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Ghana: Report on the Observance of Standards and Codes—Fiscal Transparency Module

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GHANA

Report on the Observance of Standards and Codes (ROSC) Fiscal Transparency Module

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July 6, 2004

EXECUTIVE SUMMARY

In recent years, Ghana has been making substantial efforts to improve fiscal transparency. The Government's reforms have involved upgrading both the legislative and regulatory framework and financial management systems and procedures. Important examples of these new measures include: a new and more comprehensive public financial management law (the Financial Administration Act 2003); a strengthened system for controlling expenditure commitments and reporting of arrears; the creation of a centralized internal audit agency body in 2004; improvements in the scope and quality of the annual budget statement; and voluntary participation in the Extractive Industries Transparency Initiative (EITI). The benefits from several of these reforms are now beginning to flow through to fiscal management.

Ghana already meets the standards of the fiscal transparency code in several areas. In particular: (i) the responsibilities of the different branches of government are clearly defined; (ii) a transparent and fairly comprehensive legal and administrative framework for budget preparation and execution has been put in place; (iii) the annual budget is based on a comprehensive and consistent quantitative macroeconomic framework; (iv) the budget statement discusses the main assumptions underlying the budget and provides an overview of the implementation of fiscal policies for the previous year and the objectives for the current year; and (v) budget data are presented on a gross basis, classified by institution and economic and functional category.

In spite of the progress, the transparency of fiscal activities still falls short of the standards in a number of important areas. The most significant shortcomings are: (i) the coverage of the general and central government in the budget documents and, in particular, the fiscal reports remains incomplete; (ii) a significant amount of budget spending is conducted through transfers to statutory funds, the spending of which is not consolidated with that of central government and sometimes poorly reported; (iii) internal and external audits are ineffective, resulting in weak oversight and a major backlog of audit reports; and (iv) laws and regulations are implemented in a manner that hampers private sector activity.

A strong and sustained commitment from the authorities is essential for Ghana to achieve the standards in these areas. Improvements in the coverage, timeliness and managerial orientation of fiscal reports and the production of information on amounts due for payments are essential, and can be achieved over a relatively short time horizon (1–2 years). It will also be key to take further steps to ensure that fiscal data from various sources meet basic data quality standards, are more consistent, and provide a more informative basis for policy making. Other important measures include: (i) upgrading the internal and external audit capacity; (ii) generating and publishing information on quasi-fiscal activities and contingent liabilities; and (iii) simplifying the presentation of the medium-term expenditure framework (MTEF) and advancing the budget cycle to ensure a more efficient commencement to the fiscal year.

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ABBREVIATIONS

BoG	Bank of Ghana
CAGD	Controller and Accountant-General's Department
DACF	District Assembly Common Fund
DIC	Divestiture Implementation Committee
EITI	Extractive Industries Transparency Initiative
FAA	Financial Administration Act of 2003
GAS	Ghana Audit Service
GDDS	General Data Dissemination System
GETF	Ghana Education Trust Fund
GFS	Government Finance Statistics
GoG	Government of Ghana
GPRS	Ghana Poverty Reduction Strategy
GSS	Ghana Statistical Service
HIPC	Heavily Indebted Poor Countries
MDAs	Ministries, Departments, and Agencies
MMDAs	Metropolitan, Municipal and District Assemblies
MoFEP	Ministry of Finance and Economic Planning
MTEF	Medium-Term Expenditure Framework
NTRU	Non-Tax Revenue Unit
ROSC	Reports on the Observance of Standards and Codes
SSNIT	Social Security and National Insurance Trust

I. Introduction[1]

1. This report provides an assessment of fiscal transparency practices in Ghana against the requirements of the IMF *Code of Good Practices on Fiscal Transparency.* The assessment has two parts. The first part is a description of practice, prepared by the IMF staff on the basis of discussions with the authorities and their responses to the fiscal transparency questionnaire, and drawing on other available information. The second part is an IMF staff commentary on fiscal transparency in Ghana.

II. Description of Practice

A. Clarity of Roles and Responsibilities

Structure of government

2. **The general government sector is defined broadly in accordance with the GFS manual.** 1.1.1

Under the Constitution of 1992, Ghana has an executive—an elected President who is assisted by a Cabinet of Ministers—a Council of State, a unicameral parliament, and an independent judiciary. For budgetary and fiscal reporting purposes, the general government sector comprises the central government, including the Social Security and National Insurance Trust (SSNIT), and local government. The core central government sector consists of 38 ministries with some 250 departments and agencies, the so-called MDAs. A number of statutory funds—including the District Assembly Common Fund (DACF), the Ghana Education Trust Fund (GETF) and the Road Fund—receive transfers from the central budget while being legally separate entities.[2] In addition, some small extrabudgetary funds such as the Cocoa Roads Fund, Mineral Development Fund (see Appendix 1) and Women Development Fund, are part of central government. The local government sector comprises 110 Metropolitan, Municipal and District Assemblies (MMDAs). These MMDAs have responsibilities in such areas as basic education, primary health care, and local infrastructure.

Quasi-fiscal activities

3. **The government carries out some quasi-fiscal activities through publicly owned enterprises.** 1.1.4

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[1] Discussions on fiscal transparency were held in Accra during February 16–27, 2004. The staff team, comprising Messrs. De Broeck, Kinoshita, Thomas, and Webber met with officials from the Ministry of Finance and Economic Planning, the Controller and Accountant-General's Department, the Auditor-General's Office, the ministries of health, education, roads and highways, private sector development, local government and rural development, and mines, the Minerals Commission, State Enterprises Commission, Divestiture Implementation Committee, and Bank of Ghana as well as representatives from private sector and nongovernmental research institutions.

[2] According to the 2003 provisional outturn, transfers to these three statutory funds accounted for 11.5 percent of total central government expenditure. There are two additional statutory funds: the Petroleum Related Fund, transfers to which represented 0.4 percent of spending in 2003, and the National Health Insurance Fund, which was introduced in the 2004 budget but is not yet operational.

The government retains full ownership of a number of financial institutions, including the Agricultural Development and National Investment Banks, and has a majority equity stake in Ghana Commercial Bank, the largest commercial bank. These institutions maintain a number of branches for social purposes and provide loans to the agricultural sector and some large state-owned enterprises under conditions that do no reflect purely commercial decisions. In particular, Ghana Commercial Bank acts as the principal financier of the state-owned Tema Oil Refinery and has built up an exposure to the refinery that significantly exceeds prudent norms. These quasi-fiscal activities are documented in the Bank's annual report, but the associated risks are not discussed in the budget in the context of putting policies in place to deal with them. The government also continues to fully own a significant number of nonfinancial enterprises, some of which engage in quasi-fiscal activities. These public sector enterprises have been converted into limited liability companies that in principle have an independent board of directors and management and in most cases conclude performance contracts with a State Enterprise Commission. Their annual reports itemize the activities carried out as per instructions of the sectoral ministries. The utility companies in the electricity and water sectors and the Tema Oil Refinery are subject to a regime of administered prices, the impact of which is not reported. Sizable subsidies on utilities and petroleum products cover part of the support to customers which these companies provide. A very low rate of return and absence of dividend payments on government provided equity, a level of indebtedness to public sector banks that exceeds prudential levels, and a persistent negative net-receivables position toward the government suggest that these companies also channel indirect subsidies to customers on behalf of the government. The operational losses reported in their annual financial statements provide a measure of such quasi-fiscal activities.[3]

Relations with nongovernment public sector agencies

4. **The Bank of Ghana (BoG) is independent and is no longer engaged in quasi-fiscal activities.** 1.1.4

The Bank of Ghana Act, 2002, enshrines price stability as the primary policy goal for the BoG and gives it operational independence. The Act sets up the BoG as an institution that is answerable to a Board of Directors—chaired by the Bank's Governor— which is appointed according to clearly specified procedures and is not subject to oversight or instructions from the government or any other authority. The Act also establishes an independent monetary policy committee on which the government is represented and which is responsible for formulating monetary policy on a day-to-day basis. The BoG can finance the government through temporary advances and loans or through direct purchases of treasury bills and securities. The BoG Act limits government borrowing from the banking sector, including the BoG, and the public to 10 percent of total revenue in the given fiscal year, a ceiling that can only be exceeded in the event of an emergency and with parliamentary approval. According to well-specified legal provisions, the BoG acts as banker and fiscal agent for the government and state institutions, assists in managing the public debt, and advises the government on

[3] Catriona Purfield, "The Challenge of Fiscal Sustainability in the Post-HIPC era in Ghana," in IMF Country Report no. 03/134, May 2003, pp. 50–79, provides estimates of such operational losses during 1999–2001.

fiscal matters. The BoG Act establishes a General Reserve Fund and a Revaluation Account, the latter representing the net balance on the revaluation of BoG assets and liabilities as a result of changes in the value of the cedi. The Revaluation Account has a large debit balance reflecting losses from quasi-fiscal activities dating from the pre-2002 period. The BoG is required to transfer all its net income to this Account until the debit balance is settled, which will be facilitated by the Bank's recapitalization in early 2004.

Government relation with the private sector

5. **Government involvement in the private nonfinancial sector through equity participation has been scaled down but, in spite of efforts to streamline the legal and regulatory framework, the private sector continues to face a heavy regulatory burden.** 1.1.5

The government has sold most of its equity holdings in trade, agriculture and housing, with privatization receipts amounting to around 2¼ percent of GDP during 1999–2003. The government continues to own minority stakes in a number of companies, the book value of which was estimated at around ¾ percent of GDP at end-2002. As a rule, these are joint stock companies that are subject to commercial legislation and operate on a fully commercial basis. A number of initiatives have been set up to improve the transparency of the legal and regulatory framework governing private sector activity. A ministry of private sector development has been established to interface with the private sector to identify laws and regulations—often dating from an era in which government ownership and control were more prevalent—that hamper private sector activity. Other initiatives include the creation of a Business Law Division in the ministry of justice and a Ghana Investors' Advisory Council to promote business law reform and improvements in the business climate. However, the business community continues to perceive the implementation of laws and regulations governing private sector activity as complex and burdensome.[4] Moreover, the enforcement of claims and settlement of disputes through the judicial system are seen as costly and slow.

6. **Privatization procedures are generally well defined but the reporting on privatization proceeds and equity holdings is summary.** 1.1.5

The Divestiture of State Interest Law, 1993, introduces clear procedures for privatization transactions involving enterprises owned by the central government—the law does not apply to transactions at the local level. The Law establishes the Divestiture Implementation Committee (DIC) which, among other tasks, aims to ensure consistency in the application of procedures—in particular regarding valuation, invitation to bid, negotiation of sale, and settlement of accounts. The DIC has issued a procedures manual and is publishing information on procedures and companies offered for sale in the media and brochures. The operational expenses of the DIC are covered directly from the budget and all privatization receipts are disbursed into the Consolidated Fund. Summary information on these receipts is provided in the budget statement and the annual accounts, and the DIC intends to resume

[4] According to the Foreign Investment Advisory Service study, "Ghana, Administrative Barriers to Invest. Update," June 2003, Ghana scores high (indicating unsatisfactory performance) for such survey indicators as the unpredictability of laws and complexity of regulations.

publication of more detailed data in its annual report for 2003 and on its relaunched website. The nominal value of the government's equity participation in joint stock companies is reported in tabular form in the government annual accounts, but no detailed background information is made available.

Responsibilities of different levels of government

7. **The distribution of fiscal functions between the central and local government levels is legally well established.** 1.1.3

The Constitution (Chapter 20) provides for a system of local government and administration and sets up the DACF, allocating to it no less than 5 percent of government revenue. The Local Government Act, 1993, grants MMDAs the authority to carry out local fiscal activities and raise revenue from fees, rates, and charges. The Act also arranges for the central government to transfer revenues from certain direct taxes to the MMDAs. The new Local Government Services Bill, 2004, transfers responsibilities in more than 20 functional areas to the local level and aims to better integrate the activities and finances of the decentralized units of central government into the MMDAs.

8. **The Constitution and other laws clearly define the fiscal responsibilities of the legislative and executive branches of government**. 1.1.2

According to the Constitution, Parliament has to approve all taxes and all loans raised by the government, including external borrowing. Parliament also must consent to all withdrawals from a Consolidated Fund which is the recipient—with some limited exceptions that are clearly specified in articles 178–79 of the Constitution—of all revenues, loans, and grants. The President is responsible for preparing the draft budget and submitting it to Parliament at least one month before the end of the financial year.[5] The Constitution contains provisions for the maintenance of government services for a period of up to three months after the beginning of the financial year through provisional estimates ("necessary expenditure") if approval of the budget is delayed (as is routinely the case). The new Financial Administration Act (FAA), 2003, clarifies the responsibilities and duties of the main fiscal actors and specifies the procedures for payments out of the Consolidated Fund, the preparation and approval of the Appropriations Bill, and the maintenance, publication, and audit of the public accounts. The Constitution also creates the public office of the Auditor General and requires the latter to audit and report on the public accounts of the state and all public offices. The Audit Service Act, 2000, specifies the responsibilities of the Auditor General and the scope and time frame of the audits.

Framework for the use of public funds

9. **The legal and administrative framework for fiscal management is being clarified and strengthened through the adoption of the FAA and the ongoing revision of secondary legislation, but implementation remains a challenge.** 1.2.1

Chapter 13 of the Constitution and part II of the FAA provide a comprehensive overall framework for budget preparation, approval, and execution, as well as for procurement,

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[5] The financial year coincides with the calendar year.

accounting and auditing. Debt service payments are directly authorized under the Constitution, while all other spending has to be approved by an Act of Parliament. The FAA assigns clear responsibilities to the ministry of finance and economic planning (MoFEP) for the formulation and execution of the budget, and specifies the role of the revenue agencies in ensuring that taxes collected by the internal revenue, value-added tax, and customs and excise services are paid into the Consolidated Fund. The FAA also clearly defines the accountability of specified public officers for the receipt and use of public funds. The Financial Administration Regulations, 1979, detail the budget procedures and processes at the operational level. They are being revised to reflect the changes introduced by the FAA and modernize work practices. In practice, however, and in part reflecting the absence of effective enforcement mechanisms, the implementation of the FAA and the associated regulations and guidelines is uneven, at the local level in particular.

10. **A number of government financial activities are not fully integrated in the regular budgetary and reporting framework.** 1.2.1
Some donor-financed operations—notably those related to project grants or provided in kind—are not comprehensively reflected in the government budget and accounts. The overall amount of spending by statutory funds is captured in both the government budget and accounts, while execution and reporting at the more detailed level is the responsibility of their respective Boards. The activities of extrabudgetary funds, including the Mineral Development Fund, are not reflected in the budget and accounts. Finally, part of the operations of a number of MDAs, notably in the health and education sectors, and of the MMDAs are financed through internally generated funds that are not transferred to the Consolidated Fund and not reported comprehensively and on a timely basis. A Non-Tax Revenue Unit (NTRU) has been set up within the MoFEP to help integrate more of the internally generated funds in the budget and reporting systems—an objective reiterated in 2004 budget statement.

Legal basis for taxation

11. **Tax procedures and taxpayers' rights and obligations tend to be clearly described in the relevant legislation.** 1.2.2.
According to the Constitution, all taxes need to have a legal basis in an Act of Parliament. Such Act can, however, grant the executive the power to waive or change the tax obligations it creates, but the exercise of this power is subject to prior approval by Parliament. The operation of the three revenue agencies, internal revenue, value-added tax, and customs and excises, is governed by respective Acts—which also specify rate schedules, taxpayers' rights and obligations, and procedures—and implementing regulations. Appeals procedures for aggrieved taxpayers are spelled out clearly. The Local Government Act, 1993, gives MMDAs the power to charge fees for the provision of services or the issuance of licenses and permits (art. 34), but contains no further provisions regarding the transparency of taxation rules and enforcement procedures at the local level. There is no uniform legal framework governing the collection of internally generated funds: MDAs and public corporations and institutions issue their own regulations within the overall framework of the FAA, the law establishing the corporation or institution, and the enactment relating to the service provided. The MoFEP's NTRU aims to bring more uniformity in this area. While the legislative basis

for taxation and the associated administrative procedures tend to be overall clearly articulated, the language often remains difficult to interpret for the legally non-initiated. Moreover, implementation remains a challenge. According to a recent Foreign Investment Advisory Service's study, the actions taken and methods used by the tax inspectors in assessment, tax audit and closures are in some cases too discretionary.[6]

12. **Specific legal arrangements apply to government revenue from the extraction of natural resources, notably in the mining and timber sectors.** 1.2.2
For instance, the Minerals and Mining Law, 1986, and the Minerals Regulations, 1987, require mining companies to pay into the Consolidated Fund royalties to the tune of, depending upon their profitability, at least 3 percent of gross revenue (see Appendix I). To improve transparency of resource revenues, the authorities have volunteered to participate in the Extractive Industries Transparency Initiative (EITI) and are preparing a reporting template according to the latter's guidelines. The adoption last year of a Competitive Bidding Law for concessions in the natural timber sector is expected to improve transparency in that sector as well. Local communities affected by extraction or logging activities are expected to receive a fraction of the government revenue from these activities through the Office of the Administrator of Stool Lands. The allocation is distributed in proportions that are specified in the Constitution (Article 267) among the local stool, the traditional authority, and the district assembly. In practice, however, these local institutions tend to use this allocation for general spending purposes.

Standards of behavior for public servants

13. **An adequate legal framework is in place for the civil service.** 1.2.3
However, corruption remains a problem.The Civil Service Law, 1993, provides a transparent framework describing in broad terms the rights and responsibilities of civil servants and the procedures for hiring, promoting, suspending, and dismissing staff. The Constitution (Chapter 24) and the Civil Service Law include core elements of a code of conduct for public servants. A detailed code of conduct has been issued for each of the three revenue services. In practice, however, petty corruption remains a pervasive problem and appears to have become engrained in the interaction between business and government.[7] Cross-country indicators of public sector governance suggest that while Ghana scores favorably relative to most countries in the region, corruption continues to be widespread.[8]

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[6] Foreign Investment Advisory Service, "Ghana, Administrative Barriers to Invest. Update," June 2003.

[7] Foreign Investment Advisory Service, "Ghana, Administrative Barriers to Invest. Update," June 2003.

[8] A range of governance indicators that cover Ghana can be found at: http://www-wbweb.worldbank.org/prem/prmps/publicsector/indicators.htm and http://www.worldbank.org/wbi/governance/csrgov.html.

B. Public Availability of Information

Coverage of the budget documentation

14. **The budget documents cover most central government fiscal activities.**[9] 2.1.1
The annual budget statement provides comprehensive coverage of economic and financial performance and new fiscal policies.[10] It contains summary tables of macroeconomic performance and forecasts and main fiscal aggregates as well as matrix-form tables of discretionary expenditures funded by domestic general revenues (the so-called "Government of Ghana" funds) and foreign donor funds, respectively, broken down by organizational and economic classifications. The summary table intends to capture all expenditures financed by Government of Ghana funds, donor resources and internally generated funds. It distinguishes such statutory payments as debt service, transfers to households, subsidies for utility companies and Tema Oil Refinery and transfers earmarked for the statutory funds (i.e., DACF, GETF, the Road Fund, and the Petroleum Related Fund) from discretionary payments, including VAT refunds and arrears clearance. The Appropriation Bill contains a detailed breakdown of discretionary expenditure.[11] More detailed "Annual Estimates" of expenditure by spending agencies, that amount to several volumes each in many cases, include activities financed from the domestic and foreign sources and, as far as possible, from the internally generated funds of spending agencies.[12] A "Review of Economic Performance," presented in the second half of the year, assesses economic developments and provides aggregated fiscal data for the first six months. Defense expenditures are identified and reported in the same format as the other expenditure heads.

15. **Information available in the budget execution reports is limited in its coverage and published with a delay.** 2.1.1
The budget execution is reported by CAGD in monthly reports and annual final accounts. These are based on a "narrow-based" budget concept which only captures expenditures covered by the accounts controlled and monitored by CAGD. In both the monthly and annual

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[9] The budget documents comprise the "Budget Statement and Economic Policy of the Government of Ghana," the "Appropriation Act," and "Annual Estimates" for individual ministries. The within-year report to Parliament is entitled "Review of Economic Performance." Monthly gazetted budget execution reports, titled "Report and Financial Statements on the Consolidated Fund of the Republic of Ghana," and the annual final accounts, titled "Report and Financial Statements on the Public Accounts of Ghana (Consolidated Fund)," are compiled by CAGD. The printed 2004 budget statement is priced at 70,000 cedis (about US$7½). It is also available on the web at http://www.ghana.gov.gh .

[10] Specifically, it includes: (i) a review of economic performance and the implementation of budgetary policies for the previous financial year; (ii) an outline of Ghana Poverty Reduction Strategy (GPRS) targets; (iii) major government objectives for the budget; (iv) statements of new revenue or expenditure policies; (v) data on selected macroeconomic indicators, such as the balance of payments and inflation; and (vi) aggregate revenue and expenditure projections by economic classification.

[11] There are 2,650 cost centers. Economic classification distinguishes four items: personal emoluments, administration, services, and investment.

[12] For example from user charges in health and education. However, the government acknowledges some serious under-reporting of the actual levels of these internally generated funds in the budget execution reports.

reports, the execution of foreign-financed expenditure is captured only if transactions are made through the accounts controlled by CAGD, and the separation of sources of funding from the Government of Ghana (GoG) and those from foreign donors is not provided. In spite of the requirements of the FAA, Article 6 (3), the disclosure of internally generated funds continues to be partial. According to the FAA, the CAGD is expected to prepare within fifteen days after the end of each month a set of public accounts. In practice, the preparation tends to run behind schedule and the monthly report is gazetted and made available to the public within on average about 8 weeks after the end of each month. The Constitution, article 187, mandates the submission to Parliament of externally audited annual accounts within six months after the end of the financial year.[13] In recent years, a significant backlog of still-to-be-audited reports has built up.[14]

16. **Operations of the local government are outside the scope of the budget documents.** 2.1.1
The Local Government Act requires district assemblies to produce annual budgets, regular expenditure reports, and audited annual accounts. None of these documents are prepared in a comprehensive and timely way and made available to the public. However, aggregate transfers to the DACF—which in turn are allocated to MMDAs mainly for infrastructure development—are subject to parliamentary approval and publicly documented. Furthermore, spending by local units of MDAs—which is part of discretionary expenditure as reported in the budget documents—appears to account for most of the overall operational expenditure at the local assembly level.

17. **A substantial amount of fiscal information is available in various reports—although not as part of the budget documents—from the individual government agencies.** 2.1.1
A few MDAs prepare detailed quarterly or annual financial statements which also include expenditure from internally generated funds and some donor funds that are not captured by the "narrow-based" budget.[15] The statutory funds' financial statements are internally compiled either monthly or quarterly, while their annual accounts are made available to the public only after auditing, with a long delay.[16]

Information on outturns and forecasts
18. **The budget document covers both actual fiscal outturns and projections.** 2.1.2
The summary table in the budget statement covers five years: estimates for the relevant fiscal

[13] The FAA requires the CAGD to finalize the public accounts within three months after the end of the financial year, leaving the Auditor-General's Office with another three months to complete the external audit.

[14] Mostly due to delays in the auditing by the office of the Auditor-General, the most recent publicly available final accounts are for 2000.

[15] The ministry of health, for example, produces quarterly financial statements.

[16] GETF and the Road Fund prepare monthly statements and DACF quarterly ones. These statements are for internal use by the MoFEP, and they are not publicized.

year, provisional outturns for two previous ones, and projections for the following two years. Expenditure estimates broken down by organization cover the budget year and the following two years.

Contingent liabilities, tax expenditures and quasi-fiscal activities

19. **Statements on contingent liabilities are not included in the budget documents; nor is this a requirement under the FAA.** 2.1.3

The annual budget statements and final accounts do not include information on government guarantees and contingent liabilities. However, such liabilities are outstanding. For instance, in 2002, the government assumed the short-term debt of state-owned Tema Oil Refinery amounting to 2.9 percent of GDP, and the refinery's sizable remaining debt could be considered as contingency liability of the government.

20. **Tax expenditures are not reported in the budget documents.** 2.1.3

The 2004 budget statement, for example, proposes to exempt imported raw materials from VAT, without any estimate of foregone revenue from this measure.

21. **While some of the public funds and corporations disclose noncommercial activities in their annual reports, no comprehensive reporting on quasi-fiscal activities is available.** 2.1.3

SSNIT, the social security fund, discloses the detail of "economically targeted investment"—investment in schools and hospitals to fulfill social responsibilities—in its annual report. Ghana Commercial Bank and Volta River Authority either maintain internally or disclose in their annual reports some information regarding their noncommercial activities, but no quantitative information on their quasi-fiscal activities is currently made available in the budget documents.

Government financial assets and liabilities

22. **Some information on gross government debt is available, but there is no timely and detailed information on government financial assets.** 2.1.4

Aggregated information on public financial assets and liabilities is published annually in the final accounts prepared by CAGD. Assets are broken down into cash, advances, loans, and investments, and liabilities into short-term domestic debt, medium- to long-term domestic debt, foreign loans, trust funds, and other liabilities. Summary information on government equity holdings in public boards and corporations and—minority positions—in private companies are included in the balance sheet statement, but no comprehensive reporting is publicly available. BoG internally maintains monthly data on government domestic debt by maturity and holder and publishes a summary debt table in its quarterly bulletin.

Publication of fiscal information

23. **The schedule for preparation of budget documents and publication of fiscal reporting prescribed by law is not fully observed in practice.** 2.2.1

Currently the presentation to Parliament of the budget no later than end-November as provided in the Constitution is only formal, and is limited to the submission of a set of revenue and expenditure estimates. The presentation of the budget statement to Parliament takes place some weeks after the start of the fiscal year. As for fiscal reporting, the FAA (Article 40) requires that monthly statements—which should include revenue and expenditure flows as well as the balance sheet of the Consolidated Fund—be prepared by CAGD within fifteen days after the end of the month. This schedule is not observed, and publication of the monthly statement in gazette form does not follow a regular and pre-announced calendar. Ghana is requesting technical assistance in order to participate in the General Data Dissemination System (GDDS).

C. Open Budget Preparation, Execution, and Reporting

Budget documentation and policy objectives

24. **The annual budget presentation focuses on both economic performance and financial compliance and the budget classification partially meets international standards.** 3.1.1

Substantial improvements have been made in recent years to the presentation of the budget. There is a detailed discussion of recent economic performance, current conditions and future outlook in the budget statement. There is a medium-term perspective in the fiscal estimates, and attempts are being made to introduce expenditure performance concepts. Budget classifications increasingly adhere to international standards, though the coverage and accuracy of much of this data remain a major concern. Much expenditure information within the budget documents continues to be presented primarily on a highly detailed "item" classification basis (see Box 1).

25. **The budget is prepared and presented in the context of a 3-year rolling medium-term expenditure framework (MTEF).** 3.1.3

The development of the MTEF has helped to improve the presentation of budget forecasts in the budget documents. In practice, medium-term expenditure plans and annual spending agency allocations reflect to a large degree the fiscal targets and priorities established under the Ghana Poverty Reduction Strategy (GPRS). The medium-term expenditure projections are mostly at an aggregate level, however, and do not reflect detailed budgetary adjustments arising from policy analysis or changing priorities. The implementation of the MTEF still suffers from a number of other shortcomings as well (Box 1).

Box 1. Medium-Term Expenditure Framework (MTEF) 3.1.3

The Medium-Term Expenditure Framework (MTEF) was introduced as part of the Public Financial Management Reform Program (PUFMARP) initiated in 1996. The MTEF was implemented from fiscal year 1999, but suffered some major setbacks early on. An economic downturn during 1999–2000 led to a sharp shortfall in revenues relative to forecasts, forcing the authorities to cutbacks in cash releases. Ad hoc reductions in discretionary expenditure and arrears accumulation eroded the credibility of the MTEF's indicative allocations for the outer years. Moreover, changes in the classification on the budget side were initially not accompanied by corresponding adjustments in the structure of the chart of accounts, resulting in a temporary breakdown in the regular fiscal reporting.

Following an economic rebound in 2001 and the introduction of new expenditure reporting codes, the Government of Ghana (GoG) envisaged to revitalize the MTEF process with, however, only limited success thus far.

The MTEF adopted in Ghana has the following key characteristics:

- The Ghana Poverty Reduction Strategy (GPRS) provides the overall policy basis and expenditure projections are consistent with the Strategy's poverty reduction targets;
- The MTEF incorporates an aggregate spending ceiling which is based on a consistent and comprehensive macroeconomic framework;
- It presents MDAs' expenditure estimates on a rolling three-year basis;
- It classifies the annual spending envelopes under four heads, namely personnel emoluments (salaries and pensions); nonsalary administrative expenses; service expenditure; and investment expenditure;
- It introduces a 15-digit expenditure classification that has the capacity to classify the budget on a broad administrative (cost center level), economic (items, subitems), and functional basis (objectives). The functional base of the budget classification in turn has a three-tier structure (objectives, outputs, and activities) that enables to link activities and outputs to specific MDA objectives. 1/

Ghana's MTEF in principle could offer several major advantages:

- Its medium-term perspective enables to take into account the out-year consequences of current policies and formulate intertemporal trade-offs;
- The MDAs' sectoral spending targets are linked to the priorities of the GPRS and formulated taking into account the aggregate resource envelope;
- The MTEF expands the budget coverage by including most donor funds in the budget;
- It integrates the recurrent and development/investment budgets;
- It puts increased emphasis on performance as activities are expected to be planned and costed with a view to producing outputs that in turn should achieve objectives.

In practice, however, the MTEF falls short of its potential as it tends toward being a form-filling exercise and is not yet getting established as a tool for rational allocation of resources, review of priorities, and decision making. More in particular:

- The information included in the annual spending estimates is overly detailed. The number of activities reported by each MDA is very large (more than 2500 cost centers in total). The preparation process is work intensive and time consuming, and the voluminous nature of the documentation (up to forty volumes for the combined MDAs) counterproductive from the transparency point of view;
- The functional classification of the annual estimates is wanting in several respects: (i) the classification by activities tends to overlap with the economic classification associated with it; (ii) outputs include a large number of overhead costs (such as training) that in many cases should be classified as activities; and (iii) the objectives are very broad and general and unlikely to be of much use in strategic analysis;
- Items 1 and 2 (personnel emoluments and nonsalary administrative expenses), which are largest components of discretionary recurrent expenditure, are outside the MTEF prioritization process;
- Expenditure allocations are still determined largely by incremental methods. In particular, estimates for the two out-years do not reflect genuine costing of programs or reprioritization but rather appear to have been derived by applying uniform growth factors (for GoG and donor-financed spending, respectively);
- The coverage of donor funds and, in particular, the internally generated funds in the annual estimates remains incomplete;
- The annual estimates are not fully translated into appropriations, expenditure authorisations and cash releases. Typically, personnel costs are overspent while investment ends up being underfunded;
- The accounting system cannot report on activities, outputs, and objectives. There is hence no scope for monitoring performance against budget targets.

1/ A bridge table developed during 2003 allows to match the MTEF classification with that of the GFS.

26. **A statement on medium-term fiscal policy objectives, derived from the GPRS, provides the basis for the annual budgets.** 3.1.1
The government does not apply fiscal rules, but it does announce and monitor explicit macrofiscal targets set out in the GPRS.[17] The medium-term framework underlying the GPRS includes a specific target for the domestic debt-to-GDP ratio (50 percent reduction from end-2002 to end-2005). This debt sustainability objective has direct implications for annual domestic debt financing and repayments. The GPRS also includes targets relating to revenue growth, subsidies and domestic capital expenditures levels in particular.

27. **The overall balance of the central government is the key indicator of the fiscal position of the government.** 3.2.3
The budget statement (in its Annex, Table 2) provides an overall presentation of central government fiscal operations that largely conforms to GFS (GFSM, 1986) format. This shows the derivation of the fiscal balance from above the line revenue and expenditure transactions and the financing of the deficit from below the line. Both the overall cash balance and the primary balance are presented in the MTEF (multiyear) framework.

28. **The budget presentation does not extend beyond central government.** 2.1.1/3.2.3
Local government budgets are to be presented and reported to local legislatures, with copies referred to the MoFEP. Aggregate budget transfers to local assemblies, via the DACF, do not reveal the full extent of local government fiscal operations due to their access to locally generated revenues. Local government expenditure activities are an increasingly important contributor to economic activity under the government's decentralization objectives.

29. **The budget neither covers the quasi-fiscal operations of statutory and extrabudgetary funds nor those of the public corporations.** 2.1.1/3.2.4
The quasi-fiscal operations conducted by SSNIT, a major investor in the local economy, and some of the largest public corporations are considered to be sizable. The budget covers these activities only through the estimates of the government's contributions to SSNIT for public sector employees and subsidy payments to utility companies and Tema Oil Refinery.[18] Other, nonbudgeted quasi-fiscal operations can also be significant, including implicit subsidies on petroleum products and utilities and the provision of health, educational and other social services, especially in rural areas (see also Appendix 1). The budgets and financial reporting of public corporations are prepared under their respective legislative requirements, but no attempt is made to capture their expenditures or economic impact within the budget.

[17] For the 2004 budget, the key targets relate to real GDP growth (5.2 percent), inflation (less than 10 percent), gross foreign exchange reserves as a cover of imports (no less than 3 months), primary budget balance (surplus of 1.7 percent) and overall budget balance (deficit of 1.7 percent).

[18] As at February 2004, the government reported a total of 33 fully state-owned corporations which are under the purview of the State Enterprises Commission and 75 subvented agencies. The expenditures of these organizations (and those of the statutory funds) must be accounted for under their specific regulations, but are not included in the budget or GFS reporting.

30. **Overall, the budget documentation provides a reasonably transparent and moderately comprehensive presentation to Parliament and the public of central government's recent fiscal performance, future strategies and policies, and detailed expenditure plans.** 2.1.1/3.2.2
The government understands the need to move towards a more complete presentation of central government fiscal policies and operations through better inclusion of expenditures financed under donor programs, internally generated revenues and quasi-fiscal operations, but only limited progress is likely to be feasible on this front in the short term. The authorities are also aware of the limitations of the current format of the MTEF. The key priority is, however, to first improve the quality and reporting of budget execution (i.e., to ensure that budget strategies and intentions are effectively carried through).

31. **Most discretionary expenditure programs have explicit objectives.** 3.2.2/3.4.3
Some significant improvements have taken place since 2001 in the capacity of the government to identify, design and fund targeted programs relating especially to poverty alleviation—including the HIPC initiative-related appropriations and programs. The government has stated its commitment to achieving its medium-term fiscal targets and program objectives, but acknowledges that it faces ongoing weaknesses in capacity for policy implementation. Monitoring of performance against targets and objectives has so far been of limited scope and quality.

Macroeconomic framework

32. **The main macroeconomic assumptions are disclosed in the budget documentation and increasingly discussed in the media.** 3.1.3
Macroeconomic modeling and forecasting work underpinning the budget are the responsibility of MoFEP. However, the models and assumptions on which these fiscal forecasts are based are not explicitly described in the budget. Sectoral growth and overall inflation data are reported (Annex, Table 1), but this includes forecast data for only one year out. It is therefore difficult to determine from budget documentation the economic basis on which detailed medium-term projections of revenue (Annex, Table 3) and expenditure (Annex, Tables 4 and 5) have been made. In practice, much of the economic framework and macrofiscal objectives contained in the budget have been determined in close consultation with donors and international financial institutions, especially in the context of the GPRS.

33. **The quality of some statistical data underpinning the economic projections is of concern to both the government and independent commentators.** 3.1.3/4.2.2
Consumer price index data in particular is considered to be less than fully reliable while the inadequacy of public finance accounting data continues to undermine accuracy in measuring fiscal impact. At the expenditure program level, independent economic and social analysis organizations report that poverty data is unreliable, especially at the district level where the most effective interventions are required.

New policies

34. **Estimates of new initiatives and ongoing costs of government policies are not clearly distinguished in the MTEF and budget documents.** 3.1.4

The 2004 budget statement contains clear and quite detailed discussions of new government policies, including many with direct fiscal implications. Several of these policies involve new and ongoing expenditure obligations and/or tax expenditures. However, estimates of the costs of these policies are generally not contained in the budget statement and are very difficult to identify within the appropriate estimates. As a result, the costs of these new policies are to a large extent indistinguishable from the costs of existing policies, or those they have replaced.

Fiscal risks

35. **Sensitivity analysis of the budget estimates to changes in economic variables is not published and the main fiscal risks are not disclosed with the budget.** 3.1.5

The government undertakes only a limited degree of sensitivity analysis in its economic forecasting. Alternative macroeconomic assumptions or scenarios are not discussed in the budget documents, and fiscal estimates are not presented in the context of any formal sensitivity analysis. However, the budget statement does draw attention in a broad way to the importance of potential variations in key economic factors, such as oil prices and exchange rates, for economic prospects in general and for the achievement of aggregate fiscal targets.

36. **Some contingent liabilities—such as the debt and debt servicing costs associated with previous losses by the Tema Oil Refinery and government-guarantees on the borrowing of some nonfinancial public enterprises—could have significant fiscal consequences.** 3.1.5

The concept of contingent liabilities is generally well-understood by the government. However, these contingent liabilities are not systematically detailed in the budget, and there are no clear rules or guidelines for their inclusion in the budget statement at the present time.

Budget programs

37. **Objectives of major programs are generally announced in the budget statement and actual progress is reported against these objectives to a limited degree.** 3.2.2

Spending agencies present general statements of organizational purpose. In addition, most discretionary expenditure activities are presented by "objective" (program) and "output" (intended impact). However, monitoring and reporting against objectives/outputs has so far been quite limited and mainly confined to those programs where donor funding and expertise play a significant role.

38. **At the centre, responsibility for coordinating the monitoring and analysis of budget programs (and for the analysis of new initiatives) is assigned to the MoFEP's Policy and Analysis Division.** 3.2.2

The capacity of this division to undertake performance analysis and reporting is largely undeveloped at this stage. The government recognizes these shortcomings and has committed itself to making efforts to improve. On a wider basis, the MoFEP reports to Parliament on budget implementation issues in the context of the "Review of Economic Performance" which, in 2003, accompanied the request to Parliament for supplementary appropriations. This report draws mainly on mid-year (end-June) economic and financial data, but includes developments up to and including September. The report provides a useful analysis of budget developments, including the need for new policies and any additional resources.

Accounting and control systems

39. **Effective control of public expenditures in Ghana is impeded by the existence of a large number of bank accounts administered by MDAs outside the treasury system.** 3.3.1

Although the management and reporting of all public monies are subject to the requirements of the FAA, the practical effect of this fragmentation of the accounts has been to diminish both accountability and control. To help address this problem, the CAGD has embarked on a process of cleaning up unauthorized and redundant bank accounts of government agencies.[19] Accountability for local government expenditures rests with the respective district assemblies and lower tiers. These organs also have their own revenue sources from which significant expenditures are made but not reported to central government.

40. **Maintaining control over even the budget expenditures within the treasury system has been a major problem for the government in recent years.** 3.3.1

As from October 2003, new procedures have been introduced that allow for substantially improved control and reporting of commitments.[20] The new system involves, primarily, the use of quarterly cash plans, monthly cash limits and specific expenditure authorizations. The new system should enable MoFEP to exercise much better control over expenditure levels. Adherence to the new procedures is backed up by specific sanctions.

41. **The volume of expenditure arrears within the government finance system is difficult to gauge due to the absence of: (i) a standard definition for arrears; (ii) adequate reporting procedures; and (iii) the significant level of "disputed claims," particularly in the road sector.** 3.3.1

The authorities took action in 2003 and are continuing their efforts to identify and deal with outstanding budget arrears and disputed claims. Moreover, the recently introduced improvements in the commitment controls and cash management procedures should help to reduce the incidence of arrears in the future. Indications are that the stock of arrears at end-2003 was relatively small. However, there is no way at present to obtain a fully accurate estimate of outstanding and new arrears because of definitional and reporting problems. The budget for 2004 provides indicative resources for the clearance of "road sector arrears" amounting to approximately 40 billion cedis, but this provision is primarily for dealing with disputed claims.

42. **The CAGD accounting system is currently not capable of producing complete and accurate in-year reports on central, much less general, government budget outturns.** 3.3.1

Despite some recent improvements, the accounting system provides a very incomplete picture of in-year budget execution in an internationally acceptable format. Monthly reporting of budget revenues and expenditures is not only partial, but has a compliance rather

[19] As at February 2004, the CAGD reports that approximately 1400 (out of about 3000) such accounts with the BoG have been closed.

[20] See, for example, Commitment Control System Operating Manual, MoFEP, September 2003.

than a fiscal management focus.[21] On a quarterly basis, and for the purpose of poverty spending monitoring, the information from the CAGD accounting system is complemented with data on spending by statutory funds and HIPC-financed spending. At present, however, budget monitoring continues to be much more concerned with cash management objectives than with measuring performance against fiscal targets or program objectives. The government appreciates the need to improve this situation and is placing considerable reliance on capability and efficiency improvements that it expects will arise out of the planned new computerized comprehensive accounting and reporting system (the so-called Budget and Public Expenditure Management System), the hoped for gains of which, however, may only materialize over the medium term.

Procurement and employment regulations

43. **The public procurement system suffers from a weak legal framework and weak enforcement of rules resulting in inefficient use of public funds and lack of transparency and accountability.** 3.3.2

On December 31, 2003, the government enacted the Public Procurement Act. The Act provides for: (i) clear and comprehensive procurement procedures and regulations; (ii) transparency and fair competition; (iii) clear decision making and record maintenance; and (iv) mechanisms for enforcement of the rules and a grievance redress mechanism. The next step is to implement the law. This will mean establishing and making operational institutions created by the law and embarking on a capacity building program to support the new public procurement system. The MoFEP has established a committee to start implementation. Its effectiveness should be strengthened by the Internal Audit Agency Act.

44. **Government employment and pay regulations are clearly described but indications are that they are only partially observed in practice**. 3.3.2

The pay regulations are governed by the Ghana Universal Salary Structure while employment regulations are governed by the Industrial Relations Act and Ghana Labor Law (currently awaiting Presidential assent).

Internal Audit

45. **Steps have been taken recently to establish internal audit units throughout the public sector and to provide them with the capacity and resourcing necessary for effective internal audit functions**. 3.3.3

The Internal Audit Agency Act, 2003, also provides for a central agency to coordinate, facilitate and provide quality assurance for these internal audit units across both central and local government spending agencies. Under the Act, each spending agency shall establish an Audit Report Implementation Committee to be responsible for the implementation of internal audit unit reports and recommendations. It is too early yet to assess the resourcing available to, or effectiveness of, this initiative.

[21] Some spending agencies, for example the ministry of health, consolidate the monthly accounting information into quarterly reports which are then distributed to MoFEP, donors, and other interested parties.

Tax administration

46. **National tax and revenue administrations have some degree of legal protection from political interference.** 3.3.4

The Revenue Agencies Governing Board Act, 1998, established an oversight board comprising the heads of each of the Internal Revenue, Value-Added Tax, and Customs, Excises and Preventive Services. Each of these revenue services continues to operate under its own specific legislation, though their activities are to a large degree directed and coordinated by the Board, in close conjunction with MoFEP. One of the two deputy ministers for finance and economic planning has specifically responsibility for revenue. Policy dialogue with the Cabinet on revenue issues is maintained via the revenue subcommittee of the Economic Policy Coordinating Committee. Where it considers appropriate, decisions of the Board are made publicly available or communicated to relevant stakeholders through Board members.

47. **The revenue agencies are empowered to receive "up to 3 percent" of revenues for funding of administration.**[22] 3.3.4

The actual percentage retention is negotiable annually (2.5 percent in 2003). All taxes collected by the agencies are disbursed into the Consolidated Fund, and the CAGD controls the subsequent payment of the retention. The Revenue Agencies Board argues that better coordination, increased resourcing and efforts to improve the training and performance of staff have enabled the three associated agencies to raise revenue collections significantly over the last three years. Concerted efforts are also being made to improve public relations and the image of the agencies.

Fiscal reporting to the legislature

There are clear rules for fiscal reporting to the legislature, though the timeliness of the reports is unsatisfactory. 3.4.1

The FAA sets a clear framework for fiscal reporting. This includes a requirement for monthly accounts of the government to be prepared and gazetted (within 15 days from the end of the month) and for final accounts to be presented to the Auditor General within 3 months of the end of the financial year. Parliament may also request special reports from the Accountant General from time to time. Neither the monthly nor the annual reports are submitted within the required timeframe, though the regularity of monthly reports during 2003 improved somewhat.[23] The government attributes these delays to three main causes: insufficient capacity amongst accounting staff; the remote locations of some treasury and budget execution offices; and continued delays in the establishment of a comprehensive, computerized, financial accounting system.

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[22] Revenue Agencies (Retention of Part of Revenue) Act, 2002.

[23] There is no legislative requirement for mid-year budget reporting, but the MoFEP's "Review of Economic Performance" statement—which in 2003 accompanied a request for supplementary appropriations— reviews fiscal performance and the mid-year budget outturn data. These reports were submitted to Parliament in November in both 2002 and 2003.

48. **Apart from timeliness issues, the "narrow base" budgeting on which the financial accounting reports are prepared greatly constrains their quality and usefulness.** 3.4.1
Moreover, there is little additional information of a managerial or performance nature that would allow Parliament, the public or other interested parties to assess the quality and impact of expenditures undertaken. Efforts are being made to improve the coverage, quality and timeliness of both financial statements and broader fiscal reporting, but it will take time before these efforts can have a significant effect. It is also important that financial management is strengthened at the subnational level, particularly given the commitment to decentralization in the Constitution (Article 240).

Final accounts

49. **The audited final accounts are publicly available but are produced with significant delays. They are routinely presented to Parliament well in excess of the constitutional provision (Article 187 (5)) of six months after the end of the fiscal year.** 3.4.2
The last audited set of Final Accounts submitted to Parliament was for the 2000 financial year. Since then, public accounts for 2001 and 2002 have been prepared but they are not yet audited. Parliamentary scrutiny of actual public revenues and expenditures is therefore limited primarily to the "provisional" figures provided in the budget documentation. There is some expectation that audits of the 2001 and 2002 final accounts will be completed during 2004, though this may well be too late for effective action to be taken on any problems identified.

D. Assurances of Integrity

Scope of the budget data

50. **At an aggregate level, the central government budget outturns appeared to differ little from the original budget estimates during 2000–03 but there is substantial variation at the ministry level.** 4.1.1
During this period, the largest variance between the budgeted and outturn data for total revenue and expenditure was -4.1 percent and -5.5 percent, respectively, both in 2002. However, the variation at the ministry level has been much larger, raising concerns about the reliability of the budget in guiding actual expenditure.[24] For the first time in recent years, a supplementary budget was presented to Parliament in November 2003. This was attributed to the impact of higher international oil prices and large, unplanned subsidies required for the public enterprises in the energy sector and public utilities.

[24] During the period 2000–03, the simple average deviation between the budget allocation and actual expenditure for the largest spending ministries of education, health and the interior was estimated at 27.3 percent, 30.2 percent and 26.4 percent, respectively.

Accounting basis and standards

51. **Public institutions are required to state the basis of accounting used in the preparation of their accounts.**[25] 4.1.2

While this is generally complied with for the reporting of annual accounts, the requirement that this be done also for monthly reporting may not be strictly adhered to.[26] The public accounts, prepared by CAGD, are presented on a modified cash basis, specifically for moneys received into or paid out of the Consolidated Fund and charges to advances and public debt accounts. Expenses are recorded in the accounts when goods and services are received and paid for.

Quality assurances

52. **The processes of reconciling accounting and fiscal reporting has improved in recent years, but the coverage and timeliness need to be enhanced.** 4.1.3

In mid-2002, to support the MDAs' operations budgeted and reported under the Consolidated Fund, the CAGD opened bank accounts with the BoG for each of the 38 ministries for nonsalary expenditures.[27] Payments and receipts against these bank accounts are controlled and accounted for by the 125 treasuries, serving the accounting needs of MDA's. Monthly cashbooks are produced (mostly manually) and sent to the CAGD, who records the transactions into a central computerized ledger and, since mid-2002, performs a regular and routine bank reconciliation on each account. Most of the big volume and high value transactions (more than 90 percent of the value of all transactions through the Consolidated Fund) are appropriately recorded and cleared within 2 months, although transactions originating in the districts may take much longer. The authorities are in the process of extending the computerized National Expenditure Tracking System to regional treasuries, which will facilitate the bank reconciliation to be made in a more timely fashion.

53. **The fiscal information produced does not cover a substantial part of central government revenue and spending**. 4.1.3

Reports produced by CAGD and BoG miss a portion of donor flows disbursed directly to ministries (as project grants), internally generated funds and the expenditures undertaken by statutory and extrabudgetary funds. Aggregate estimates of fiscal activity not reported in the CAGD and BOG reports are not available, but indications are that the portion may be large.[28] The MoFEP's NTRU is endeavoring to collect more comprehensive information on internally generated funds. In order to reconcile fiscal and monetary data, the above-the-line

[25] FAA 2003 (Article 38 (1)).

[26] For instance, the November 2003 monthly report and financial statements on the consolidated fund did not state the basis of accounting used in its preparation.

[27] Salary expenditures for ministries, departments and some subvented agencies are paid directly by CAGD.

[28] Internally generated funds are a significant source of funding for some ministries and subvented agencies. For example, they comprised around 16 percent of revenue for the ministry of health in the 3rd quarter of 2003. The education sector also raises a significant amount through the collection of school fees. District Assemblies are thought to generate an estimated 1.5 percent of total government revenue through internally generated funds.

fiscal information is generated by various identifiable components of revenue and expenditure provided by CAGD ("narrow-based" accounting reports) and the MoFEP's Aid and Debt Management Unit (on foreign loan and project grant disbursements) and by BoG information on revenue, debt service and domestic financing. The authorities have begun a review of the "Nature of Government" and in this context have prepared a list of and initiated the rationalization of MDA bank accounts held at the BoG to ensure consistency with the definition of general government financing. The 2004 budget also reiterated the need for full disclosure of all sources of nontax revenue. The MoFEP's NTRU will help improve the reporting and collection of nontax revenue.

Audit function

54. **The external audit function originates from the Constitution, which provides for an Auditor-General with operational independence.** 4.2.1

The President, acting in consultation with the Council of State, appoints the Auditor-General. Conditions for his/her removal are also stipulated. Furthermore, the Auditor-General is not subject to the direction or control of any other person or authority in the performance of his functions under the Constitution or any other law (Article 187 of the Constitution).

55. **The Auditor-General is to examine and certify public accounts and the accounts of all public offices.** 4.2.1

These include the courts, central and local government, universities, public institutions, public corporations, and traditional councils. The audit mandate is therefore very extensive. Auditors are given access to all books, records, returns and other documents relating or relevant to the audit of the accounts. The Auditor-General must submit audit reports to Parliament within 6 months of the end of the financial year, which Parliament must debate.

56. **There is an extensive backlog of audit reports and the audit function requires considerable strengthening.** 4.2.1

The Constitution provides for the Ghana Audit Service (GAS),[29] which is regulated by the Audit Service Act (2000), and for an Audit Services Board. The latter determines terms and conditions of service provided by audit service staff, in consultation with the Public Service Commission. Lack of audit staff and delays in some cases in finalizing annual financial statements, especially those of state-owned enterprises and other public institutions, are responsible for late audits and late audit reports. Currently there are delays of 2–3 years and longer for submitting to Parliament some audit reports.[30] To address this backlog, part of the audit work is contracted to audit firms, but the associated costs in some cases are prohibitive.

[29] GAS is a member of the International Organization of Supreme Audit Institutions and applies audit standards based on internationally recognized standards.

[30] Key audits in arrears are as follows: (i) public accounts for the Consolidated Fund: 2001, 2002; (ii) MDA accounts: 2001, 2002; (iii) special reports on the HIPC fund and GETF; (iv) District Assemblies: 1997 onwards; (v) report on public boards, corporations and other public institutions: 2001, 2002; and (vi) foreign exchange receipts: 2001, 2002.

The Auditor-General's Office has prepared an action plan, but a more encompassing effort may be needed to reduce the delays to a more acceptable level.

57. **The delay in the production of audit reports has hindered the legislature's ability to scrutinize and follow up on the recommendations of the Auditor-General.** 4.2.1
A standing parliamentary committee, the Public Accounts Committee, reviews the accounts submitted by the Auditor-General. An Audit Report Implementation Committee has also been established in Parliament, to oversee the implementation of audit reports.

Assessment by independent experts

58. **External scrutiny of macroeconomic models and assumptions underlying the budget is not carried out.** 4.2.2
The macroeconomic framework and assumptions or behavioral relationships underlying the budget for the outer two years are not made available to Parliament. The expenditure ceilings for each ministry appear to be derived by applying uniform growth factors to the budgeted expenditures for the MDAs, based on the first year budget. A donor funded project to develop a formal macroeconomic model for the authorities was recently abandoned. There are a number of research institutes and programs, mainly funded by donors, which regularly publish reviews of government policy and macroeconomic forecasts that are published, for example, by international bodies in agreement with the authorities. Domestic research institutes, including the Centre for Economic Policy and Analysis and the Institute of Economic Affairs, are not formally engaged in a dialogue with the government on budget assumptions, nor are their views collated or published by government.

Verification by national statistics agency

59. **The Statistical Service Law (1985) establishing the Ghana Statistical Service (GSS) provides a partial legislative assurance of independence**. 4.2.3
The Head of the GSS is the government statistician, who is appointed by the government and is responsible to the President. The GSS is governed by a Board, appointed by the government (a maximum renewable tenure is specified), with responsibilities that include: (i) promoting the effective use of statistics and stimulating research activities in all fields of application of statistics; and (ii) determining which data may be published in whatever manner that is deemed suitable. The authorities may also determine the information to be obtained, the class of residents and the timing of population censuses to be undertaken by the GSS. Its "Quarterly Digest of Statistics" is produced with long lags. The extensive powers conferred to the government statistician to obtain information are limited to matters set out in the First Schedule of the Act that includes local but not national government. The GSS does not verify the quality of fiscal data.

III. IMF STAFF COMMENTARY

60. **In recent years, Ghana has been making substantial efforts to improve fiscal transparency.** These efforts have been part of broader policies aimed at achieving macroeconomic stabilization and enhancing the role of the private sector in the economy.

61. **Notable efforts have been made in upgrading the legislative and regulatory framework**: 1.2.1
(i) the new FAA has clarified and strengthened the overall legal framework for fiscal management; (ii) the adoption of the Local Government Services Bill is expected to address financial management weaknesses at the local level through, among others, a better integration of the decentralized units of the MDAs; (iii) an internal audit agency has been created and the internal audit units in the MDAs are being enhanced; (iv) efforts are being made to streamline and make more transparent the legal and regulatory framework governing private sector activity; (v) an Audit Service Board to oversee the external audit function has been established; and (vi) the legislation on the Revenue Agency Governing Board has been operationalized.

62. **Substantial efforts have also been made in improving procedures and processes**: 3.3.1
(i) a control system has been rolled out in the MDAs that will enable the improved generation of commitment and payment information; (ii) progress has been made in rationalizing government banking arrangements; (iii) a NTRU has been set up to track internally generated funds; (iv) the CAGD has begun to produce monthly budget execution reports that, while relatively narrow in coverage, meet basic data quality standards; and (v) the scope and quality of the budget documents have improved, and the latter now provide a reasonable basis for open discussion of fiscal policy. The government has also volunteered to actively participate in the EITI.

63. **Ghana meets the standards of the fiscal transparency code in several areas.** In particular: (i) the responsibilities of the different branches of government are clearly defined, while government activities are well distinguished from those of the central bank; (ii) a transparent and fairly comprehensive legal and administrative framework for budget preparation and execution has been put in place; (iii) the annual budget is based on a comprehensive and consistent quantitative macroeconomic framework; (iv) the budget statement discusses the main assumptions underlying the budget and provides an overview of the implementation of fiscal policies for the previous year and the objectives for the current year; and (v) budget data are presented on a gross basis, classified by institution and economic and functional category. The country is also partially meeting the Code's standards in a number of other areas.

64. **In spite of the progress, the transparency of fiscal activities still falls short of the standards in a number of important areas.** The most significant shortcomings include: (i) the coverage of the general and central government in the budget documents and, in

particular, the fiscal reports remains incomplete, with a considerable amount of spending financed by not fully reported internally generated funds and project grants from donors; (ii) a significant amount of budget spending is conducted through transfers to statutory funds, the spending of which is not consolidated with that of central government and sometimes poorly reported; (iii) internal and external audits are ineffective, resulting in weak oversight and a major backlog of audit reports; and (iv) laws and regulations are implemented in a manner that hampers private sector activity.

65. **A strong commitment from the authorities to further strengthening fiscal transparency remains therefore essential.** Improvements in the coverage, timeliness and managerial orientation of monthly fiscal reports and the production of information on amounts due for payments are a high and immediate priority and can be achieved over a relatively short time horizon. It should also be possible to, starting with the 2005 budget, simplify the presentation of the MTEF, advance the annual budget cycle with a view to completing it before January 1, and strengthen further the informativeness of the annual budget statement, notably with regard to fiscal sustainability and vulnerability issues. Steps that are likely to take more time to achieve results include those aimed at achieving more fundamental improvements in the fiscal management institutions and processes with a view to (i) ensuring that fiscal data from various sources all meet basic data quality standards and are overall consistent; (ii) upgrading the internal and external audit capacity; and (iii) generating and publishing information on quasi-fiscal activities and contingent liabilities. In parallel, consistent efforts need to be kept up to in all areas to strengthen the effective implementation of laws and regulations governing fiscal transparency.

66. **It is recommended that the fiscal reports prepared by the CAGD have an expanded coverage and be produced on a more timely basis.** 3.3.1
As a matter of priority, more comprehensive information on donor funding and on internally generated funds of MDAs should be collected and integrated in the reporting format, and some more disaggregated information on the spending activities of the statutory and extrabudgetary funds would be useful. Mining-related revenue should be reported more consistently and transparently in budget documents. To improve timeliness of the reporting, the FAA requirement that monthly statements be prepared within fifteen days after the end of the month should be enforced. It is also advisable to turn the "Review of Economic Performance" report into a regular semiannual publication issued according to a pre-announced calendar. In addition to fiscal data presented in the format of this report, it could usefully include data on government debt and financial assets.

67. **The transparency of the budget preparation process could be improved.** 3.1.3
The budget statement tables and the MTEF documents could expand the coverage of funding from donors and internally generated funds from the MDAs and provide more detail on the spending plans of the statutory funds. The MTEF documents could be streamlined significantly and made more user friendly, including through the use of less disaggregated tables. The start of the budget process should be advanced and the budget presented to Parliament sufficiently early to ensure adoption of the Appropriation Bill before the beginning of the year, while allowing ample opportunity for parliamentary debate. It is also

advisable to synchronize the budget preparation cycle of the statutory funds with that of the overall budget. In addition, the budget statement should provide a more extensive analysis of fiscal sustainability and key fiscal vulnerabilities.

68. **As the amount and scope of fiscal information put in the public domain has increased substantially in recent years, efforts to ensure its overall consistency and safeguard a measure of basic data quality need to be stepped up.** 2.1.1
In particular, there is a need to ensure that the budget statement reflects the most up-to-date information and shows no inconsistencies with the annual reports and audited accounts of the MDAs, statutory and extrabudgetary funds, and nonfinancial public corporations. Steps should be taken to move toward a comprehensive annual consolidated financial presentation in conformity with GFS standards. Further efforts to narrow the size of the "discrepancy" item in the fiscal tables showing the difference between the fiscal balance from above the line revenue and expenditure transactions and the financing of the deficit would also be welcome.

69. **The legal creation of an internal audit agency and new arrangements for the management of internal audit units in the MDAs are a welcome development, but efforts need to be made to ensure that the agency and units become fully effective.** 3.3.3
In terms of external audit, to address the major backlog in producing audited final accounts, it will be important to consider the Auditor-General's Office need for adequate material resources and a sufficient number of qualified staff. It will also be key, however, to improve the efficiency and quality of the Office's work practices, including through providing more training to its officials, improving the auditing methods, and giving priority to the audit of the 2003 data. The government should consider to at the least make publicly available the annual reports of the Audit Services Board.

70. **The MoFEP should document contingent liabilities, estimate—where feasible—tax expenditures and quantify the quasi-fiscal activities of state-owned enterprises, the utility companies in the electricity and water sectors in particular, and mining companies.** 2.1.3
It would also be advisable to make publicly available summary business and financial plans of the major state-owned enterprises.

71. **Other recommendations would include for the government to:** (i) be more proactive in engaging domestic research institutes in a dialogue on the macroeconomic assumptions underlying the budget and, more generally, encourage external scrutiny of the macroeconomic and fiscal information the government makes available; (ii) provide more information on government corporate equity holdings and have the DIC publish and disseminate detailed information on privatization revenue; (iii) clarify further the size of the BoG's accumulated losses from pre-2002 quasi-fiscal activities; (iv) improve the accounting and reporting of resource revenue data with a view to meeting the standards of the EITI; (v) strengthen, over the medium term, the fiscal reporting capacity of the MMDAs; (vi) ensure that the institutions created by the new Public Procurement Act and the new

public procurement system become fully effective; and (vii) take steps to ease the heavy regulatory burden in line with the recommendations of the recent Foreign Investment Advisory Service study.

Resource Revenue Transparency: The Mining Sector

72. **In light of the importance of revenues from the mining sector, which accounts for around 10 percent of GoG revenue, and the commitment of the government to transparency, this appendix provides a review of the current status of the sector's revenue practices**. This review covers relevant aspects of fiscal transparency with regard to management of Ghana's mining industry assets, and includes a discussion of Ghana's participation in the Extractive Industries Transparency Initiative (EITI). The review is structured in the same way as the main text of the fiscal transparency ROSCs, but applies only to those elements of the code of relevance to mining revenues.[31]

Clarity of roles and responsibilities

Legal framework for mineral revenues

73. **The legal framework for management of minerals is clearly defined.** 1.2.2
The Constitution (Chapter twenty-one), the Minerals and Mining Law, 1986, and its 1994 Amendment Act, and the Minerals Commission Law, 1986, provide the overall legislative framework for the mining sector. The State is the owner of all minerals in their natural state within Ghana's territory and the Ministry of Mines acting as its agent grants licenses to exercise mineral rights. The Minerals and Mining Law specifies the forms of mineral rights that the ministry can license, the duration of the license, the size of the concessions, and eligibility criteria and procedures for application. The Law also spells out the rights and obligations of a holder of mineral rights. The Minerals Commission has been set up to regulate and manage the utilization of mineral resources and coordinate policies with regard to minerals. Small-scale mining activities in the gold sector are governed by the Small-Scale Gold Mining Law, 1989.

74. **The tax policy framework and fiscal regime covering the mining sector are clearly stated and rather comprehensively covered in law.** 1.2.2
The fiscal regime for the mining sector is enshrined in the Minerals and Mining Law. The regime includes government rights to equity shares in mining companies (see discussion below). Article 22 requires mining companies to pay no less than 3 percent and, depending upon their profitability rate, up to 12 percent of their gross revenue as royalties. Article 23, as amended in 1994, subjects the mining companies to corporate income taxes—at standard rates. The Law's article 26 introduces a special regime for capital allowances and the carry forward of financial losses. Article 27 authorizes the mining companies to be exempt from customs duties on plants, machinery, equipment, and accessories imported for mineral operations.[32] The legislation also leaves open the option to include "fiscal stability" clauses

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[31] For an overview of the mining sector in Ghana, see Bank of Ghana, "Report on the Mining Sector," Research Department Sector Study, Vol. 1. No.2, November 2003.

[32] However, with the coming into effect of the 2001 budget, plants, machinery and equipment have been subject to a 1 percent processing fee and all other imported items to a 5 percent import levy. The various exceptional exemptions could be considered as tax expenditures, in which case they should be reported in the budget documents. An alternative, and more practicable treatment, is to consider the totality of such arrangements as being the baseline tax regime for the mining industry. The main transparency obligation under these circumstances is that the regime be clearly explained and subject to periodic review as part of the budget process.

in agreements with mining companies.[33] Mining companies also pay local property taxes on their immovable properties. All tax payments to the GoG are disbursed into the Consolidated Fund, while property taxes are paid to the District Assemblies. There are no explicit legal requirements for mining companies to provide social services to local communities.

75. **Rights of companies to retain foreign exchange are covered by the law.** 1.2.2
The Minerals and Mining Law, articles 29 and 30, permits mining companies that have earnings denominated in foreign exchange to retain in an external account at least 25 percent of such earnings with a view to meeting offshore obligations. The companies can negotiate higher retention rates with the Minerals Commission based on the nature of the project and the cost structure of the company. However, mining companies with retention levels above 60 percent have agreed to voluntarily repatriate 25 percent of their gross earnings into a foreign exchange account with a chosen Ghanaian commercial bank, bringing the effective retention rates into the 30–55 percent range. The Minerals and Mining Law regulates the conditions under which an external retention account can be operated and the type of payments that can be made from it.[34]

Extrabudgetary funds

76. **The Mineral Development Fund operations are administratively clear but not well integrated in the national and local budgets.** 1.1.3
The GoG has set up a Mineral Development Fund that through the Consolidated Fund receives 20 percent of mining companies royalties.[35] Half of the Development Fund supports the mining agencies (the Mines and Geological Survey Departments and the Minerals Commission). The rest is transferred to the Office of the Administrator of Stool Lands to be distributed in the mining communities. In accordance with article 267 of the Constitution, the Office of the Administrator of the Stool Lands can retain 10 percent of the payment while the remainder 90 percent is distributed to the local authorities in the following proportions: (i) the stools of the mining areas, 25 percent; (ii) the traditional authorities of the areas, 20 percent; (iii) the District Assemblies within the area of authority of which the stool lands are situated, 55 percent. The local expenditures are aimed at repair of environmental damage and development projects in mining communities. In part reflecting the complicated nature of the arrangement and the disbursement procedure through the Office of the Administrator of the Stool Lands, the legally prescribed payments to the three types of local authorities tend to be paid with a significant delay. Moreover, these local authorities tend to use these payments to finance expenditures other than those that benefit the local mining communities and do not properly account for and report the use of these monies.

[33] For instance, in the context of the 2003 merger of the Ashanti Goldfields Company with AngloGold, the GoG undertook for the next 15 years not to take any actions that would impose additional tax obligations on the merged company. In particular, royalty payments and the corporate tax are fixed at 3 and 15 percent, respectively, for the next 15 years.

[34] The BoG and the Minerals Commission both monitor the foreign exchange outflows and inflows—including the repatriation of retained export proceeds into domestic commercial banks and the partial settlement of bills with local contractors in foreign currency—of the mining companies, but the collected information is not made publicly available.

[35] The Fund was created in 1993 by an administrative decision and does not have a basis in a legislative instrument.

Quasi-fiscal activities and social obligations of the mining companies

77. **Quasi-fiscal activities and social obligations of mining companies are identified, but not considered as part of the budget process.** 1.1.4

The annual reports of the major mining companies provide an overview of the social services provided to the mining communities.[36] These typically involve educational and health care services, infrastructure and utilities, and the sponsoring of recreation and sports activities. The Chamber of Mines publishes a report on its members' environmental and social activities in local communities. However, these elements are not considered as quasi-fiscal activities or implicit taxes in government budgets, and no aggregate quantitative information on social service spending by the mining industry is available. Indications are that in the major extraction sites, mining companies account for a significant share of the social infrastructure and provision of social services. As a result of the tariff structure for electricity consumption, mining companies, on par with other large consumers, also implicitly cross-subsidize small users.

Government equity holdings

78. **Government rights to equity holdings in mining companies are covered in the law.** 1.1.5

According to article 8 of the Minerals and Mining Law, the GoG is, without a financial contribution, entitled to a 10 percent interest in the rights and obligations of mineral operations that have been licensed and can acquire up to a further 20 percent interest on terms agreed with the mining lease holder. GoG equity holdings in selected mining companies are reported in the CAGD's annual report and financial statements.[37]

Public availability of information

Budget documentation of revenues

79. **Mining-related revenues are publicly reported and included, but not separately identified, in the budget.** 2.1.1

The main source of information on mining-related revenues is the Minerals Commission. The budget documents, notably the budget statement and the annual public accounts, do not identify separately such revenues. The Minerals Commission on a semi-annual basis releases a statistical overview of the mining industry.[38] In addition to data on employment, output, and overall receipts, this overview contains information on the industry's contribution to government revenue—broken down by main revenue category and expressed both in nominal amounts and as a share of total IRS collection—and the payments to stools, traditional councils, and district assemblies of mining areas. The Mineral Development Fund has an obligation to annually report on its activities, but there is no publicly available information on the use of the monies passed on by the Fund to the mining agencies. The

[36] The annual reports of the two largest mining companies can be found at their websites, http://www.goldfields.co.za and http://www.ashantigold.com, respectively.

[37] For instance, until the company's recent merger, the GoG owned 17 percent of the ordinary shares in Ashanti Goldfields Company and one preference share ("Golden share"). The Company made no dividend payments during 2001–03.

[38] This information is made available at the Minerals Commission's website, http://www.mincomgh.org.

Office of the Administrator of Stool Lands reports to Parliament on the monies in the Mineral Development Fund that are transferred to the local authorities. There is no publicly available information on dividends from GoG equity participation in mining companies or on public sector contingent liabilities or tax expenditures associated with the mining industry.

80. **To improve the transparency of resource revenue, the authorities have volunteered to participate in the EITI, but further improvement in data reconciliation is required.** 2.1.1
The MoFEP and the Minerals Commission have agreed on a suitable format for the host government reporting template, along the lines of the EITI's May 2003 reporting guidelines, and intend to issue the first transparency report before year-end. The legal framework and contracts between the GoG and mining companies permit full disclosure of payments to the government. However, the current arrangements for the collection of information by the Minerals Commission, the BoG, and MoFEP appear to fall short of what is needed to meet the EITI template standards.[39] This reflects both gaps in the data provided by the mining companies, with regard to dividends, bonuses and fees in particular, and some of the more general weaknesses in the CAGD's accounting and reporting systems. The authorities recognize the need to upgrade the resource revenue data collection and reporting systems.

Open budget preparation, execution, and reporting

Budgeting, fiscal policy, and mineral revenues 3.1.1
81. **Most mineral revenues are fully reflected in the budget and accounts, but sustainability issues are not explicitly addressed in the budget.** Mining revenues other than the earmarked 20 percent of royalties and the property taxes levied by the District Assemblies go to the central government. They are fully fungible with the other resources in the Consolidated Fund and spent through the standard appropriation process. Including personal income (PAYE) taxes, these mining revenues have accounted for around 10 percent of GoG revenue in recent years. The sector's contribution to GoG revenue is expected to remain broadly unchanged in the coming years but, given the mature nature of most mining operations in Ghana, to diminish over the medium to long term. There are no policies in place to set aside part of the GoG mining revenues for the benefit of future generations. As indicated in the main text, fiscal risks arising from mineral revenue volatility are not explicitly considered in the budget documents.

Accounting and administration of resource revenues 3.3.1
82. **Standard collection and accounting procedures apply to mineral revenue receipts.** Mining companies and small-scale miners are subject to the standard arrangements and procedures for the payment of personal income taxes (PAYE), corporate profit taxes, and import duties.[40] The IRS is responsible for the assessment, collection and recovery of royalties and the disbursement of all royalties collected into the Consolidated Fund.[41] The

[39] The EITI guidelines can be found at http://www.dfid.gov.uk .

[40] Standard procedures apply. However, some mining companies have requested the IRS to be allowed to settle their tax obligations in US dollar, the currency in which their accounts are denominated.

[41] While major mining companies meet their tax obligations on a timely basis, most small-scale miners continue to operate in the grey economy and do not pay any taxes.

Large Taxpayers Unit that came into operation on April 1, 2004 covers mining companies that employ 500 or more workers on par with other companies that meet this criterion.

83. **The reporting system set up by the Minerals Commission is the main source of information on mining revenue**. 3.3.1
The major mining companies report—in addition to information on production, employment, and receipts—data on the contribution to government revenue by main tax and on gross foreign exchange proceeds retained and voluntarily repatriated through local commercial banks. Additional information on tax payments and foreign exchange earnings is collected by the IRS and the BoG. Small-scale miners are not captured by these reporting systems.

Assurances of integrity

Mining company audit
84. **Audit of mining companies is consistent with international standards.** 4.2.1
The accounts of the major mining companies are audited by international audit companies, comply with international accounting standards and are published on the companies' websites. These accounts are submitted to the Minerals Commission and the BoG. The small-scale mining companies do not produce accounts.

Government audit
85. **General weaknesses in government external audit apply also to mining sector receipts.** 4.2.1
The Minerals Commission is required to keep books and accounts in a format approved by the Auditor-General and have them externally audited within three months after the end of each financial year. In practice, the more general weaknesses in the capacity of the external audit office and parliamentary follow-up (see paragraph 56, main report) also affect the Minerals Commission. Moreover, there is no independent verification of the information on foreign exchange earnings, off-shore retention and voluntary repatriation that is reported to the Minerals Commission and the BoG, and concerns have been expressed that this information, and the derived computation of royalties due, may not be fully accurate.

Reconciliation and oversight of company/government flows
86. **An aggregating body to oversee company/government reconciliation of data has not yet been set up**. 4.2.1
In relation to EITI participation, the authorities are examining the selection of an aggregating body (an independent party responsible for aggregating and ensuring the quality of the reporting templates submitted by the host government and the companies, respectively). Four possible institutions are being considered for this task, and donor funding to finance the activities of the aggregating body has been sought.