana so far has been able to mobilize on highly concessional terms. But what about the future? In case the terms harden, will Ghana be able to afford them?