

**AN ASSESSMENT OF GHANA'S PERFORMANCE UNDER THE THREE-
YEAR EXTENDED CREDIT FACILITY (ECF) PROGRAMME WITH THE
INTERNATIONAL MONETARY FUND (IMF) FROM APRIL 2015 TO
DECEMBER 2017**

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**THIS DISSERTATION IS SUBMITTED TO THE UNIVERSITY OF
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DECLARATION

With the exception of reference to other works which I have duly acknowledged, I hereby declare that this dissertation is the result of an original research conducted by Emmanuel Amoah-Darkwah under the supervision of Dr. Emmanuel Codjoe and that no part of it has been submitted anywhere else for any purpose.

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DEDICATION

Ebenezer; this is how far you have brought me. I dedicate this work to my family; Mr. Gabriel Amoah-Darkwah, Miss Theresah Ayimah, Mary Ofosuah Darkwah, Eugenia Agyeiwaa Darkwah, Benette Kofi Assinor for their unflinching support during my studies.

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LIST OF ABBREVIATIONS

AQR	Asset Quality Review
BoG	Bank of Ghana
B&FT	Business and Financial Times
CHRAJ	Commissioner of the Commission on Human Rights and Administrative Justice
CSO	Civil Society Organisation
FDI	Foreign Direct Investment
ESAF	Enhanced Structural Adjustment Facility
EGP	Economic Governance Platform
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
IFS	Institute of Fiscal studies
IEA	Institute of Economic Affairs
IMF	International Monetary Fund
MoU	Memorandum of Understanding
MoFEP	Ministry of Finance and Economic Planning
MGSP	Ministry of Gender and Social Protection
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MP	Member of Parliament
NDC	National Democratic Congress

NPP	New Patriotic Party
PAMSCAD	Programme of Actions to Mitigate the Social Costs of Adjustments
OTC	Over-the-Counter
PRGF	Poverty Reduction and Growth Facility
SMEs	Small and Medium Size Enterprise
SSA	Sub – Saharan Africa
SA	Stand-By Agreement
SAP	Structural Adjustment Programme
SDR	Special Drawing Right
TI	Transparency International
UN	United Nations

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ABSTRACT

Ghana joined the International Monetary Fund (IMF) at independence in 1957 and has benefitted from fifteen stabilisation programmes with the current Extended Credit Facility (ECF) being the sixteenth. This study seeks to critically assess the performance under the programme from April 2015 to December 2017. It argues that, the fundamental challenges that necessitated a bailout from the 20th century to present has not changed that much, hence a need to address the root causes of the perennial macroeconomic challenges. The study is guided by Compliance conceptual framework which explains why states implement international agreements or otherwise and this is relevant to the study because, it explains how policies adopted will be implemented given the implications of failing to comply. Using a qualitative research design, the study finds that, lack of fiscal discipline caused the missing of programme targets under the review period especially in 2016. The study concludes that, if economic challenges that led to this stabilisation programme are not addressed holistically, the country may opt for another stabilisation programme which comes with conditionalities in the future. Conditionalities lead to the implementation of austerity measures by government such as tax hikes, reduced spending and net hiring freeze in essential sectors of the economy. This study recommends that, the root causes of Balance of Payment (BoP) deficit can be mitigated by embarking on import substitution industrialisation and export led growth. More so, strict compliance to Public Financial Management Act (2016) Act 921 will prevent fiscal slippages especially in election years. This is because the Act clearly stipulates the penalty for the breach of the law.

CHAPTER ONE

INTRODUCTION

1.1 Background

The end of the World War II in 1945 ushered in the creation of the United Nations (UN) to foster peace and security in the international system¹ and with it was the establishment of the Bretton Woods Institutions- World Bank (WB) and International Monetary Fund (IMF).² The aim of the ‘twin’ institution was to reconstruct the disintegrated world economy after the war and to promote international economic cooperation. International Organizations (IO’s) assist states to come together and overcome the challenges affecting them and in the case of the IMF, it ensures global stability in the international monetary and financial system.³ The IMF was established in 1945 and currently has a membership strength of 189 states. The IMF is keen on facilitating international trade, promoting exchange stability, and assisting states to correct their Balance of Payment (BoP) problems.⁴ The IMF is also known as the Fund.

Ghana has been a member of the IMF since September, 1957 and has benefitted from several technical and financial assistance. Notable IMF programmes Ghana has benefitted from include the Stand-By Agreement (SBA) in 1966, the Structural Adjustment Programme (SAP) in 1983, the Enhanced Structural Adjustment Facility (ESAF) in 1989, the Highly Indebted Poor Countries (HIPC) initiative which was rolled out in collaboration with the WB in 2002. In 2009, Ghana again benefitted from the Poverty Reduction and Growth Facility (PRGF) from the IMF.

Ghana's macroeconomic performance over the recent years has been mixed. After recording a Gross Domestic Product (GDP) growth rate of 14 percent in 2011 largely driven by inflows from the oil and gas, GDP growth declined drastically to 4 percent in 2014 amidst huge public debt and Balance of Payment (BoP) deficit. At a benchmark revenue projection of US\$93.34 a barrel for 2014, crude oil prices declined to US\$82 a barrel in September 2014 which caused a revenue shortfall. The 91-day Treasury bill rate increased to 25.5 percent in September 2014 compared to 21.59 percent the previous year. As at the end of December 2013, inflation rate stood at 13.5 percent. This increased to 17 percent in 2014.⁵

On currency volatility, the cedi depreciated by 31.19 percent against the US dollar in the first nine months of 2014, compared to 4.12 percent recorded same period in 2013.⁶ Furthermore, on sectoral analysis, Industry sector growth declined from 7.3 percent in 2013 to 4.6 percent in 2014. Similar decline in Services sector was recorded; it grew at 4.59 percent in 2014 as compared to 9.6 percent in 2013. In the Agriculture sector, growth recovered marginally from 5.2 percent in 2013 to 5.3 percent in 2014.⁷

The economic headwinds aforementioned accounted for a bailout request from Ghana to address the risks to the country's medium term economic prospects in August 2014. On 3rd April, 2015, IMF's Executive Board approved a "three-year arrangement under the ECF for Ghana in an amount equivalent to Special Drawing Right (SDR) 664.20 million (180% of quota or about US\$918 million) in support of Ghana's medium-term economic reform".⁸

The programme was approved with the following broad objectives:

- “To restore debt sustainability, rebuild external buffers through fiscal adjustment and alleviate fiscal dominance of monetary policy.
- To strengthen public finances and fiscal discipline through structural reforms.
- To restore financial sector stability.
- To protect social spending”.⁹

As of September, 2017, US\$565.2 million had been disbursed out of the US\$ 918 million after completion of four (4) reviews with the rest tied to the remaining reviews.¹⁰

1.2 Statement of Problem

The government of Ghana’s fiscal policy consolidation between 2012 and 2014 was hampered by the fall in oil and gold prices, loss of value of the cedi, high inflation and slow international economic growth. This necessitated a request for a bailout programme from the IMF. The aim of this study is to assess Ghana’s performance under the three- year ECF programme with the IMF from April 2015 to December 2017.

Also, the study compares the major differences and similarities of the current programme with the 1983 Structural Adjustment Programme (SAP) taking into account the expansionary fiscal policies embarked on by Ghana whiles on this IMF supported programme. Again, the study seeks to ascertain the reasons for extension of the programme by a year despite the tight fiscal space the programme offers in economic management. Furthermore, cutting edge policy proposals will be

offered to government of Ghana in prudently managing the domestic economy and staying away from IMF stabilisation programmes that impose conditionalities.

1.3 Research Questions

1. What are the factors that caused Ghana to opt for a bailout programme from the IMF?
2. How successful has the ECF programme been in achieving its objectives?
3. What challenges did the ECF face that resulted in missed targets and extension (to April 2019)?
4. What policy changes needs to be implemented in the management of the domestic economy?

1.4 Research Objectives

1. To critically assess the factors that caused Ghana to opt for a bailout programme from the IMF.
2. To examine how successful the ECF programme has been in achieving its objectives.
3. To assess challenges the ECF programme faced that resulted in missed targets and extension (to April, 2019).
4. To propose policy changes in the management of domestic economy

1.5 Scope

The scope of the study is to assess Ghana's performance under the IMF ECF programme from April 2015 to December 2017. The period is chosen by the researcher as a case study for two reasons. Firstly, the year 2016 was an election year and historically, fiscal slippages have been recorded in elections years. Again, 2017 ushered in a new government and the researcher seeks to examine the policies embarked on, to address the macroeconomic imbalances.

1.6 Rationale Study

The rationale for this study is to measure Ghana's performance under the three year ECF programme with the IMF. It seeks to propose policies to address the perennial macroeconomic instability especially BoP deficit to foster sustained growth. By so doing, the study will add to the existing literature on Ghana's relations with the IMF.

1.7 Hypothesis

This study hypothesises that, lack of fiscal discipline amid external shocks to Ghana's economy led to the missing of programme targets.

1.8 Conceptual Framework

The conceptual framework to use for this study is Compliance from the field of international law. The letter of intent to request for an IMF loan and obligations imposed thereof on member states can be classified as international soft law. This conceptual framework is chosen because it helps in analysing the institutional mechanisms and laws enacted by Ghana to achieve the bailout conditionalities.

Compliance broadly includes implementation and the matching of state behaviour with international norms. This soft law makes sure that, member states of an international organisation adhere to agreements they sign.¹¹ According to Oran Young, "Compliance can occur when the actual behaviour of a given subject conforms to prescribed behaviour, and non-compliance or violation occurs when actual behaviour departs significantly from prescribed behaviour".¹² Compliance entails the willingness of a state to "commit scarce resources, either in terms of staff

time, political energy and attention, money or a decision with distributional consequences”. A number of factors inform a state’s choice to comply with international soft law and this includes technical and political factors. The lack of competence and technical capacity by states may hinder their ability of enforce regulations consistent with their international commitments.¹³ This is predominant in developing states of which Ghana is not an exception than in developed states because the former may lack administrative and financial efforts to devote to enforcement. Also, the lack of political will to comply may come from the magnitude of expected resistance at home or because the state lacks the political where-withal to induce behavioural change by its citizenry.¹⁴

Effectiveness of international agreements depends on the level of compliance of member states. According to Robert Keohane, “governments usually agree to sacrifice a degree of their legal freedom of action in order to secure policy changes from others, or influence over their policies”.¹⁵ Consequently, the anarchical international system makes it difficult for supranational authorities to enforce laws and agreements which is a major criticism against international organisations.

The IMF as originally conceived at the Bretton Woods conference in 1944 is a supranational body with two key mandates. The first is to regulate exchange rate in the international system and also grant loans to member states in times of crisis. The Fund’s power to impose conditionality originates from Article V “Operation and Transactions of the Fund”. Section three (a) of the Fund’s Articles of Agreement¹⁶ stipulates that, “The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements, and may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will

establish adequate safeguards for the temporary use of the general resources of the Fund”.¹⁷ This article informs imposition of conditionalities on member countries to ensure compliance when they seek financial assistance from the Fund of which Ghana is no exception.

This conceptual framework enables the researcher to answer the following research questions which are; what are the factors that caused Ghana to opt for a bailout programme from the IMF?; how successful has the ECF programme been in achieving its objectives?; what challenges did the ECF face that resulted in missed targets and extension (to April 2019)?; what policy changes needs to be implemented in the management of the domestic economy?. State’s compliance to international soft law as stated in the letter of intent when requesting for an IMF bailout and obligations imposed thereof on member states perfectly fits in answering the above research questions.

As opined by Guitian¹⁸ and Polak¹⁹, the official IMF conditionality stance centres on the principle of "political neutrality," which is based on the Articles of Agreement mandate to seek an acceptable balance between protecting the interests of individual members and those of the membership as a whole. Based on this argument, the IMF is expected to use uniform and impartial standards in determining the availability and generosity of lending, as well as the stringency of programme conditions and compliance enforcement.

Compliance has been critiqued by scholars like Thacker²⁰, Bird²¹, Stone²² among others. According to them, conditionality has reflected the significant power differential between IMF’s main shareholders (primarily advanced industrial democracies) and developing countries, which

have accounted for most IMF programmes since the 1970s. Even leaving aside radical critiques of IMF conditionality, this power differential has drawn increasing scrutiny from scholars concerned with deviations from technocratic standards due to geopolitically or economically motivated interventions by large IMF shareholders.

Furthermore, the existing literature has identified various political drivers of preferential treatment: several studies have found that, countries whose United Nations voting reflect a close geopolitical alignment with the US or other Western nations, had more frequent access to IMF lending.²³ These countries also receive more generous loans²⁴ and were subjected to fewer programme conditions.²⁵ In the case of non-compliance, these countries were punished less severely. Stone found that, recipients of generous US foreign aid in both Eastern Europe and Africa suffered shorter punishment intervals for deviating from IMF policy prescriptions²⁶. Despite these criticisms, this conceptual framework best fits for assessing Ghana's performance under the three-year Extended Credit Facility (ECF) programme with the IMF from April 2015 to December 2017.

1.9 Literature Review

This section gives a brief history of the IMF and critically analyses the impact of its programmes on member states especially developing ones. It also compares the original objectives for its establishment with the current shift in policy prescription in addressing macroeconomic challenges of member states. The section also dovetails into the types of IMF programmes and their modus operandi. This section concludes with the success stories and criticisms levelled against the IMF.

A myriad of literature on IMF exist especially with its engagement with in developing countries but a discussion of the Fund will not be complete if its history is not appreciated. The history of the Fund will also not be complete if inference is not drawn from the Great Depression of the 1930s.²⁷ The mercantilist debacles that flowed from the Versailles peace conference in 1919 as a result of competitive devaluations and of trade and exchange restrictions informed the creation of the IMF.²⁸ The Articles of Agreement was signed by 44 founding members at Bretton Woods, New Hampshire, United States in July 1944 but it entered into force in December 1945. The Fund seeks to avert the competitive devaluations among states that contributed to the Great Depression of the 1930s and foster economic corporation in the international system.²⁹

At the formation of the Fund, it had the following aims:

- “To promote international monetary cooperation;
- To facilitate the expansion and balanced growth of international trade;
- To promote exchange rate n stability;
- To assist in the establishment of a multilateral system of payments; and
- To make resources available (with adequate safeguards) to members experiencing balance of payments difficulties.”³⁰

States turn to the IMF as a lender of last resort during economic downturns. The IMF after the oil crises in the 1970s and international debt in the 1980s focused its attention on competitive devaluation among states and macroeconomic stability in order to restore external balances. These policy conditionalities are formulated not only to resolve BoP challenges but also covers monetary policy to spur economic growth.³¹ Despite its creation to assist states facing economic crises, the

IMF shifted offering financial and technical advice to developing states after the debt international debt crises in 1982.³²

1.9 Types of IMF Programmes

The Fund through its Stand-By Arrangements (SBA), Exogenous Shocks Facility (ESF), Stand-By Credit Facility (SCF), Rapid Credit Facility (RCF), Precautionary and Liquidity Line (PLL), the Flexible Credit Line (FCL), Compensatory Financing Facility (CFF), Structural Adjustment Facility (SAF), Extended Credit Facility (ECF) and Enhanced Structural Adjustment Facility (ESAF) respond to the economic challenges of member states.³³ The major components of the IMF programmes are: structural reforms, financing packages and macroeconomic policies. These three elements form a single offer of assistance, known as an IMF-supported programme. These IMF-supported programmes have the same objectives even though their duration, size and conditionalities may differ.³⁴

1.9.2 IMF Conditionalities

The IMF policy adjustment became a target of criticism because of the conditionalities in the 1960s and 1970s and both sides of the political spectrum meted out criticisms in equal measure.³⁵ On the political left, IMF conditionality is harsh, intrusive, and ineffective while on the political right, the habitual objection is that, policy conditions are not enforced. The Fund has welcomed the criticisms from both sides of the political divide but still pursues useful conditionalities to encourage reforms. Consequently, the IMF needs a mechanism to help ensure loan repayment hence the pursuit of loans conditions.³⁶

As an international institution that receives funds from member states and on lend, there should be an effective system to enable the member states achieve sound economic achievement. This ensures compliance to loan repayment as clearly stated in Section three (3) of IMF's Article of Agreement. More so, IMF conditionality provides clarity on the indicative and benchmark targets states have to meet in order to receive a tranche disbursement and helps to monitor progress toward programme objectives. Conditions attached to loans assist member states to resolve their BoP challenges and amortise loans when it falls due to the Fund.³⁷

1.9.3 Criticisms of IMF Programmes

Over the years, IMF supported programmes have been criticised for not addressing the economic problems of member states that access them and as a result generates adverse social consequences. The 2007 international financial crisis and the 2009 European debt crises have renewed the attention of social consequences brought on citizens of states that access the IMF programmes. This has reignited the side-effects of austerity measures which has led to greater inequality, increased poverty and limited access to education and health services.

Critics of the IMF programmes posit that, conditionalities deepen the economic hardships of states. On the other hand, proponents claim that, IMF bailout is critical in preventing extreme financial consequences. The literature thus recognises that, IMF programmes will have positive impact on beneficiary states if they are successfully implemented.³⁸ Another criticism of the IMF supported programme is that, recipient states are forced to embark on policy reforms without cognisance to their economic status, business environment and culture.

Also, IMF supported programme forces leadership of member states to lose their autonomy in formulating domestic economic policies. In most cases, beneficiary states are advised to cut down public sector wage bill, lay-off staff in civil service, increase tax in order to return budgets to surplus in the short term. For example, the IMF has been criticised for being an indirect cause of the Ebola outbreak in Africa in 2014. This is because, the affected countries thus Sierra Leone, Guinea and Liberia prioritised debt repayment over public spending which weakened the health system.³⁹

As noted by Joseph Stiglitz in his book, “Globalisation and Its Discontent”, the IMF at formation, intended to influence member states to pursue expansionary policies because of the competitive devaluation of currencies and trade. However, the IMF in recent years have reversed course, pressurising developing states to pursue contractionary policies than these countries would choose of their own accord.⁴⁰ He further posits that, “the IMF has not articulated a coherent theory of market failure that would justify its own existence and provide a rationale for its particular interventions in the market”. The policy outcomes envisaged by the IMF have exacerbated the very economic challenges they sought to address and it keeps recurring.⁴¹

Global South states have not been left out of the above narrative; the political instability, economic mismanagement among others led to the near collapse of many African countries in the 1970s and 1980s. This led these states to request for IMF supported programmes and the prescription was in the form of SAPs.

Structural Adjustment is the “process whereby economic policies and relevant institutions are reformed with a view to enhancing economic growth, improving resources allocation, increasing economic efficiency and increasing the economy’s resilience to changes in its domestic or global market”. Policy adjustment is backed by policies designed to attain macroeconomic stability.⁴² Designed by the Bretton Woods Institutions, SAPs are imposed on beneficiary states as a pre-condition for bailout as well as attracting foreign investment. SAP’s often consist of two parts; shorter-term stability and longer-term adjustments.

The problem with the Bretton Woods “doctors” is that, they prescribe common diagnosis and therefore similar “treatment” for all the ailing economies that consult them. So far, as these institutions are concerned, the economic development problems of all developing countries are caused by a litany of ills that almost invariably include state interference in the operations of the price mechanism and over-bloated civil service.⁴³

1.9.4 Success Stories of IMF Programmes

Despite the shortcomings of IMF supported programmes, through its technical advisory services, 125 member states have benefited from capacity building since its inception. Liberia, Afghanistan, Mexico, Ghana, Peru etc have benefitted from the capacity building in the area of Public Financial and banking supervision among others.⁴⁴ Rating by international rating agency – Fitch, has upgraded the sovereign ratings of several countries around the completion of their past IMF arrangement. These are Angola, Cameroon, Côte d’Ivoire, Ghana, Lesotho, Rwanda and the

Seychelles. These countries have recorded an improvement in sovereign ratings as the macroeconomic adjustment under IMF programmes between 2001 and 2015 started to bear fruit.⁴⁵

Ghana in 2010 attained a lower middle income status but there have not been many publications on IMF supported programmes the country has benefitted from. This study seeks to fill that literature gap.

1.10 Key Definitions

Balance of Payment:

According to the IMF, balance of payment is a “statistical statement that systematically summarises, for a specific time period, the economic transactions of an economy with the rest of the world.”⁴⁶

Extended Credit Facility:

The IMF defines ECF as “a lending arrangement that provides sustained programme engagement over the medium to long term in case of protracted balance of payments problems”.⁴⁷

Fiscal Consolidation:

According to the Organisation for Economic Co-operation and Development (OECD), “fiscal consolidation is a policy aimed at reducing government deficits and debt accumulation.”⁴⁸

Austerity:

Austerity measures refers to “official actions taken by the government, during a period of adverse economic conditions, to reduce its budget deficit using a combination of spending cuts or tax rises”.⁴⁹

1.11 Sources of Data

Data for the study was sourced from both primary and secondary sources. Primary data was collected by conducting semi-structured interviews with experts and professionals from University of Ghana Business School, Institute for Fiscal Studies, Finance Committee of Ghana’s Parliament, Private Enterprises Foundation and Economic Governance Platform. Other primary sources contacted for this study are anonymised.

Secondary sources of data for the study was sourced from International Monetary Fund (IMF), the Ministry of Finance, Bank of Ghana (BOG), National Development Planning Commission (NDPC), Institute of Fiscal Studies (IFS), Institute of Economic Affairs (IEA), IMANI Africa, University of Ghana Economics Department, University of Ghana Business School (UGBS), Trade Union Congress (TUC), and Economic Governance Platform (EGP). The Balme and the Legon Centre for International Affairs and Diplomacy (LECIAD) libraries were useful sources to obtain books, journals, articles for the study.

1.12 Research Methodology

This research adopted the qualitative approach. Despite the advantages of using quantitative research method and its assumed benefits of reliability and validity⁵⁰, the researcher finds that, qualitative approach will help in proper assessment of Ghana's performance on the three year ECF programme with the IMF. This is explained further by Nahid Golafshani in his work "Understanding Reliability and Validity in Qualitative Research" that whereas quantitative research seeks to find "causal determination, prediction, and generalization of findings", qualitative research's primary occupation is to seek "illumination, understanding, and extrapolation of findings to similar situations."⁵¹

Furthermore, qualitative research methodologies are often employed by researchers to seek answers to the 'whys' and 'hows' of human behaviour, opinion, and experience.⁵² This justifies the use of the qualitative research method in this study to explore and understand the policies, programmes and laws instituted by the government of Ghana to meet the IMF conditionalities. The researcher used purposive and snowball sampling techniques in this study. These sampling methods were chosen because the researcher targeted institutions and people from whom certain vital information related to the objectives and research questions were obtained, and also through whom the researcher got other stakeholders to interview in the course of the work.

The researcher adopted a purposive sampling method for this study. It represents a type of non-probability sampling technique.⁵³ It is also known as judgmental, selective or subjective sampling. Purposive sampling is appropriate for this study because the sample being investigated is quite small and it was a suitable way to locate experts in the field of study. In this study, the sample size

included the Ministry of Finance (MoF), Bank of Ghana (BoG), Finance Committee of Parliament of Ghana, Private Enterprises Foundation (PEF), University of Ghana Economics Department, University of Ghana Business School (UGBS), Institute for Fiscal Studies (IFS), Institute of Economic Affairs (IEA), Economic Governance Platform (EGP)- which is a platform that collates the views of all Civil Society Organisations (CSOs) in Ghana on the IMF programme. An expert was interviewed from the aforementioned institutions. In checking the reliability and validity of the data gathered and the findings of the research, the use of the two sampling techniques lends much credence.

1.13 Data Analysis

LeCompte and Schensul define analysis as the process a researcher uses to reduce data to a story and its interpretation⁵⁴. Data analysis is the process of reducing large amounts of collected data to make sense of them. Patton indicates that three things occur during analysis: data are organized, data are reduced through summarisation and categorisation and patterns and themes in the data are identified and linked.⁵⁵

Thematic analysis was used to analyse the collected data. Thematic Analysis is a type of qualitative analysis used to analyse classifications and present themes (patterns) that relate to the data.⁵⁶ It illustrates the data in great detail and deals with diverse subjects via interpretations.⁵⁷ Thematic Analysis provides the opportunity to code and categorise data into themes. For example, how issues influence the perceptions of participants. In the case of thematic analysis, processed data can be displayed and classified according to its similarities and differences.⁵⁸ Specifically, after the field study, both written and recorded materials were transcribed and key ideas and emerging

themes from the interviews were identified. Despite the study adopting a qualitative approach, descriptive statistics enabled the researcher to summarise the data in a meaningful manner.

1.14 Ethical Considerations

Respondents in the interview were fully briefed on the purpose and conduct of the research and their participation was voluntary. When all participants agreed that they understood everything clearly, they were given the option to remain anonymous.

1.15 Limitation of the Study

The study encountered few challenges during the process of data and information gathering. A major challenge was the reluctance of some targeted organisations to share information: this hindered the study from getting official response of these organisations. Another challenge was the time allocated to conduct the study. Despite these limitations, the study endeavoured to cover all the salient points to achieve the aforementioned objectives.

1.16 Arrangement of Chapters

The study has four main chapters. Chapter one is the introduction which presents the background to the problem, objectives of the study, its scope, rationale, hypothesis, literature review, methodology, conceptual framework that guided the study and the arrangement of the chapters.

Chapter two gives an overview of IMF programmes Ghana has benefitted from since independence with emphasis on the 1983 SAP.

Chapter three focuses on a comprehensive review of Ghana's performance on the ECF programme and data analysis. It also dovetails into the reasons for the extension of the programme.

The fourth chapter comprises of the summary of findings, conclusions, and recommendations.

Endnotes

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CHAPTER TWO

AN OVERVIEW OF GHANA-IMF RELATIONS

2.0 Introduction

This chapter presents an overview of the relationship between the International Monetary Fund (IMF) and Ghana with emphasis on the 1983 Structural Adjustment Programme (SAP). This is because, the first phase of implementation of the SAP from 1983-1987 resolved some macroeconomic challenges which includes reduction BoP deficit, trade liberalisation and an increase GDP growth among others. Despite the achievements of the 1983 SAP, it failed to protect social spending which promulgated rolling out PAMSCAD. The current ECF programme has also improved Ghana's macroeconomic indicators but has not fully addressed the structural economic headwinds which includes resolving the causes of BoP deficit among others. The researcher seeks to examine the possibility of macroeconomic imbalances after the current programme ends in April, 2019. This is in line with the research objective of proposing policies to structurally address the perennial macroeconomic imbalances.

2.1 Arguments for Structural Adjustment and 1966 Stabilisation Programme

Ghana joined the IMF the same year it gained independence in 1957 therefore has a long history with the Fund. It is worthy of mention that, the 1983 SAP was not the first stabilisation programme Ghana had with the Fund. After the overthrow of Ghana's first President, Kwame Nkrumah in 1966, Ghana signed on to a "stabilisation programme." Government expenditures were cut and the size of the budget deficit decreased.¹ Interest rates were raised from 4.5 percent -7 percent.

Commercial lending was cut by 25 percent-33 percent. In June same year, the cedi, was devalued by 30 percent. Subsidies to the state sector were terminated. All capital investment privileges were removed. Duties were lifted on imports, and Ghana was told it had change to export-oriented production.² These were some of the conditions government of Ghana had to comply with to get financial assistance from the IMF.

IMF loans as mentioned already are condition-backed loans which means, beneficiary states have to put in place fiscal and monetary policies to boost growth. IMF conditionalities are the linking of the disbursement of the loan to “actions, or promises of actions, made by recipient governments only at the insistence of aid providers; measures that would not otherwise be undertaken, or not within the time frame desired by the providers”.³ From the perspectives of the Bretton Woods Institutions, underdevelopment in developing states are primarily caused by internal factors. Some of these are, government intervention in price mechanism, over-staffed public service bribery and corruption and these clog the wheels of efficiency.⁴

The Fund posits that, SAP implementation leads to reduction in poverty and bridges the economic inequality gap between the rich and the poor.⁵

Three main arguments are often presented in support of this claim.

1. “Failure to adjust will ultimately impose huge costs on the poor, with unsustainable budget and trade deficits leading to hyperinflation, currency instability and economic collapse.”⁶
2. Structural Adjustment Programmes where properly implemented have not only created the conditions for growth, but for growth which is pro-poor. The key contention is that, state

intervention in the rural sector where a vast majority of the poor live has lowered prices and reduced market opportunities and thereby depressed household income. Rural market de-regulation, however raises prices and creates rural employment. In the urban sector, import liberalisation makes local industries more competitive, by allowing them to take advantage of imported technology. Liberalisation, together with labour market deregulation will lead to the creation of more jobs.⁷

3. Structural Adjustment Programmes incorporate “social conditionality’ and provisions that aim at protecting welfare service delivery in areas of concern to the poor”.⁸

2.2 The 1983 Structural Adjustment Programme

This section discusses Ghana’s 1983 SAP with the IMF. It analyses the reasons that necessitated a request for a bailout programme and the policy prescription offered by the IMF and its implications on the citizens. Again, the mitigation policies that were implemented by Ghana and the IMF is discussed in this section. More so, the current ECF programme is compared with the 1983 SAP to ascertain possible policy prescription that can be implemented to address recurrent macroeconomic challenges.

Ghana gained independence in 1957 and was economically sound with foreign exchange reserve well over US\$273 million in net international reserves. The bright and promising star of Africa, however did not maintain economic buoyancy for a long time. By the middle of the 1960s, Ghana was nearing bankruptcy. Gross Domestic Product (GDP) growth rate declined to 0.4 percent; net international reserves had dried up while public debt reached US\$ 1 billion; minimum wage lost

45 percent of its value; public sector earnings and industrial earning fell by 20 percent and 25 percent respectively.⁹ Furthermore, price paid to cocoa farmers decreased by 66 percent.¹⁰

Political instability, corruption and economic mismanagement continued to worsen Ghana's woes in the first three decades after gaining independence. Between 1970 and 1983, import volumes shrunk by over 33 percent, real export earnings reduced by 52 percent while domestic savings and investments dropped from 12 percent of GDP to almost zero. The economic hardships at the time triggered mass migration of Ghanaian workers.¹¹

Inflation rate by the early 1980's exceeded 100 percent while the per capita GDP fell from the 1960 level of US\$1,009 to US\$739. At the same time, Ghana was going through severe droughts and famines in its history. To worsen the situation, over 1 million Ghanaians were deported from Nigeria and this worsened the chaotic socio-economic environment.¹² It was at this point Ghana requested for a bailout from the twin Bretton Woods Institutions.¹³

2.3 Government Policies Prior to Economic Recovery Programme

On assuming power after the overthrow of President Hilla Liman of People National Party (PNP) in 1981, President Jerry John Rawlings of the Provisional National Defence Council (PNDC) was faced with the impending economic collapse. Inflation was running at 116 percent, the cedi was seriously overvalued and production in virtually all sectors had fallen by over 30 percent.¹⁴ Prior

to the acceptance of the IMF package, the government sought to slow down monetary expansion. So the PNDC government retired 1.3 billion cedis at the Central Bank.

On a net basis, government outstanding debt to the banking system during the first half of 1982 was reduced by 643 million cedis. Other measures introduced by the government included:

1. “The blocking and investigation of all deposit account in excess of 50,000 cedis (US\$1500 at the time);
2. The introduction of compulsory payment by check for all business transactions in excess of 1000 cedis;
3. Introduction with the 1982/1983 cocoa marketing season, of a system of payment to farmers by check instead of the traditional cash;
4. A temporary recall of personal bank loans for financing trading inventories;
5. Reduction in the structure of interest rates by half (e.g, the maximum lending rate was reduced from 25.5 percent to 14 percent per annum and the savings deposit rate was reduced from 18% to 8 percent per annum)”.¹⁵

2.4 Diagnosis by IMF: Economic Reform Programme

In February 1983, the IMF rolled out a Structural Adjustment Programme (SAP) to address the macroeconomic challenges. Indeed, the IMF solution to the economic ills of the Third World since the late 1970s has without exception, been in the form of SAP. This was seen as a policy for modernisation and economic growth at all cost. The SAP often consists of a package of actions

that include devaluation of currency, reducing inflation, public service retrenchment, reducing social spending. Also, financial sector reforms, privatisation of public enterprises, export promotion and other policies geared toward enhancing economic growth were pursued under the SAP. The IMF is of the view that, the economic challenges of developing countries are endogenous as asserted by neo-Marxist theorists.¹⁶ These obstacles to efficiency therefore needs to be resolved domestically to spur economic growth.¹⁷

In April, 1983, Ghana's Economic Recovery Programme (ERP) designed by the IMF and World Bank was put into action. The implementation of SAPs in Ghana consisted of reducing government expenditure by cutting social service budget, reducing public sector workers, devaluation of the cedi, abolishing domestic price control, revenue mobilisation through broadening of the tax net and its administration.¹⁸ The SAP also included privatisation of state-owned enterprises, floating exchange rate regime, boosting private sector development and enhancing economic infrastructure. The programme embarked on export led policies to boost the traditional and non-traditional exports.¹⁹

2.5 Progress in Adjustment in Ghana

The ERP resulted in trade liberalisation and reduction in inflation. Centrally controlled market pricing was dismantled. Economic growth averaged about 5 percent a year over a decade. Poverty reduced marginally and social indicators improved. The Ghanaian strategy was to "go for growth" above other objectives and the World Bank supported this strategy. The yardstick for measuring the success of the SAP by both the Bretton Woods Institutions and government was economic

growth.²⁰ The World Bank disbursed loans to the tune of US\$2 billion including more than US\$1 billion for adjustment operations and this helped Ghana's economic progress. On the contrary, a study by the Operations and Evaluations Department (OED) of the World Bank warned that the progress will not be sustained, unless Ghana implements unfinished agenda of policy reform.²¹

Hailed as a success story of SAPs, Ghana achieved notable success over the decade of implementation of the ERP in macro-economic policy reform as measured by various macro-level indicators (GDP growth, export recovery, removal of price distortions etc) but far less in terms of institutional and structural change and as measured by various micro level indicators (productivity of civil servants).²² This scenario mimics the current economic achievement of the country under an IMF supported programme where GDP growth has increased from 3.6 percent in 2016 to 8.5 percent in 2017.

Despite the success story, the Bretton Woods Institutions raised long-term concerns of boosting agricultural sector growth, bridging the poverty gap, resolving the fiscal deficit challenges, increasing savings and investment rate among others. In the 1980's, the Bank's assistance strategy was relevant to Ghana's needs in the giving of priority to stabilising, liberalising and rehabilitating the economy. Over the decade 1983-1993, the Bank's most effective instruments were its micro and policy oriented economic work, macro-level policy dialogue thus lending for infrastructure rehabilitation and aid –mobilisation efforts.

2.6 Under IMF Management: The Best of Times

After many years of promulgating SAP's in Africa, have these programmes been successful? In the words of Kenneth Kaunda quoted by Cheru, 1989:37,

“The IMF does not care whether you are suffering economic malaria, bilharzia or broken legs. They will always give you quinine”.²³

The result of the implementing SAPs is mixed, Ghana experienced the best times (compared to the abysmal years of the late 1970s and early 1980s at the macro level considering major economic indicators. Ghana achieved unprecedented GDP growth rate of 4 percent -6 percent a year, high by Sub-Saharan Africa standards. The country's industrial capacity that virtually collapsed in the late 1970s was revamped while infrastructure development boomed. The economy's over-dependence on cocoa as the principal source of foreign exchange changed and non-traditional exports accounted for a sizable proportion of the country's total earnings. Ghana's credit ratings by the international rating agencies was upgraded as a result of prudent fiscal management. The unpreceded turnaround of Ghana's economy attracted Foreign Direct Investment (FDI).

2.7 Under IMF Management: the Worst Times

It was also evident that Ghana suffered from crippling effects of market driven policies. Unemployment and underemployment rose to unprecedented levels due primarily to retrenchments in both public and private sectors. Social protection spending especially in the area of health and education were cut.²⁴ Importation of basic items like medicine, equipment, fuel among others were negatively affected as a result of cedi devaluation and huge public debt with

its high amortisation cost. Indeed, the sixteen years of adjustment programmes did not reduce poverty levels.

Poverty levels among farmers in the northern savanna regions remained unchanged and urban poverty was increasing.²⁵ Indeed, some reports indicate that, despite SAP achievement in economic growth, the average poor person will have to wait thirty (30) years to see their incomes raised above the poverty line; the poorest of the poor will have to wait forty (40) years.²⁶ Furthermore, the environment was polluted in government's quest to maximise export through mineral extraction and logging.²⁷ The implementation of SAP was largely to generate economic growth at all cost. Considering all the litany of ills that afflicted Ghana under the adjustment programmes, it may be safe to conclude that, Ghana experienced the worst of times.²⁸

The adjustment programmes also contributed to massive cutbacks in government investment in social welfare, health and education throughout the continent. A survey of annual spending trends for 16 countries in Sub-Saharan Africa undergoing IMF programmes, found that, 75 percent cut public spending on education. This was in the region with 47 million children out of school.²⁹ Cumulatively, SSA countries undergoing adjustment programmes reduced their per capita spending on education by 1 percent annually. The per capita reduction in several countries including Zambia and Zimbabwe, were very large, amounting to over 20 percent. For Tanzania, spending stagnated at very low levels of US\$1 per pupil per year for educational materials.³⁰

SAP's also created massive indebtedness in the region and sizable portions of their foreign exchange earnings were allocated to debt-servicing especially to the IMF. While the Fund accounted for less than 5 percent of aid flows to Africa, it received back in debt repayments US\$

300 million more than it provided in new loans.³¹ The negative impact of IMF/World Bank economic restructuring programmes were evident not in Africa alone. Indeed, in East Asia, the programmes prolonged and deepened a recession, which has led to dramatic increases in poverty and deteriorating education indicators. An additional 20 million people were driven below the poverty line, with 1.3 million children dropping out of school in Indonesia. In Thailand, the school dropout rate increased three fold in 1998, which translates into 676,000 children leaving school.³²

2.8 The Problem with IMF Programmes

The attempt to put all developing countries together in one neat compartment often leads to a wrong diagnosis. In the words of an Oxfam report titled, *The IMF: Wrong Diagnosis, Wrong Medicine*;

“Misdiagnosis has been a consistent problem. Countries turning to the IMF face complex development challenges, but Fund staff tend to see a single affliction: namely, overspending. They proceed to prescribe a ‘one treatment cures all’ medicine in the form of budget austerity, high interest rates and restrictions on public spending. For many countries, this amounts to a strategy of treatment through asphyxiation. Whole economies have been thrown into reverse gear, while social and economic infrastructures have collapsed”³³

Policy adjustment programme is argued as intended to solve the economic challenges but the mode of design and its implementation are as well to important to their outcomes. The outcome of implementation is responsible for all the “side-effects of the IMF medicine”. The report further raised several pertinent design issues. These include over-emphasis on short-term monetary policy goals, the impact of programmes on poverty reduction, the efficient allocation of aid, disregard for human development indicators and the failure to generate a sense of ownership.³⁴

A key flaw in the adjustment programme is the growth at-all-cost mentality. Any development programme that aims to increase the GDP growth at all cost without regard to the human suffering that occurs in its wake, is bound to be problematic.³⁵ Recording high GDP growth on an adjustment programme should not be sacrificed for social spending cut and poverty reduction. Programme designers, will have to incorporate cost benefit analysis in all the programmes and efforts made in advance to remedy undesirable consequences. While programmes like PAMSCAD have been introduced to mitigate some of the side effects of restructuring programmes, they often put together as an afterthought and turn out to be insufficient.³⁶

It is admitted that, states undergoing adjustment programmes reckoned the rhetoric of short-term hardships of its implementation. The PDNC frequently punctuated exhortations to the populace to “tighten belts, descriptions of the impact of adjustment often used metaphors such as ‘taking the medicine’ or ‘biting the IMF bullet’, ‘following IMF prescription in order to produce a leaner, fitter economy’”. The PNDC government always concluded that, the Bretton Woods Institutions knows the best “medicine” to cure the economic maladies even though it was always nasty to do the job of curing the patient.

The Bretton Woods Institutions did not foresee the knock-on effects from its policies of ‘cost recovery’ in social sectors. After 1987, even the denizens of the World Bank admitted that, different groups will be hit by the economic hardships associated with adjustment programmes hence, there was a need cushion those vulnerable groups. According to the United Nation Children's Fund (UNICEF) report of 1985, there was a decline in development indices in countries

that implemented the IMF / World Bank adjustment programmes. After 1987, therefore, the World Bank gave specific recognition to the problem of Social Adjustment Unit (SDA).³⁷

Ghana was one of the countries included in the UNICEF survey which originally pinpointed the social costs of adjustment and subsequently was one of the first states to propose and try to implement a programme of social measures to counter the adverse social consequences of adjustment.³⁸ The section below then discusses how the government responded to the challenges caused by SAP's in Ghana.

2.9 PAMSCAD: Problem or Panacea?

Programme of Actions to Mitigate the Social Costs of Adjustments (PAMSCAD) was set up late in 1987 by the government of Ghana to provide short-term relief from the harsher consequences from adjustments. It also aimed at cushioning the worst effects of unemployment for those laid off from state enterprises whiles targeting small community development and rural infrastructural programmes in education.

The programme had the following broad target groups;

1. "Retrenched workers (civil service, state-owned enterprises etc and the so called 'new poor'.

2. ‘Vulnerable groups’, low-income urban households, perhaps unemployed or underemployed, whose members have been hit by price increases on basic necessities and for whom devaluation has reduced the value of wages.
3. The ‘structural poor’, also designated a vulnerable group, the rural households whose members are not necessarily hit in a direct way by structural adjustment policies but who in terms of access to land, income generating opportunities and basic services”.

2.10 Unbalanced Growth after Structural Adjustment Programme

It is fair to say that the adjustment programmes failed the poor and made life more difficult not for only Ghanaians, but for all developing economies and improving the quality of life for their citizens. The programmes did not deliver the accelerated and more equitable growth on which poverty reduction depends. They did not protect the access of poor people to basic services.³⁹

President Jerry John Rawlings- the star pupil of the IMF in a speech delivered on the 8th anniversary of the 31st December, 1981 coup d’etat admitted the failure of the SAP in Ghana thus:

“Fellow countrymen and women, I should be the first to admit that the Economic Recovery Programme has not provided all the answers to our economic problems. In spite of all the international acclaim it has received, the effects of its gains remain to be felt in most households. Many families continue to experience severe constraints on their household budget”. (Quoted in West Africa, January 15-21, 1990 edition).

2.11 1983 SAP Contrasted with Current ECF

There is not much difference between the 1983 SAP and the current ECF programme except the country’s economic status according to the World Bank assessment has changed (now a lower

middle income bracket) hence certain conditionalities can't be applied now. In comparing economic growth rate under the two programmes, Ghana recorded 8.5 percent in 2017. This is compared to a 4.2 percent growth in 2015 and 3.6% in 2016. It is worthy of mention that, the 2017 economic growth was largely supported by a boost in hydrocarbon production which is a non-renewable resource. The question is, what happens after depleting the crude oil deposits without substantial investment into the agriculture and manufacturing sectors? This can be likened to the growth rate average of 5 percent during the implementation of SAP from 1983 to 1989.

In the area of employment, the formal sector employment reduced from 337,000 to 215,000 between 1980 and 1989.⁴⁰This represents 36.2 percent reduction in public sector employment. The current implementation of the ECF programme has also imposed a net freeze on employment in public service with the exception of health and education sectors. Inflation rate decline from 73 percent to about 13 percent in during the period of the implementation of SAP. Inflation rate has dropped from 17.7 percent⁴¹ in December, 2015 to 11.8 percent⁴² inflation.

A key difference in the implementation of the SAP and ECF is the expansionary fiscal policies pursued since 2017. The government has rolled out Free Senior High School (FSHS), one district, one factory, planting for food and jobs, one village, one dam among others while social protection budget has increased. This is quite different from the contractionary economic policies pursued by government during the implementation of SAP. With this current trend, Ghana's macroeconomic indicators might take a nosedive after the completion of the ECF programme if policies does not address the perennial economic headwinds.

In concluding this chapter, the relationship between Ghana and IMF with particular emphasis on the 1983 SAP has been examined. In comparing and contrasting the current ECF programme with the 1983 SAP, it can be concluded that, the factors that caused Ghana to request for the current ECF programme is not much different from the former except the income status of the country has changed. The next chapter of this study will focus on analysing Ghana's performance on the current Extended Credit Facility (ECF) with the IMF.

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CHAPTER 3

GHANA’S PERFORMANCE UNDER THE IMF ECF PROGRAMME

3.0 Introduction

This chapter answers the aforementioned research questions. It examines the factors that led Ghana to request for an Extended Credit Facility (ECF) programme from the International Monetary Fund (IMF). It further discusses how successful the programme has been implemented along the thematic areas of fiscal consolidation, public debt sustainability, monetary policy and financial sector stability and protection of social spending. Again, the chapter examines the challenges that led to the missing of programme targets and proposes policies needed to be embarked on to avert perennial macroeconomic imbalances. The stated objectives of the study is analysed through the conceptual framework of Compliance.

3.1 The Extended Credit Facility Programme

On 3rd April, 2015, the “Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for Ghana in an amount equivalent to SDR 664.20 million (180 percent of quota or about US\$918 million) in support of the authorities’ medium-term economic reform programme”. The programme aims to restore macroeconomic stability, debt sustainability and to foster a return to high growth and job creation, while protecting social spending.¹

The main pillars of the programme are:

1. “To achieve sizeable and frontloaded fiscal adjustment, to restore debt sustainability, to contain expenditures through wage restraint and limited net hiring, as well as on measures to mobilise additional revenues;
2. To embark on structural reforms to strengthen public finances and fiscal discipline by improving budget transparency, cleaning-up and controlling the payroll, right-sizing the civil service, and improving revenue collection;²
3. To restore the effectiveness of the inflation targeting framework to help bring inflation back into single digit territory; and preserve financial sector stability.
4. To safeguard social and other priority spending under the programme, including expanding the targeted social safety nets—such as the Livelihood Empowerment Against Poverty (LEAP) programme.”³

It is worthy to note that, the ECF-supported programme is anchored on Ghana’s Shared Growth and Development Agenda II which has seven thematic areas thus:

- “Ensuring and sustaining macroeconomic stability;
- Enhanced competitiveness of Ghana’s private sector;
- Accelerated agricultural modernisation and natural resource management;
- Oil and gas development;
- Infrastructure and human settlements development;
- Human development, employment and productivity; and
- Transparent and accountable governance.”⁴

The conceptual framework guiding the study is Compliance and to ensure compliance with IMF programmes, conditionalities are imposed on beneficiary states. The Fund's power to impose conditionality originates from Article V 'Operation and Transactions of the Fund', Section 3 (a) of the IMF's Articles of Agreement. It stipulates that, "The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements, and may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund".⁵

The period considered under this study is April 2015 to December, 2017 because, 2016 was an election year and previous election years have been characterised by perennial fiscal and current account slippages. The year 2017 is also considered because of the change in government and how the new government addressed the macroeconomic imbalances. Four IMF reviews were completed between the period under study; the first in September 2015, second in January 2016, third in September 2016 and the fourth in August 2017.

3.2 Policy Embarked on Prior to IMF ECF Programme

This sub-section answers the research question thus; what factors caused Ghana to opt for a bailout programme from the IMF. Ghana has experienced strong economic growth over the last two decades and its medium-term economic prospects are supported by rising oil and gas production. However, emergence of large fiscal and external imbalances, compounded by severe electricity shortages especially in 2013 and 2014, put Ghana's prospects at risks. In recent years, the ballooning wage bill, poorly targeted subsidies and rising interest payments outpaced rising oil revenue and resulted in double digit fiscal deficits. These macroeconomic imbalances have

resulted in high inflation, a decline in net international reserves, depreciation of the cedi and high interest rates. Economic growth has since declined while job creation has been negatively affected.⁶

Economic growth decline markedly in 2014 to an estimated 4.2 percent. It was driven by the sharp contraction in the industry and service sectors largely caused by the energy crisis among others. Inflationary pressures also rose on the back of cedi depreciation and the financing of the fiscal deficit by Bank of Ghana (BoG). Despite BoG hiking monetary policy rate to 21 percent in 2014, inflation rate reached 17 percent at the end of December same year which is above the bank's 8 (+/-2) percent target.⁷ This macroeconomic headwinds answers the research question, why Ghana opted for an ECF programme from the IMF.

To resolve the macroeconomic challenges, the government of Ghana in May 2014 assembled organised labour, private sector, professional associations, financial institutions, political parties, parliamentarians, the clergy, policy think tanks, academia, and government ministries in Senchi in the Eastern Region to formulate long lasting solutions to the country's perennial economic challenges to achieve sustainable development.⁸ The outcome of the summit was what became known as the 'Senchi Consensus' which is a twenty-two (22) point communique and among others addresses the socio-economic and political bottlenecks of the country. It was out of the 'Senchi Consensus' that the government formulated the 'Home Grown Policy' which was Ghana's pursuit for home tailored economic policies, backed by a very active legislative agenda in fiscal, financial and monetary management to unlock the country's prospects for economic take-off.⁹

In August, 2014, President John Dramani of the National Democratic Congress (NDC) through his Finance Minister Seth Terkper formally requested for financial assistance and policy advice

from the Fund and the primary document the government presented was the ‘Home Grown Policy’.¹⁰ The rest of this chapter will delve into Ghana’s performance thus far which answers the research question of how successful the ECF programme been in achieving its objectives. It is analysed under the thematic areas of fiscal consolidation, public debt sustainability, monetary policy and social protection. It further answers the research question on the challenges the ECF programme faced that resulted in missed targets and extension (to April 2019). Lastly, the chapter answers the research question on policy changes that needs to be implemented in the management of the domestic economy.

3.3 THEMATIC AREAS

3.3.1 Fiscal Consolidation

Fiscal consolidation is a reduction in the underlying fiscal deficit. It is not aimed at eliminating fiscal debt.¹¹ Fiscal consolidation will require a sustained adjustment in the fiscal balance, covering both revenue and expenditure measures. According to the first IMF review report issued in September 2016, Ghana’s economic prospects was hampered by energy crisis but government aimed at reducing fiscal deficit on the back of a surge in revenue from crude oil in 2015.¹² Cash primary balance estimated at 3.5 percent of GDP was targeted in order to achieve fiscal consolidation. This is in line with 2015 budget objective of ensuring fiscal prudence and public debt management.¹³

In 2015, government aimed at reducing fiscal deficit from 10.2 percent of GDP the previous year to 6.5 percent. However, the revenue shortfall as a result of plummeting crude oil prices on the international market caused a revision of that target to 7.3 percent in the mid-year review budget. Ghana missed the IMF target of 3.5 percent fiscal deficit to GDP as against 6.3 percent recorded in 2015.¹⁴ The revenue shortfall in the first year of ECF programme implementation answers the research question of why some programme targets were missed.

To achieve fiscal consolidation and in compliance with ECF programme target, the government in 2015 introduced the following taxes:

- “Imposition of the 17.5 percent Special Petroleum Tax;
- 17.5 percent VAT on fee-based financial services;
- Extension of the National Fiscal Stabilisation Levy of 5 percent and special import levy of 12 percent to 2017;
- Increase in the withholding tax on Directors’ remuneration from 10 percent to 20 percent; and
- Change in the VAT on Real Estate from 17.5 percent to a flat rate of 5 percent.”¹⁵

On the revenue side, Ghana’s major exports are gold, cocoa and crude oil which makes up over 70 percent of export revenue but the state is a price taker which means the forces of demand and supply on the international market determines the price for these export commodities. The ECF programme is silent on how value can be added to these exports commodities to increase revenue to support Ghana’s balance of payment position. For example, Ghana and Cote d’Ivoire export

about 60 percent of cocoa beans in the world but the two countries earn a paltry US\$ 5.7 billion to US\$ 8 billion while the world's chocolate market is valued at US\$100 billion.¹⁶

Consequently, Ghana's gain from the entire extractive industry has been limited to the royalties, taxes and carried interest participation while the primary commodities are exported in their raw form and the country loses the potential gain of growing the manufacturing sector and job creation. The IMF programme is silent on the root causes of the BoP deficit thus the undiversified nature of Ghana's export sector. On expenditure, the government continued to rationalise expenditure by containing the wage bill through imposition of net freeze on public sector employment with the exception of education and health. Monitoring of this conditionality has not been effective as the wage bill keeps increasing despite marginal annual increases agreed on between governments and organised labour. Ghana, like other developing countries have low teacher/ student, doctor/patient ratio which demands employment to these sectors to improve education and health.

More so, to avoid the recurrence of fuel subsidies and possible new arrears to oil importers, the government liberalised petroleum prices on 1st July, 2015. This according to the former CEO of Bulk Oil Storage and Transport, Kwame Awuah-Darko, saved the economy GH¢ 4.4 million within the first year of implementation. This was revealed after an assessment carried showed the average pricing differential between the Automatic Petroleum Product Pricing Formula (APPF) and the current pricing regime.¹⁷ This is in compliance with the programme conditionality of non-accumulation of arrears and it answers the research question of how successful the programme has been implemented.

Deregulation of the downstream petroleum sector is the right way to go as studies have suggested that, the subsidies are not always enjoyed by the poor. An IMF working paper titled; *The Unequal Benefits of Fuel Subsidies Revisited: Evidence for Developing Countries* by David Coady, Valentina Flamini, and Louis Sears analyse the effect of subsidy reform and its distribution across income groups. They conclude that, the “substantial leakage of subsidy benefits to the top income groups means that, universal fuel subsidies are an extremely costly approach to protecting the welfare of poor households”.¹⁸ In contrast, the benefits of downstream deregulation is impeded by the institutional weakness of the National Petroleum Authority (NPA).

The IMF second review report issued in January 2016 posited that, the non-accumulation of arrears target set by the ECF programme was marginally missed as domestic arrears clearance exceeded what was budgeted for. In addition to deferred public sector wages, government paid GH¢ 600 million arrears to Bulk Oil Distribution Companies (BDCs) as verified by independent auditors. The BDCs arrears were accrued in 2014 and early 2015 as a result of foreign exchange loss and under-pricing.¹⁹ It is worth noting that, the fiscal consolidation measures pursued by the government enabled the domestic primary balance in the first half of 2015 to achieve a surplus equivalent to 2.8 percent of GDP, while the budget deficit was down to 2.3 percent of GDP.²⁰ The aforementioned is a testament of the successful implementation of the IMF ECF programme.

Fiscal slippages have characterised Ghana’s election years especially in the Fourth Republic. The fourth IMF review in September 2014 opined that, “in the last three elections (2008, 2012, and 2016), the budget deficit was on average 6.4 percent of GDP higher than originally budgeted; but even in non-election years, deficits have been larger than budgeted; on average by 1.5 percent of

GDP”. In 2016, Ghana recorded a fiscal deficit of 9.3 percent on cash basis against IMF programme target of 5.2 percent.²¹

In 2016, arrears estimated at 3 percent of GDP was accrued outside the Ghana Integrated Financial Management Information System (GIFMIS). This was a breach of the IMF benchmark target of non-accumulation of arrears. According to the 2017 budget, budget deficit would have reached 10.9 percent of GDP on commitment basis despite a supplementary estimates of GH¢1,888,203,387 in the 2016 Mid- Year budget.²² The fiscal slippage answers the research question of the challenges the ECF programme implementation has faced. Respondents interviewed for this study have since questioned the basis for which the IMF described Ghana’s performance as broadly satisfactory.

On reforms, Parliament in August 2016 passed the Public Financial Management (PFM) Act 2016, Act 921, which repealed the Financial Administration Act of 2003 and its amendment and the Loans Act of 1970. The PFM seeks to “regulate the financial management of the public sector within a macroeconomic and fiscal framework, as well as define the responsibilities of persons entrusted with the management and control of public funds, assets, liabilities and other resources”. It also seeks to ensure that public funds are sustainable and consistent with the level of public debt and also makes provision for accounting and audit of public funds.²³ The passage of the bill into law was a prerequisite for the completion of the third IMF review and government was compliant with the bailout conditionality.

3.3.2 New Patriotic Party (NPP) Government

On 7th January 2017, the New Patriotic Party (NPP) government was sworn into office after a landslide victory in the 2016 December election. Prior to the victory, the NPP in opposition had hinted on their unwillingness to continue with the IMF programme. At a media encounter to mark the NPP government's sixth month in power, President Nana Akuffo –Addo reiterated that his government will not extend the IMF bailout.²⁴ This was because the government was of the view that, the ECF programme offers a tight fiscal space which is at variance with the promises made to the electorate by the government before the elections were held.

Ghana is a member of the IMF and has benefitted from a number of technical and financial assistance since independence. It was going to be difficult for the new government to discontinue the programme because the Bretton Wood Institutions are viewed as financial monitoring agents in the international system. A key reason why the erstwhile National Democratic Congress (NDC) opted for a bailout programme was for policy credibility and development partners and investors are keen on the relationship between the Fund and states.

In continuing the ECF programme, the Economic Management Team (EMT) of government resolved to embark on policies to return the economy to growth trajectory. A key policy to rationalising expenditure was the recalibration of statutory funds. Budget rigidities have characterised Ghana's public finances for about a decade and in the President's maiden State of the Nation Address (SONA) he said;

“Mr. Speaker, the reality of the state Ghana’s public finances today are quite stark. Today, as a result of policy choices, we find ourselves in a situation where Ghana’s total revenue is consumed by three main budgetary lines: wages and salaries, interest payments and amortisation and statutory payments. These three items alone account for 99.6% of government revenue. This means that anything else that government has to do outside of these lines will have to be financed by borrowing or aid”.²⁵

In order for government to embark on its ambitious policies, the trend was reversed. In presenting the 2017 Budget Statement, the Finance Minister, Ken Ofori Atta affirmed the budget rigidities and quoted excerpts of previous Budget statements that intimated same which includes the 2015 Budget thus;

“Mr. Speaker, the national budget is increasingly becoming inflexible to manage as well as to accommodate shocks and changes in government priorities. These are mainly due to the earmarking of a huge component of the budgetary resources as statutory transfers in addition to existing statutory liabilities, such as wages and salaries, amortisation, and interest payments.... Mr. Speaker, in the medium term, government will realign expenditures under the Statutory Funds hitherto being catered for under the Consolidated Fund. Starting with the 2015 Budget and as a transitional arrangement, government will enhance the administrative process for aligning statutory fund expenditures to national policies and priorities.” - Budget Statement, 2015²⁶

Fiscal Rigidities are “institutional, legal, contractual or other constraints that limit the ability of the government to change the size and structure of the public budget, at least in the short term. Fiscal rigidities therefore make fiscal authorities lose discretionary power over the public budget to the extent of the rigidities”.²⁷ Ghana’s statutory funds include; the District Assemblies Common Fund (DACF), the National Health Insurance Fund (NHIF), Road Fund (RF), Retirement Benefits

(RB) and the Ghana Education Trust Fund (GETFund) etc. This rigidity has lingered in the country's public finances for years now.

In dealing with budget rigidities, Parliament in March 2017, passed a bill to cap its budgetary allocation to statutory funds at twenty-five percent of revenue for each financial year.²⁸ The Minority in Parliament kicked against the capping of the fund especially to NHIS and GETFund because of its possible negative implications on low income earners. The Institute for Fiscal Studies (IFS) report titled, "Fiscal Rigidities and their Effects in Ghana" recommends that, the existing earmarked funds should be urgently reviewed by a committee set up by the government with the goal to: cut, where necessary, parts of the earmarked revenues and return them to the general budget in order to gain some level of flexibility to address the enormous fiscal challenge.²⁹

The report also recommends that, the current practice whereby the parent Ministries, Departments and Agencies (MDAs) seek to perform some of the same functions that have been delegated to the funds' managers – as if transfers to the earmarked funds are mere statutory obligations that do not form part of the government's programmes – should be brought to a halt. Indeed, this practice leads to duplication of functions, which complicates the fiscal challenge.³⁰

In fulfilment of NPP's manifesto promise of shifting economic management from taxation to production, the 2017 Budget Statement and Economic Policy, scrapped the following taxes; "the 17.5 percent VAT and NHIL on financial services, 17.5 percent domestic airline tickets and selected imported medicines, the 5 percent VAT on real estate sales; replaced the 17.5 percent VAT scheme with the 3 percent flat rate for traders; reduced the special petroleum tax from 17.5

percent to 15 percent”. Also, the government abolished the excise duty on petroleum and import duties on spare parts among others.³¹ It is estimated that, the tax cut costed government GH¢ 800 which some respondents are of the view that, it defeats the goal of revenue mobilisation and fiscal consolidation. Ghana’s tax revenue to GDP ratio currently stands at about 15.2 percent while that of its peers in the middle income bracket hovers around 20 percent to 25 percent. Some economists have suggested that, the tax cut will be counter-productive because it will defeat government’s effort of achieving frontloaded fiscal consolidation. Furthermore, a review of Ghana’s tax exemption policy and formalising the economy will generate additional revenue for the state. These aforementioned sub-themes answer the research question how successful has the ECF programme been in achieving its objectives.

3.3.3 Public Debt Sustainability

Ghana’s debt has ballooned over the last decade. In an IFS report titled; “Ghana: Public Debt and Debt Sustainability Issues”, “Ghana’s external debt and total public debt stock rose substantially after its Multilateral Debt Relief Initiative (MDRI) in 2005-06 and exceeded 70 percent to GDP as at the end of 2016. This indicates a rise in risks to debt sustainability”.³² Public debt-to-GDP ratio had increased from 32 percent at the end of 2008 to 73 percent at the end of 2016 (an increase from GH¢9,746.86 million to GH¢122,263.01 million).³³ The high public debt is one of the challenges the programme implementation has faced. Table 1 gives a clear picture of the stock of Ghana’s public debt compared to other macroeconomic indicators.

Table 1**3.0 Ghana's Public Debt Stock**

ITEM	2012	2013	2014	2015	2016	2017
Public Debt (GHC million)	35.08	53.42	79.54	98.91	122.6	142.56
Changes in Public Debt (GHC million)	11.37	18.34	26.12	19.37	23.69	19.96
Domestic Debt (GHC million)	18.4	26.7	34.6	40.3	53.4	66.77
External Debt (GHC million)	9.2	11.5	13.9	15.8	16.5	75.79
Public Debt/GDP (%)	48.4	55.3	67.1	71.6	73.3	69.8
External Debt/GDP (%)	23.1	26.9	36.6	42.8	41.4	37.1
Domestic Debt/ GDP (%)	25.3	28.4	30.5	28.8	31.9	32.7
Real GDP Growth	9.3	7.3	4.0	3.8	3.7	8.4

Source: Bank of Ghana, Ministry of Finance³⁴

According to the government's Medium-Term Debt Management Strategy 2015-2017, the debt management objectives are to:

- “Raise the required amount of funding to meet government's financing needs at a reasonable cost and subject to prudent levels of risk;
- Promote the development of efficient primary and secondary domestic securities markets; and
- Meet any other public debt management goals that government may have set”.³⁵

The above stated objectives are in line with National Medium Term Development Policy Framework (Ghana Shared Growth and Development Agenda II-GSGDA). The MTDS analysis reveals a high cost of debt in Ghana. The weighted average interest rate of the total debt portfolio is about 11 percent. Linked to the skyrocketing public debt is the rising cost of interest. According to the 2018 Budget, Ghana spent 45 percent of tax revenue which is equivalent to 6.8 percent of GDP in 2016 in amortising loans.³⁶ This has the tendency to affect capital expenditure which has the potential to boost infrastructure.

Table 2 illustrates interest payment on Ghana’s debt.

Table 2

3.1 Ghana’s Public Debt-Servicing Cost

ITEM	2012	2013	2014	2015	2016	2017*
Interest Payment (GHC million)	2.44	4.40	7.08	9.30	10.70	13.28
Interest Payment/ GDP (%)	3.5	4.7	6.2	6.8	6.4	6.5
Interest Payment/ Total Expenditure (%)	11.8	16.0	22.0	24.1	21.2	25.8
Interest Payment/ Tax Revenue (%)	19.5	30.7	36.8	40.2	38.6	41.8

Source: Institute for Fiscal Studies (2018)³⁷

3.3.4 Eurobonds

Ghana attained a middle-income status in 2010 after rebasing its economy. The new income status of the country makes it difficult to access concessional financing. Consequently, the quest for funds to embark on infrastructural development among others made Ghana to look for alternative sources of financing hence the issuance of external bonds. Sovereign nations issue Eurobond for different reasons. Some of these reasons are: “to boost liquidity; to preserve the market from large shocks and unpredictable fluctuations; to diminish dependence on international aid”.³⁸ Others are;

to cut down reliance on grants and “loans from multilateral organizations such as the IMF and the World Bank; to fund expensive short term domestic debts; to fund payments on yields of maturing bonds – be it local or foreign; to support GDP growth; and to attract more investments.”³⁹Ghana is no exception, the prospectus of the Eurobonds have been to refinance short term expensive debt and cushion the budgets. Table 3 details Ghana’s Eurobond issuance since 2007.

Table 3

3.2 EUROBONDS ISSUED

YEAR	AMOUNT	COUPON RATE (%)	MATURITY PERIOD (YEARS)
2007	\$750 million	8.50	10
2012	\$1 billion	7.875	12
2014	\$1 billion	8.125	12
2015	\$1 billion	10.75	15
2016	750 million	9.75	5

Source: Bank of Ghana, Ministry of Finance⁴⁰

The floating of Eurobonds has contributed to the surge in Ghana’s public debt and external debt’s percentage to GDP. In a speech delivered by Hon. Charles Adu Boaben at the Citi FM Economic Outlook Conference on 28th June, 2018 held at University of Ghana, he said, “80% of Ghana’s public debt is currently sourced from the capital market. As compared to 10 years ago where a

bulk of our debt was sourced from multilateral sources like World Bank". Hitherto, Ghana before attaining middle income status in 2010, could borrow from the World Bank at an interest rate of 1% or less for a period of forty years. Public debt management strategy needs to be informed by the new economic status of the country.⁴¹

In government's quest to lengthen the maturity period of short-dated expensive debt, government raised more than GH3.4 billion in the country's first 15-year bond as well as GH¢ 1.4 billion in another seven-year bond in April 2017 at a coupon rate of 19.75 percent.⁴² A chunk of the bond was purchased by foreign investors. Despite freeing up fiscal space in the short-term, allowing foreign investors to participate in domestic bonds could pose exchange rate risk when these bonds mature and investors are repatriating their returns. Linked to that is the issuance of dollar denominated bond. In October, 2016, government issued a 2-year bond of US\$94.64 million at a coupon rate of 6 percent.⁴³ It is unlikely public debt to GDP ratio will be brought down drastically (below 65 percent) in the short to medium term because of the recurring revenue shortfall and as against government's quest for development and amortisation of existing debt.

On the other hand, the establishment of a sinking fund in public debt management to defray maturing debt is a step in the right direction. In the 2016 mid-year budget, the minister of finance disclosed that government used a portion of the Sinking Fund (SF) proceeds to redeem US\$30 million out of the US\$ 750 million Eurobond issued in 2007.⁴⁴ The risk associated with the SF is the possible depletion of funds should prices of crude oil plunge on the international market and this may pose challenges to amortisation of the country's debt.

3.3.5 Energy Sector Bonds

In President Akufo-Addo's maiden SONA, he intimated that, "the new government inherited a heavily indebted energy sector, with the net debt reaching US\$ 2.4 billion as at December 2016 of which US\$800 million of this debt was owed to local banks. This threatens the stability financial sector".⁴⁵ In an article by Emmanuel Amoah-Darkwah et al, Ghana's state-owned power generation company, the Volta River Authority (VRA), was indebted to 13 local banks and foreign financial institutions to the tune of about US\$ 1.1 billion as at July, 2016. Of the 29 universal banks in Ghana at the time, the VRA owed 13 of them, with Ecobank Ghana Ltd being the largest creditor owed to the tune of US\$ 103 million.⁴⁶ This posed a threat to the stability of the entire financial industry. This heavy indebtedness in the energy and financial sectors hampered the ECF programme objective of achieving a strong financial sector industry.

In addressing the heavy indebtedness of the energy sector, the government in 2017 established the Energy Sector Levy Account (E.S.L.A) PLC which is "a Special Purpose Vehicle (SPV) incorporated as a public limited liability company to issue long-term bonds to resolve energy sector debts due to banks and trade creditors. The securities issued are backed by a component of the Energy Sector Levy Act (ESLA) receivables which has been assigned to the company for the settlement of coupons and principal repayments arising under the securities that are issued".⁴⁷

The SPV established a bond programme to issue cedi-denominated medium to long term bonds to amortise energy sector debt which was valued at GH¢10,000.00 million at the end of 2016 using energy sector levies. The first tranche of the bond raised a total of GH¢4,783.97 million. This

comprised of a 7-year bond of GH¢2,408.60 million at 19 percent and a 10-year bond of GH¢2,375.35 million with coupons rates of 19.0 percent and 19.5 percent respectively. The issuance of bonds to defray energy sector debt is in line with the bailout objective to strengthen the financial and energy sectors of which bottlenecks in the later caused some programme targets to be missed in the first year of implementation. Ghana's reliance on external debt (Eurobond) and its associated interest rate is one of the challenges the programme implementation has faced. The research question thus; what challenges did the ECF programme face that resulted in missed targets and extension (to April 2019), is therefore answered.

3.4 Monetary Policy

The mission of the BoG is to “formulate and implement monetary policy to achieve price stability, contribute to the promotion and maintenance of financial stability, and ensure a sound payment system”⁴⁸. The first IMF review in September 2016 indicated that the Bank of Ghana (BoG) should tighten monetary policy to reduce inflationary pressures and introduce new liquidity management instruments to improve monetary policy transmission and make the inflation targeting framework more effective.

Bernanke et al define inflation targeting as “a framework for monetary policy characterised by the public announcement of official quantitative targets or target ranges for the inflation rate over one or more time horizons and by the explicit acknowledgement that low, stable inflation is monetary policy's primary long run goal”.⁴⁹ The Bank of Ghana adopted inflation targeting in 2002 but made a formal announcement of its use in May 2007. Inflation targeting was adopted as part of efforts

to reduce inflationary pressures. The BoG has set an optimum inflation target of 8 percent (-/+2) to be achieved in the medium term. Some scholars have raised concerns about the implementation of inflation targeting in Ghana.

Adjunct Senior Fellow at the Institute of Economic Affairs (IEA), Dr. Eric Osei-Assibey at an Institute of Economic Affairs (IEA) Roundtable in Accra in February 2017 advocated for a rethinking of Ghana's inflation targeting (IT) regime, in order to accelerate the nation's socio-economic development. He opined that, "if Ghana's IT regime was to be maintained, then we need to solidify the fundamentals, stating that; we need to make sure the productive sectors of this economy is good. We are exporting more, we have favourable terms of trade and our currency is strong, just like in developed countries, so that inflation target will be relevant to us".⁵⁰

Ghana's inflation targeting (IT) framework has experienced a mixed performance which partly reflects fiscal dominance. Inflation rate frequently exceeds the BoG's target, even when the latter was revised upward. Inflation rate often exceeds BoG's target despite upward revision. This is caused by negative price shocks and fiscal overruns. Table 4 shows inflation rate from selected months in the period the study seeks to assess.

Table 4**3.3 Inflation (Consumer Price Index)**

Period	Percentage (%)
January 2015	16.4
April 2015	16.8
July 2015	17.9
October 2015	17.4
December 2015	17.7
January 2016	19.0
April 2016	18.7
July 2016	16.7
October 2016	15.8
December 2016	15.4
January 2017	13.3
April 2017	13.0
October 2017	11.6
December 2017	11.8

Source: Ghana Statistical Service⁵¹

A key macroeconomic indicator the BoG considers in fixing Monetary Policy Rate (MPR) is inflation rate and the table 5 shows MPR of selected months under the review period.

Table 5

3.4 Monetary Policy Rate

Period	Percentage (%)
February 2015	21.00
May 2015	22.0
July 2015	24.00
November 2015	26.00
January 2016	26.00
March 2016	26.00
September 2016	26.00
November 2016	25.5
January 2017	25.50
July 2017	21.00
September 2017	21.00
November 2017	20
January 2018	20

Source: Bank of Ghana⁵²

The adoption of inflation targeting regime in regulating monetary policy by the BoG answers the research question thus; what policy changes needs to be implemented in the management of the domestic economy.

3.4.1 Financial Stability

The recent relationship between the IMF and Ghana has triggered some institutional reforms in the financial industry especially banking. In August 2016, Parliament of Ghana passed the Bank of Ghana Amendment Act 2016 Act 918 which was a key requirement for a successful fourth IMF review. The objective of the amendment is to “significantly strengthen the Central Bank’s functional autonomy, governance and ability to respond to banking sector crises”.⁵³

A key clause of the Bank of Ghana Amendment Act was the BoG financing of central government. The Fund proposed a zero financing of central government by the BoG but Parliament rejected that provision and instead pegged it at five percent of previous years’ revenue. IMF is of the view that, inflation targeting framework will be compromised likewise central government will exercise undue influence on the Board and the Monetary Policy Committee (MPC).⁵⁴

It is worth noting that, in prudent economic management, monetary policy should complement fiscal policy and the former should not deviate from the latter’s objectives. More so, the BoG is the banker for the central bank hence should not be denied the least opportunity to borrow short term funds to cushion expenditure. A respondent in an interview said, “The issue about crowd funding is pertinent. If the central government borrows from the domestic capital market, private sector will be crowded out whiles Treasury bill rates rise. The fact that previous governments have abused the BoG financing does not mean future governments should be punished”. He further stated that, Parliament has an oversight responsibility over government expenditure hence the proposal by government to establish a Fiscal Council is misplaced.

Another landmark banking reform is the passage of the Banks and Special Deposit Taking Institutions Act 2016 Act 930 by Parliament in July, 2016⁵⁵. The law among others, seeks to amend and consolidate the laws relating to deposit taking and to regulate institutions which carry out deposit taking business. It also re-emphasises the authority of the BoG as the only entity responsible for the granting of licenses to enable deposit taking business in the country.⁵⁶ The recent ‘ponzi’ scheme scandal in the Microfinance Industry which includes Diamond (DKM) calls for proper regulation of the Microfinance and Savings and Loans Institutions. As at July 2018, there were a total of 484 Microfinance Companies in Ghana but the BoG has faced challenges in recent times exercising their regulatory role in the sector.⁵⁷ Tightening supervision in the banking sector answers the research question of how successful of ECF programme has been implemented.

More so, an increase in Non-Performing Loans (NPL) ratio from 11.2 percent in June 2015 to 18.8 percent in June 2016 exacerbated by energy sector challenges, cedi depreciation and loan reclassification prompted an Asset Quality Review (AQR) by the BoG. This review was structural reform to be completed in the first IMF review in September 2015. The outcome of the AQR contributed to the banking reforms.

3.4.2 Minimum Capital Requirement

Ghana’s economic growth after taking a nosedive in 2011 is picking up gradually. Hence a growing economy needs a sound banking industry. In 2017, the Bank of Ghana announced a new minimum capital requirement, as part of a holistic financial sector reform plan. This will further develop, strengthen, and modernise the financial sector to support the government’s economic vision and

transformational agenda. This is in compliance with the bailout objective of ensuring a sound financial industry. According to the Central Bank, “banks require a more sophisticated and robust capital framework, adequate to transform the banking sector and consistent with the growing risks, levels of sophistication and exposure banks are currently facing”.

In accordance with “Section 28 (1) of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930), the Bank of Ghana revised upward the minimum paid up capital for existing banks and new entrants from GH¢120,000,000.00 (One Hundred and Twenty Million cedis) to a new level of GH¢400,000,000.00 (Four Hundred Million cedis)” from the effective date of 11th September, 2017. Banks have three options to raise additional capital thus;

a) “Fresh capital injection.

b) Capitalization of income surplus.

c) A combination of fresh capital injection and capitalization of income surplus.”⁵⁸

This directive has been met with mixed feelings in the banking industry. In sanitising the banking industry, the BoG revoked the license of UT Bank and Capital Bank because they were deeply insolvent; in a position not able to meet their obligations as and when they fell due.⁵⁹ The action of the Central Bank was in line with the provisions of section 123 of the Banks and Specialised Deposit-Taking Institutions (SDIs) Act, 2016 (Act 930).⁶⁰ This is in compliance with the programme objective of having a sound financial industry.

In the quest of indigenous universal banks to save their businesses, ten of them called for an extension of the deadline to pay up their GH¢ 400 million minimum capital requirement. The local banks petitioned President Akufo-Addo in April 2018 to appeal to the BoG and the Economic Management Team (EMT) for at least five years to pay up the new minimum capital requirement.⁶¹ As at the time this study was conducted, the report from the committee had not been issued. As predicted by Credit Consultant, Emmanuel Akrong in an interview with Citi FM on 21st March, 2018, nine of the over 30 banks in Ghana could collapse if nothing is done immediately to save them. This was also corroborated by a respondent interviewed on the state of local banks in view of the upward revision of the minimum capital for universal banks.⁶²

Despite the advantages associated with highly capitalised banks, the risk involved in the new minimum capital requirement is that, majority of the local banks might not be able to raise the GH¢ 400 million and obviously lose their license if they don't merge with other banks. This is important to flag up because, local banks' support to the Small, Medium and Enterprises (SME's) which makes up 80 percent of businesses in Ghana is phenomenal. The researcher is not suggesting that, Ghana should pursue economic nationalism but foreign ownership of factors of production leaves a greater portion of the population out of shared growth. Repatriation of profit by banks and other Multinational Corporation (MNCs) at the end of every financial year causes marginal depreciation of the local currency. Ghana has been recording appreciable economic growth rate but unfortunately, the growth is skewed. The revision of the minimum capital requirement of universal banks by BoG answers the research question; what policy changes need to be implemented in the management of the domestic economy.

3.5 Protection of Social Spending

The untold hardship brought upon Ghanaians by the 1983 ERP/SAP promulgated by the Bretton Woods Institutions is fresh in their memories hence their scepticism of such programmes. A key ECF programme objective is to protect social spending. The tragic 3rd June, 2015 twin disaster will not as yet leave the memories of Ghanaians. After finalising the assessment of the full impact of the tragedy, the government used half of the unanticipated BoG dividend to cover the flood damage; the first IMF review report issued in September, 2015 revealed.⁶³

3.5.1 Livelihood Empowerment against Poverty (LEAP)

Since its launch in March, 2008 as Ghana's flagship programme of the National Social Protection Strategy (NSPS), the Livelihood Empowerment Against Poverty (LEAP) programme has enabled "the poorest families in the country to meet their basic needs (food, clothing and shelter), be healthier, enrol their children in school as well as improve their attendance, and adopt strategies to pull themselves out of poverty". Government of Ghana has stayed committed to protecting social spending. In the 2017 budget, the budgetary allocation for the Ministry of Gender and Social Protection (MGSP) has increased by 416 percent from GH¢49.52 million in 2016 to GH¢255million, in 2017. At present, LEAP programme covers 254 districts nationwide with 213,044 beneficiary households. This answers the research question of how successful the programme has been.⁶⁴

3.6 Financial Irregularities and Corruption

Corruption, procurement fraud, financial irregularities among others continue to have a negative impact on Ghana's public finances. According to IMANI Africa's "Fiscal Recklessness Report", "an amount of GH¢ 5.9 billion (US\$1.5 billion) was officially reported missing or misused between 18 Ministries, Departments and Agencies (MDAs), 19 Public Boards and Institutions, 10 Polytechnics and Pre-University Educational Institutions in 10 regions of Ghana from 2012 to 2014".⁶⁵ Again, the 2016 Auditor General Report revealed that, "total cash irregularities recorded during the period under review amounted to GH¢ 2,053,622,215.68 which was 95% of the total irregularities". These irregularities which cut across MDAs were attributable to unapproved/unjustified disbursement, dishonoured cheques, unaccounted revenue, unsupported payment vouchers, unauthorised transfers, funds to bank not credited, unrepresented payment vouchers etc.⁶⁶

Corruption according to the Transparency International (TI) is the 'abuse of entrusted power for private gain'. Ghana is said to lose more than US\$3 billion every year through corruption.⁶⁷ This was revealed by the Deputy Commissioner of the Commission on Human Rights and Administrative Justice (CHRAJ) Rev. Richard Quayson at a colloquium to mark United Nations Public Service Day in 2018.⁶⁸ Wanton abuse of public finances is one of the root causes of fiscal indiscipline in Ghana and this answers the research question of what caused Ghana to opt for a stabilisation programme from the IMF.

3.7 Government's Planned IMF Exit Strategy

Again, at the Citi FM Economic Outlook Conference, the Deputy Minister of Finance; Charles Adu-Boahene outlined government's formulated IMF exit strategy.

1. "Peg annual fiscal deficit target at 5%.
2. Strict implementation of Public Financial Management Act.
3. Continue zero percent financing of central government by Bank of Ghana.
4. Maximise revenue mobilisation.
5. Strict implementation of GIFMIS.
6. Establishment of a Policy Coordination Council.
7. Operationalization of the Office of the Special Prosecutor.
8. Strengthen Financial Stability.
9. Enforce Public Procurement Act.
10. Effective communication strategy to stakeholders on monthly, quarterly basis".⁶⁹

The strategies mentioned above answers the research question thus; what policy changes needs to be implemented in the management of the domestic economy. The IMF exit strategy is welcomed with a few reservations which the study points below.

Firstly, budget deficit is not bad in itself but it depends on what the expenditure is spent on; either recurrent or capital. With Ghana's infrastructure deficit of US\$1.5 billion annually, it is prudent for government increase spending on infrastructure. It has been observed that, recurrent expenditure has overtaken capital expenditure which threatens the consolidation of Ghana's lower middle income status. Secondly, the establishment of a Policy Coordination Council might not be

necessary since institutions and bodies like Parliament, National Development Planning Commission (NDPC), Economic Management Team, are capable of ensuring policy coordination in the management of the economy.

The fourth chapter of the study summarises the findings, makes cutting edge recommendations and concludes.

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CHAPTER FOUR

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

4.0 Introduction

This study sought to critically assess Ghana's performance under the ECF programme with the IMF from April 2015 to December, 2017. The main objective of the study was to interrogate why Ghana requested a stabilisation programme from the Fund through the conceptual framework of Compliance. This chapter presents the summary of the findings, the conclusions drawn from the study as well as recommendations made from the study.

4.1 Summary of Findings

The current ECF is the sixteenth IMF stabilisation programme Ghana has signed on since independence. The researcher found that, the 'symptoms' that sends Ghana to the IMF for stabilisation programmes have not changed that much hence virtually the same diagnosis. Notable of the IMF stabilisation programmes is the 1983 SAP which spurred economic growth but at a social cost. Hence, the implementation of PAMSCAD in 1987 to mitigate the economic hardships brought about by implementation of SAP.

To answer the research question of examining the factors that caused Ghana to opt for a bailout programme from the IMF in 2015, Ghana suffered a number of serious macroeconomic shocks, both external and domestic from 2012 to 2014. The pursuit of expansionary fiscal policies and

resulting macroeconomic imbalances contributed to high rates of inflation, rising interest rates and depreciating currency pressures. Macroeconomic correction was complicated by adverse terms of trade shocks as gold and oil prices fell on the international markets.¹ These macroeconomic imbalances led to the request for a bailout programme and the “Executive Board of the IMF approved a three-year arrangement under the ECF in an amount equivalent to SDR 664.20 million (180 percent of quota or about US\$918 million) in support of the authorities’ medium-term economic reform program on 3rd April, 2015”.²

Again, in answering the research question, why Ghana opted for stabilisation programme, the researcher found that, it can be attributed to the ‘twin deficit’- current account and fiscal deficits. The NDC government admitted that, the challenges could not be resolved domestically. In 2014, the government formulated the ‘Home Grown Policy’ dubbed the Senchi Consensus but the macroeconomic targets set by the policy to restore economic growth failed woefully. More so, government wanted to gain policy credibility hence the need for an IMF programme. On the contrary, the structural challenges that confronted the country could have been resolved domestically if the government had remained fiscally discipline especially in 2012 election year.

In answering the research question, how successful Ghana has implemented the IMF ECF programme, the country’s performance has been mixed. The government was compliant with the bailout conditionalities in the second half of 2015 and the first half of 2016 but the perennial fiscal slippages in election years reversed the gains in the last quarter of 2016. The researcher is of the view that, the stabilisation programme failed to address the fiscal indiscipline but the IMF maintains that, compliance to bailout conditionalities will ensure economic growth.

To answer the research question, why the ECF programme was extended for a year, the researcher found that, the extension was necessary because the programme encountered challenges in the first year of implementation. This included prolonged energy crisis which affected the industry and service sectors of the economy and revenue shortfall. More so, the programme missed some indicative and benchmark targets in 2016 as a result of fiscal indiscipline among other macroeconomic imbalances. It is for these reasons why a year extension was appropriate to bring the programme back on track and in the 2017 fiscal year, the government recorded some significant gains in achieving the broad targets of the programme. This also confirms the hypothesis of the study that, lack of fiscal discipline amid external shocks to Ghana's economy led to the missing of programme targets.

4.2 Conclusion

This study sought to critically assess Ghana's performance under the three-year ECF with the IMF from April 2015 to December, 2017 which was extended for a year under the conceptual framework of Compliance. The country's performance has been broadly satisfactory. The key objectives of the programme is to achieve fiscal adjustment, restore debt sustainability, boost international reserves and eliminate fiscal dominance of monetary policy. Also the programme seeks to embark on structural reforms to strengthen public finances and fiscal discipline, restore financial sector stability and protect social spending.

On financial sector stability, significant reforms have been implemented especially in the banking industry as a result of the relationship with the IMF. First is the restructuring of Ghana's energy

sector debt valued at US\$2.4 billion leading to the floating of Energy Sector Bond (ESLA) to raise GH¢ 10 billion to defray the debt of State Owned Enterprises (SOEs) in the energy sector which hitherto threatened the health of the banking industry. Secondly, the passage of Special Deposit Taking Act 2016 (Act 930) and the amendment of the Bank of Ghana Act 2016 (Act 918) will ensure financial sector stability in Ghana's economy.

More so, the swift application of the Special Deposit Taking Act 2016 in intervening the UT and Capital banks looming collapse by BoG to protect the banking industry was a step in the right direction. This is compliant with the IMF ECF objective of ensuring stable financial industry in the country through the ECF programme. Further Asset Quality Review (AQR) by the Central Bank in the banking sector will consolidate the gains of a buoyant industry.

The programme has made significant strides in addressing the fiscal dominance over monetary policy. Ghana valued compliance with the IMF programme than its own laws by signing a Memorandum of Understanding (MoU) with the Fund to maintain a zero percent BoG financing of government in 2016. Despite the IMF insisting on zero financing (previous year's revenue) of BoG financing for government, Parliament rejected that amendment clause in 2016 and pegged it at five percent but government has complied with IMF's position as stated earlier. The Fund is still pushing for a further amendment of the BoG Act to peg BoG financing of government at zero percent.

Furthermore, the deregulation of the downstream petroleum sector which hitherto resulted in unpaid arrears by government to BDC's as a result of subsidies is also a thing of the past. Again, government's strict implementation of GIFMIS to avoid fiscal slippages is compliant with the ECF programme objectives.

In terms of this study's contribution to the existing literature, Ghana in 2010 attained a lower middle income status but there have not been many publications on IMF supported programmes the country has benefitted from. This study has contributed to the literature on Ghana's engagement with the IMF especially, pursuing expansionary fiscal policy whiles on an IMF programme.

4.3 Recommendations

Based on the findings of the study, the researcher recommends the following:

- The root causes of BoP deficit should be addressed holistically. Ghana's economy is import dependent with a weak export sector which negatively affects the country's BoP account. The economic structure of producing primary commodities to feed industries in the West and importing finished goods has not changed since independence. The economic challenges that led Ghana to request for an IMF programme in 1966 is not different from the factors of that led to the stabilisation programmes of the 1970s, 80s, 90s which comes with conditionalities. After going through fifteen stabilisation programmes in the past, the structure of the economy has not changed hence the current IMF bailout.

- On fiscal consolidation, government should work assiduously in formalising the economy through proper national identification system to boost revenue mobilisation. Also, there should be a comprehensive review of Ghana's tax exemption policy to grow indigenous businesses especially those in import substitution and export led industries. The Ministry of Finance and the Ghana Investment Promotion Council (GIPC) should properly coordinate their activities taking into cognisance the revenue target in order for the state not to lose revenue in Ghana's quest to attract Foreign Direct Investment (FDI).
- On expenditure, government should consolidate the gains made from the implementation of GIFMIS to prevent fiscal slippages. The use of Internally Generated Funds (IGF) by government agencies should properly be aligned with government's fiscal projections while continuing to wean off other agencies that are financially sound from government subventions. Government should continue efforts to eliminate fiscal rigidities to enable substantial investment into productive sectors of the economy and increase capital expenditure.
- On public debt sustainability, government borrowing should strictly be invested in capital expenditure to harness the maximum economic benefits as public debt with its accompanying interest has increased since Ghana attained a lower middle income status economy in 2010. The lengthening of debt maturity by government is welcomed but substantial investment has to be made in the Sinking Fund (SF) to prevent defaulting on loans in the future. Moreover, the current huge external debt as compared to domestic debt

coupled with the foreign participation in domestic bonds poses foreign exchange risk should the cedi depreciate against the major trading currencies when amortisation is due. It is therefore highly recommended by this study that, net international reserves should be boosted by diversifying exports whiles monetary policy pursued by the Central Bank should lead to a stable local currency.

- The study notes that, monetary policy should complement fiscal policy to achieve economic growth but the recent frequent leadership overhaul at the BoG has the tendency to weaken the institution hence recommends limited government interference in the affairs of the Central Bank. Also, the BoG should enhance its supervisory role in the banking industry to prevent financial crisis. Some analysts have suggested decoupling the monetary policy function of the Central Bank from its banking supervision but this study recommends that, the current arrangement should be maintained but the supervision department of the bank should be well equipped.
- Ghana might not be able to wean itself from such IMF programmes should corruption especially in public sector linger. Corruption according to the Transparency International (TI) is the “abuse of entrusted power for private gain”.³ One root cause of fiscal slippage is through abuse of public office by politicians and wanton disrespect for public financial laws. This leakage should be blocked.

- Furthermore, political interference in economic management should cease. This because, the recurring fiscal slippages especially in election years is largely caused by incumbent governments' quest to stay in office. Linked to that is the political parties funding albatross in Ghana. Policy makers should speed up enacting a law to regulate how political parties are funded which is one of the root causes of fiscal slippages when they win power.
- Above all, the factors that caused Ghana to opt for a bailout transcend the ECF programme objectives. In negotiating such a deal, policy makers should consult widely especially Civil Society Organisations (CSOs) and labour organisations. This will ensure that Ghana gets the maximum benefits in addressing economic challenges as a member state of the IMF. Addressing 'symptoms' without cognisance to the holistic 'diagnosis' of economic challenges of Ghana will lead to another bailout from the IMF in the future.

Endnotes

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