



**CENTRE FOR POLICY ANALYSIS**

---

# **GHANA**

## **SELECTED ECONOMIC ISSUES**

---

**No. 4**

**2003**

---

### **The Poverty Reduction and Growth Facility (PRGF) Arrangement**

**May 1999 – November 2002**

Copyright © CEPA 2003

Centre For Policy Analysis  
No. 11 Amilcar Carbral Road  
Airport Residential Area  
Accra

**Mailing Address:**

**P. O. Box 19010  
Accra – North  
Ghana**

**Tel: [233-21] 778035/779365**

**Fax: [233-21] 773670**

**ISBN: 9988-8007-2-X**

---

The Centre for Policy Analysis is an independent, non-governmental think-tank, which provides rigorous analysis and perspectives on economic policy issues. Our objective is to: promote a non-partisan informed debate on macroeconomic, growth and poverty alleviation issues which are pertinent to the Ghanaian economy, to enhance the capacities of institutions in Ghana through training and finally to disseminate and publish economic information in order to raise public awareness of economic and developmental issues.

The **Issues Paper Series** is a new addition to CEPA's publications and presents analysis of current economic issues relevant to Ghana's developmental agenda.

The Centre for Policy Analysis is funded by the African Capacity Building Foundation (ACBF), Harare-Zimbabwe.

For further enquiries on publications email: [library@cepa.org.gh](mailto:library@cepa.org.gh)

## THE POVERTY REDUCTION AND GROWTH FACILITY (PRGF) ARRANGEMENT

---

---

### 1. Introduction

Ghana's program with the IMF, which expired on November 30 2002, was originally a three-year Enhanced Structural Adjustment Facility (ESAF) Arrangement for the period May 3, 1999 to May 2, 2002. It was approved for SDR 155 million (about US\$193 million). In November 1999, the ESAF – the then IMF facility for low-income countries – was renamed the Poverty Reduction and Growth Facility (PRGF)<sup>1</sup>. Based on a preliminary assessment of Ghana's eligibility for relief under the Enhanced HIPC Initiative, the IMF decided that Ghana was eligible for assistance under the Initiative and the ESAF Arrangement was converted to a PRGF Arrangement in the original amount of SDR155 million.

On August 21, 2000, upon the completion of the second Review, the IMF approved an increase of SDR36.9 million (about US\$46 million) – equivalent to 10 per cent of Ghana's quota - in the amount available to Ghana under the Arrangement. This brought the total amount available to SDR191.9 million (about US\$239 million).

And on completion of the third Review on June 28, 2001 (the first under the new Administration), the Board of the IMF approved a second increase of SDR 36.9 million – again equivalent to 10 per cent of Ghana's quota – in the amount available to a new total of SDR 228.8 million. As a result Ghana could draw in tranches of SDR 52.6 million (about US\$ 66 million) each.

### 1.1 Background

The objectives of the programmes that were to be financed by the Enhanced Structural Facility agreed upon with the IMF in 1999 are to be found in the Enhanced Structural Adjustment Facility Policy Framework Paper for the period 1999-2001. The strategy for the three-year period was to remove structural bottlenecks and create an environment for sustained balanced growth whilst at the same time addressing macroeconomic imbalances. The programmes that were to be implemented were expected to increase growth rates from 5.5% in 1999 to 6% in 2001. Inflation was to be reduced to 9% at the end of 1999 and

---

<sup>1</sup> The PRGF is the IMF's current concessional facility for low-income countries. The PRGF was intended in time to be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is "to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty". The GPRS is the government of Ghana's 2003-05 agenda for poverty reduction. PRGF loans carry an annual interest rate of 0.5 per cent and are repayable over ten years with a 5½-year grace period on principal repayments.

decline to 5% in 2001. These targets were to be achieved by pursuing sound fiscal policy and moderate growth of monetary aggregates. In addition to the macroeconomic policies several structural reforms were anticipated and agreed upon in 1999. These included enhancing competition in the cocoa sector, increasing efficiency in the banking sector and continuing the divestiture of public enterprises.

It may be recalled that Ghana had suffered a severe terms of trade shock in 1999, after the original three-year ESAF Arrangement had been agreed. This had been wholly unanticipated by the BWI Institutions.<sup>2</sup> Moreover, and to compound the balance of payments implications further, there was an intensification of the shock in year 2000. It was characterized by a tripling of crude oil prices to over US\$30 per barrel, a sharp descent of world market cocoa prices to a 27-year low; and the price of gold, the leading export earner fell to below US\$30 per ounce. The shock was also compounded by loss of fiscal discipline and weak monetary stance in the run-up to the Presidential and Parliamentary elections in December 2000.

	<b>Letter of Intent 4/14/1999 Targets</b>	<b>Letter of Intent 25 June 2000 Targets</b>	<b>Letter of Intent 11 June 2001 Targets</b>	<b>2002 Programme Targets</b>
<b>Growth</b>	5.5% 1999 6% 2000, 2001	2000 4% 2001 4.5% 2002 5.5%	4%	4.50%
<b>Inflation</b>	9% end 1999	20% period average	25% end 2001	13% end 2002
<b>Current Account Deficit</b>	5% 2000,2001 2.9% GDP 1999	including grants 10.4% GDP	6.5% of GDP	6.4% GDP
<b>Official Reserves</b>	2.5% GDP 2000,2001 3mths imports	1.8 months imports	1.5 months imports end 2001	2 months
<b>Fiscal</b>	Overall deficit (commitment basis) 5.5% GDP. Domestic Primary surplus 3.5% GDP.	Domestic Primary Surplus 3.5-4.5% GDP. Overall deficit (cash basis) 6.5% of GDP	Domestic primary balance 4%	Overall deficit on a cash basis (excl HIPC) 7% GDP. Domestic primary balance 4.1%
<b>Monetary</b>	Limit monetary expansion to that consistent with nominal GDP growth, i.e. 14.5%.	Monetary growth 20%	Broad money 34%	Elimination of almost all domestic arrears.
<b>Arrears</b>	Reduce road arrears by 60 billion in 1999. Eliminate by end-2000	Eliminate road arrears by end 2001.	Reduce road arrears to 70bn.	

<sup>2</sup> In the staff report for the 2001 Article IV consultation the IMF estimated that compared with the original programme projections made in May 1999, the loss in foreign exchange was about US\$300 million (4% of GDP) in 1999 and US\$600 million (12% of GDP) in 2000.

In the aftermath of the shocks that hit the economy in 1999 and 2000 the programme targets were revised. Growth rates were revised downwards. Inflation rate targets were revised upwards as was the targeted monetary expansion. The post has had to move regarding the elimination of arrears (Table1).

## 1.2 Implementing the ESAF/PRGF

After a rather hesitant policy response in 1999, there appeared to have been considerable strengthening in the first half of 2000. Ghana therefore “fulfilled five of the seven quantitative performance criteria for August 2000”. Even if only with the benefit of hindsight, however, this achievement was more of an illusion. With elections scheduled for later in the year, the government could hardly risk a formal rupture in relations with the Fund and consequently appeared to have resorted to payment arrears and quasi-fiscal activities as instruments to meet the conditionalities of the PRGF. The program visibly veered sharply off track in the run-up to the elections in the second half of the year – i.e. after the “successful” completion of the second Review in August 2000.

Nonetheless, there was no hiding the fact of accelerating inflation and fast depreciating currency. The CPI inflation raced from 14 per cent to over 40 per cent, and the cedi depreciated by over 50 per cent between end-1999 and end-2000. None of the fiscal or monetary performance criteria for December 2000 was satisfied.

Fiscal excesses thus brought Ghana to the brink of a financial crisis by the close of 2000:

- The currency depreciated rapidly in the course of the year – halving its value against the US dollar in 12 months;
- Inflation accelerated to over 40 per cent per annum on a year-on-year basis and given the preceding monetary excesses continued to rise before peaking at 42 per cent per annum in March 2001;
- The domestic public debt (excluding payment arrears) burgeoned to nearly 29 per cent of GDP – with an external debt of almost 120% GDP; and
- The gross international reserves were sharply depleted down to just about three weeks of imports.

The new Administration—elected in December 2000—therefore inherited a highly destabilized economy. At the heart of the crisis were fiscal slippages which had led to considerable build-up of payments arrears, and large quasi-fiscal losses at the Tema Oil Refinery (TOR) and the public Utilities – VRA, ECG and GWCL.

On the positive side, the new Administration was welcomed into Office with a sizeable “democracy dividend”. With strong donor encouragement, it also opted for the Enhanced HIPC Initiative with its

promise of substantial debt relief. In the interim, it sought and obtained deferrals on debt service obligations of 2001 in the amount of US\$150 million together with payment arrears of US\$61 million. The latter was to be cleared the following year with the former scheduled for repayment over five years. Ironically, during the Board discussions at the third Review at which Ghana was rewarded with increased access to IMF and, by extension, donor resources, a request for waiver over a mis-reporting issue was considered and rejected. According to a press release dated June 28, 2001:

*Subsequent to the disbursement in August 2000, it became apparent that the information available to the Fund at the time of approval of the disbursement was incorrect. The information related to a prior action in clearance of external payments arrears and to a performance criteria on non-concessional external borrowing. As a result of these inaccuracies in the information, the disbursement is deemed to be non-complying.*

The Board noted that the reporting of inaccurate information had taken place under the previous Administration and congratulated the new government for being “very forthcoming and co-operative” and for the steps taken “to prevent future occurrences as well as its commitment to transparency”. Nonetheless, the Board concluded that waivers for non-observance of the prior actions and performance criterion could not be granted and Ghana was asked to repay the non-complying disbursement - of about US\$34 million – together with interest accrued thereon.

In his summary the Chairman of the Board meeting, among others, stated:

*Ghana’s economic program for 2001 represents a strong and appropriate response to the problems that have resulted from a severe terms of trade shock and a shortfall in donors’ assistance, compounded by inappropriate macroeconomic policies and poor management of public enterprises in the latter part of 2000. In the light of the corrective policies being implemented by the authorities, the Fund has waived the non-observance of a number of performance criteria under Ghana’s PRGF Arrangement (emphasis added).*

The Achilles Heel in the ambitious disinflation re-orientation of the PRGF was a combination of:

- i. The apparently high political cost of instituting new revenue raising measures beyond strengthening the collection agencies;
- ii. Ineffectiveness of the public expenditure management (PEM) system in holding expenditure commitments within program limits with the result that tighter cash limits only results in larger build-up of payments arrears;
- iii. The emerging pro-cyclical tendencies – “reward for good behaviour and withdrawal of support when performance falters” - in aid flows on account of conditionalities; and
- iv. Appropriate petroleum products and utilities price setting to avoid quasi-fiscal losses of state owned enterprises (SOEs).

The strategic behaviour of government seen in the first eight months of 2000 was again evident in 2001 in spite of the change in Administration. In the approach to a Review of the PRGF, the enforcement of strict cash limits complements a tight monetary stance. The corresponding build-up of payments arrears and or quasi-fiscal losses, however, means that the process is unsustainable. Consequently, after the successful conclusion of a Review reversals set in with the looming threat of macroeconomic instability. In election year 2000, the government could not resort to payment delays and consequently had to recourse to massive net domestic financing of its operations as disbursements faltered at least in part on account of the deteriorating performance. This pro-cyclical tendency in aid disbursements would again be observed in 2002.

Strenuous efforts were made to “keep cash expenditures in line with available resources”, allowing the two fiscal performance criteria for end-August 2001 to be “comfortably met”. The resulting net repayments to the central bank helped keep the Bank of Ghana’s (BOG) net domestic assets “well within the program limits” and tight monetary conditions “no doubt contributed to the over-performance on net international resources (NIR) of the BOG”.

While cash expenditures of government were thus successfully kept within Budget ceilings, however, control of spending commitments remained weak. As a result, new non-road arrears equivalent to nearly 0.5% GDP were estimated to have accumulated during the first eight months of 2001. Furthermore, the stock of road arrears, which was targeted to decline to 0.5% GDP by end-August 2001, instead continued to rise to 0.7% GDP by that date. In addition to these payment arrears, a total of a little over 1.0% GDP in outstanding payments due to the DACF, the GETF and the SSNIT were accumulated in the year to end-August 2001. The government gave itself an alibi for infringement of the law and the Constitution namely that: it was unwise to transfer during the remainder of 2001 the full amount of statutory payments accruing to the DACF and GETF, given the funds’ limited capacity to spend these resources in 2001. Consequently, the government transferred only about 35 per cent of its 2001 obligations to these funds before the end of 2001, with the balance slated in tranches during 2002 – 2004.

Waivers were sought for the non-observance of:

- End-August 2001 quantitative performance criteria on the stock of short-term debt outstanding contracted or guaranteed by the GOG or BOG and the stock of government road sector payment arrears; and
- End-August structural performance criteria on completion of an audit of 2000 domestic payment arrears, and completion of agreement with creditors on the restructuring of the debt of TOR.

The substantive issues for which these waivers were needed had to do with government domestic payment arrears – technically another instance of lack of transparency and associated misreporting of data. The

program had envisaged a full audit of the stock of payment arrears including unpaid statutory obligations. Moreover, to prevent further accumulation of such arrears, a new system of cash flow forecasting and ceilings on expenditure commitments was to have been instituted. This did not happen and as a result:

- New non-road arrears accumulated;
- The stock of road arrears which had been targeted to decline instead continued to rise;
- Outstanding statutory payments due to the DACF, GETF and SSNIT were accumulated; and
- Reduced cash ceilings were set for expenditures for goods and services and capital projects and rigorously enforced.

On the occasion of the fourth Review on February 22, 2002 – the second Review of the Arrangement under the present Administration - the Executive Board of the IMF discussed another report on non-complying disbursement relating to the misreporting of monetary data by the Bank of Ghana. In this second instance, the Board granted a waiver “on the grounds that objectives of the program had nevertheless been preserved”. The IMF therefore acceded to a request from the Government of Ghana to extend the expiry date from May 2, 2002 to November 30, 2002. This was to allow time for the fifth and final Review – originally scheduled for May to be completed and thus to enable the final tranche to be disbursed by the Fund. It may be noted that this fourth Review had originally been scheduled for completion in December 2001. It had had to be postponed to provide the time needed by the Bank of Ghana to recompile its monetary data in the light of the above misreporting problems over the 1999 – 2001 period.

There appears to be considerable political resistance to implementing the automatic petroleum price adjustment formula agreed with the IMF, perhaps out of some concern that consumers should be shielded from the effects of shifts in world market prices and exchange rates. The IMF takes the view that, the cost would inevitably have to be borne in due course, if not by the consumer, then by the taxpayer. And “it is far from clear that taxpayer funded subsidies for energy consumption constitute a progressive policy in an economy such as Ghana’s”.

The pricing of utility products has not been any easier in spite of the stated commitment of the government to restore the financial health of the public utility companies. The PURC’s plan for full cost recovery in the public utilities, with automatic tariff adjustment formulae for electricity and water is yet to be fully implemented. The PURC’s “independence” has been alluded to in explaining why the timing of its actions is apparently outside the government’s control. Be that as it may, the pricing reform with necessary social safeguards is important for macro-stability.

Achieving the objectives of the PRGF Arrangement in 2002 thus came to depend critically on two issues:

- Delivery on the required revenue effort; and
- Ensuring effective expenditure control.

On the revenue side, a number of new initiatives with a combined expected yield of 0.3% GDP was announced with the Budget. Among these were:

- The elimination of a range of tax and tariff exemptions;
- The application of a 5% import duty rate to a set of major zero-rated product lines (see also Budget 2003, paragraph 599);
- The application of a 1% processing fee on all remaining zero-rated items attracting the concessionary 10% import duty rate; and
- The introduction of a 10% withholding tax on rental income.

In addition, further broad-based measures – largely an upward adjustment of the value added tax (VAT) rate – with a total yield of 0.7% GDP in 2002 - were slated for Parliament for approval by August.

The staggering in the implementation of these revenue measures itself was indicative of the absence of the requisite political will behind these proposals. There had been considerable pressure from the IMF for Government to introduce the complete package of revenue measures with the Budget, in order to maximize yields for 2002. The Government apparently pleaded for more time to discuss and build consensus on some of the options in what it believed would be the positive political environment that would follow approval of debt relief for Ghana under the Enhanced HIPC Initiative.

The VAT has had a rather turbulent history in Ghana. The present Government, while in Opposition, had strongly opposed its introduction in 1995. It mobilized a massive enough mass protest against the measure so as to have it withdrawn. It took two years and the National Economic Forum in 1997 to effect its re-introduction albeit at a lower rate. Not too surprisingly therefore, the Government failed to mobilize the requisite resolve to have the measure instituted. Thus, the first of the two critical determinants of performance in 2002 – delivery of the required revenue effort could not be realized.

The proposed systems for controlling expenditure commitments are yet to prove themselves. Moreover, the inflexibilities in the Budget preparation and approval systems, the predominantly on-going character of capital expenditures, the strong tendencies for the average real wage to rise faster than productivity, buttressed by the need to contain the brain drain especially in the health and education sectors and its distributional consequences for other skills, together point to realistic budgetary allocations as the only way to bring the cash and accruals deficits into greater harmony.

Discipline at the commitment stage has continued to be unimpressive, on account of poor co-operation from spending ministries. The Budget Statement of 2003 revealed that discretionary payments in respect of Personal Emoluments and Administration and Service in 2002 exceeded their respective budget estimates.

Personal Emoluments which constituted nearly half of total discretionary payments showed an overrun of 34.3 per cent in 2002. About 1.0% GDP of this was carried over from 2001.

Among the factors cited as contributing to the large wage bill overrun were (to quote the Budget Statement):

- Unbudgeted wage increases to staff in the Ministries of Health and Education, in part to stem mass exodus of staff and service disruption; and
- Ministries, Departments, and Agencies (MDAs), particularly, some subvented organizations, did not universally apply the established procedures for controlling wage and salary expenditures (emphasis added).

On the other hand, public officials have complained of not having the requisite political mandate to apply the established procedures and enforce the rules.

Similarly, expenditure on Administration and Service was above the approved estimate by about 30 per cent. According to the Budget Statement (2003): The reasons for the overrun include unbudgeted increases in allowances, mostly to health workers (emphasis added). The disturbing part is that these increases were not only unbudgeted for, but unauthorized and without Parliamentary approval.

Subsequent developments show that the “limited capacity” to spend of the DACF and GETF was only a convenient excuse to rationalize away breaches of statutory obligations. In Budget (2003) paragraphs 158 and 159 we find the following:

(The) time has come for both sides of this House and indeed, all of us to be realistic and deal boldly with the issue of arrears accumulated in respect of the DACF and the GETF .... it is unfair and financially imprudent to utilise substantial amounts of current revenues to finance arrears on the DACF and the GETF .....the Finance Committee of this august House should ensure that liabilities of this year are fully discharged.

(And) in order to manage these arrears efficiently, and ensure the optimum absorption of these funds even as we remain current on 2003 obligations, we are proposing to ring-fence all outstanding arrears of the DACF and GETF to be paid over a period of time. Accordingly, provision has been for the clearance of end-2002 cumulative arrears to these funds in five equal parts during 2003 – 2007.

Thus the promise made in 2001 to clear the stock over the period 2002-04 could not be fulfilled. If anything, the stock increased and presumably to be “realistic and bold”, clearance must be stretched to five not three years. The proposal does not, however, appear to have factored into its realism, the reality of the suppliers of goods and services to these funds whose working capital and loans have been held up, or the

reality of the leverage provided to these claimants by election year politics. The evidence is that suppliers of goods and services to government become a great deal less tolerant of payment delays in election years.

### **1.3 Monitoring Framework for the PRGF Arrangement (2002)**

Performance under the PRGF Arrangement was to be monitored by a set of conditionalities grouped under three headings: - Prior Actions, Performance Criteria and Benchmarks, and Reviews.

#### **1.3.1 Prior Actions**

The Government of Ghana was obliged to take a number of actions prior to IMF Executive Board meetings on the fourth Review – slated for February 2002 – and the fifth Review – scheduled for November 2002. These actions were “in order to ensure effective implementation of the economic strategy” agreed with the Fund.

For the fourth Review, the Prior Actions were the following:

- i. Full implementation of the specific duties on petroleum products (averaging €200 per unit).
- ii. Issuance of disaggregated expenditure ceilings for MDAs for the first quarter of 2002.
- iii. Commencement of the external audit of the BOG.

**Table 2: Quantitative Performance Criteria and Benchmarks, PRGF (2002)**

	Mar Bench			Jun Perf. Criteria			Sep Bench			Dec Bench		
	Program	Program*	Actual	Program	Program*	Actual	Program	Program*	Actual	Program	Program*	Actual
Performance Criteria												
<i>Net domestic financing of government (ceiling)</i>	543	622	733	418	995	1,732	183	800	1,958	141	766	2,332
<i>Net domestic assets for the Bank of Ghana</i>	157	236	(205)	(131)	446	288	(46)	571	48	(390)	235	324
<i>Net international reserves of the Bank of Ghana</i>	(51)	(62)	(9)	(36)	(111)	(95)	(5)	(80)	(69)	156	81	158
<i>New non-concessional external loans contracted or guaranteed by GOG (greater than or equal to one-year maturity) (ceiling)</i>	0			0			0			0		
<i>Stock of short-term external debt outstanding contracted or guaranteed by GOG or BOG (with an initial maturity of less than one year) (ceiling)</i>	75		28	75		51	75		17	75		15
<i>Stock of government road sector arrears (billions of cedis)</i>	123		288	0		182	0		110	0		80
Indicative Benchmarks												
<i>Government domestic primary surplus (floor)</i>	137		177	261		527	827		725	1,438		1,001
<i>Reserve money stock</i>	3,715		3,664	3,533		3,664	3,844		3,814	4,659		5,767
<i>Government revenue, excl. grants &amp; divest. proceeds (floor)</i>	1,754		1,770	3,743		4,221	6,137		6,846	8,785		9,806
<i>(millions of dollars)**</i>												
<i>External program support</i>	34		30	144		60	172		76	172		86
<i>Debt service paid (after debt relief)</i>	22		29	67		90	104		110	150		***139
<i>Divestiture</i>	0		0	30		0	50		0	50		1

*The table shows data for cumulative flows from beginning of year to end of month. Source: CEPA, MOFEP, BoG*

\*Program targets as modified by the application of the adjusters.

\*\*Provisional actual data were originally obtained from official sources in cedis and on quarterly basis. These have been converted into US dollars using end-of-period exchange rates.

\*\*\*The amount of debt service (after debt relief) actually paid is subject to the legal implications of the suspension of the agreements reached with Paris Club creditors following upon the expiry of the PRGF Arrangement on November 30, 2002.

For the fifth Review:

- i. Passage of a Budget for 2002 with revenue measures including the VAT rate increase.
- ii. Publication of the Public Utilities Regulatory Commission (PURC) of its strategy for achieving full cost recovery in the public utilities, and implementation of automatic adjustment formulae for electricity and water.
- iii. Completion of the external audit of BOG's financial accounts for 2001<sup>3</sup>

### 1.3.2 Performance Criteria and Benchmarks

Table 1.2 shows the Quantitative Performance Criteria and Benchmarks set for June 2002, and the Indicative Benchmarks for March, September and December 2002. In addition, there were also Structural Performance Criteria and Benchmarks. Key among the Structural Performance Criteria was the elimination of the special import tax by end-March 2002. The new Administration was committed to eliminating this tax (passed with the 2000 Budget) in steps to be completed with the 2002 Budget. It was to be "replaced later with anti-dumping measures that are consistent with the WTO rules" [MEFP January 31, 2002].

The key Structural Benchmark was perhaps the completion and publication by end-June of the mandated audit of non-road sector payment arrears that were accumulated in year 2000.

### 1.3.3 Program Reviews

The fifth Review scheduled for completion by November 15, 2002, was in addition to the Prior Actions stated above, to focus on the implementation of certain specified obligations. These were the following:

- i. The public expenditure management and control system.
- ii. Steps to develop a functioning interbank foreign exchange market.
- iii. Measures to further strengthen monetary and fiscal data systems.

---

<sup>3</sup> Ghana is subject to the transitional procedure governing safeguards assessment. These require that BOG demonstrate, by providing documentation to the Fund that it publishes annual financial statements that are independently audited in accordance with internationally accepted standards. Safeguards assessment of a central bank has the objective of providing reasonable assurance to the IMF that the central bank's control, accounting, reporting and auditing systems in place to manage resources are adequate to ensure the integrity of operations. Obviously, safeguards assessment, by themselves, would not prevent the misuse of resources by a willful override of controls or manipulation of data PIN No. 00/28 April 4, 2000.

The IMF Board had decided on March 23, 2000 that, central banks of member countries making use of its resources must publish annual financial statements, independently audited by auditors external to the central bank in accordance with internationally accepted quality standards.

The Fund had also found serious potential weaknesses in the audited accounts of BOG, including serious concerns about the competence of auditors and their independence. This led to the appointment of KPMG to audit the 2001 accounts.

In addition to these three conditionality categories, injunctions concerning the following constituted continuous Performance Criteria:

- The non-accumulation of external payments arrears;
- The imposition or intensification of restrictions on current payments;
- The introduction or modification of multiple currency practices;
- The conclusion of bilateral payment agreements that are inconsistent with specified Articles of the IMF; and
- The imposition or intensification of restrictions for balance of payments reasons.

<b>Item</b>	<b>2002 Budgeted</b>	<b>2002 Actual</b>	<b>Difference</b>
<b>Expected disbursements</b>	846	483	(363)
Grants	291	221	(70)
Project	152	75	(77)
Program	77	84	7
HIPC	62	62	-
<b>Concessional loans</b>	420	195	(225)
Project	325	175	(150)
Program	95	20	(75)
<b>IMF</b>	134	68	(66)
<b>Exceptional financing</b>	271	214	(57)
Traditional (Naples)	183	183	-
Cologne	34	31	(3)
Additional (CG)	54	-	(54)
<b>Available financing</b>	1117	697	(420)
<b>Memo Item</b>			
External program support	227	104	(123)
Debt service (net of relief)	150	252	(102)
Fund disbursement	134	68	(66)

*Source: CEPA and IMF Staff Report*

The implementation problems and mixed performance outcomes triggered the procyclical aspects of the aid disbursement process. As a result, Ghana's total external programme support fell short by over US\$200 million - US\$123 million in programme support and US\$102 million in debt relief - on the way to the expiry of the first PRGF Arrangement with the IMF (see Table 2.3). The above excludes the US\$66 million sixth and final tranche under the PRGF Arrangement.

### Program Adjusters

Fund-supported programs attempt to compensate for aid shortfalls by incorporating “adjusters” that, up to a point, allow the country to keep its spending on track if external support is less than programmed. Thus, subject to a specified cap, Ghana could continue to spend at the level originally planned, “running down” foreign reserves and expanding domestic credit to make up for the exogenous flows of aid, divestiture and debt service that do not arrive. This reduces the risk that Ghana must curtail planned spending at once or maintain this spending only by relying more heavily on domestic financing in order to comply with program conditionality. Shortfalls of inflows or higher debt service arising from implementation slippages or exceeding the limit are of course a different matter and could mean program failures as in 2002. Meanwhile persistent shortfalls can introduce a lack of transparency into macroeconomic programs, by making fiscal policies and targets for international reserves appear more conservative than they really are.

Monthly differences between projected and actual receipts of the three flows in foreign exchange are to be converted to cedis at the actual monthly exchange rates and cumulated to the test date – end of successive quarters. The ceilings on NDF are to be reduced by the sum of:

- i. Excess official external program support;
- ii. Excess divestiture receipts; and
- iii. Shortfall in external debt service payments.

The ceilings are to be increased by 100 per cent of any cumulative shortfall in official external support or excess in external debt service, but not to be adjusted for a shortfall in divestiture receipts. The upward adjustment is capped at the equivalent of US\$75 million, converted to cedis at actual interbank exchange rates.

### **1.4 Summary of Results**

Table 2.2 shows the original program targets, the adjusted targets and the outcomes. For convenience, the accompanying Table 2.4 provides a summary of the observance or otherwise of the conditionality at each test date. Table 2.5, in turn, presents the outcomes in respect of key Structural Performance Criteria and Benchmarks.

A comparison of targets set in each letter of intent with what was achieved finds that in 1999 and 2000, the macroeconomic targets were missed by a wide margin. There was greater success at achieving targets in 2001. In 2002, the growth target of 4.5% was achieved. Inflation exceeded the target by just over two percentage points. Although the international reserves target of 2 months imports equivalent was not met, there was a vast improvement compared to previous years with reserves equivalent to 1.9 months of

imports. However in comparison with the original targets of the programme the situation is definitely much less encouraging.

	<b>March Benchmarks</b>	<b>June Performance Criteria</b>	<b>September Benchmarks</b>	<b>December Benchmarks</b>
<b>Performance Criteria</b>				
<i>Net domestic financing of government ceiling)( NDF)</i>	χ	χ	χ	χ
<i>Net domestic assets of the Bank of Ghana (NDA)</i>	√	√	√	χ
<i>Net international reserves of the Bank of Ghana</i>	√	√	√	√
<i>New non-concessional external loans contracted or guaranteed by GOG or BOG (greater than or equal to one year maturity) (ceiling)</i>	√	√	√	√
<i>Stock of short-term external debt outstanding contracted or guaranteed by GOG or BOG (with an initial maturity of less than one year) (ceiling)</i>	√	√	√	√
<i>Stock of government road sector arrears (billions of cedis)</i>	χ	χ	χ	χ
<b>Indicative Benchmarks</b>				
<i>Government domestic primary surplus (floor)</i>	√	√	χ	χ
<i>Reserve money stock</i>	√	χ	√	χ
<i>Government revenue, excl. grants &amp; divest. proceeds (floor)</i>	√	√	√	√
<i>Not achieved</i>	χ			
<i>Achieved</i>	√			

The medium-term strategy set out in 1999 had envisaged:

- Annual real GDP growth of 6 per cent;
- Gross international reserves reaching 3 months of imports cover;
- Domestic debt maintained at or below 20% GDP; and
- A divestiture program that included Tema Oil Refinery, Ghana Airways, Ghana Railways and the Electricity Corporation of Ghana.

None of these was realized when the Arrangement expired on November 30, 2002. Real GDP growth for 2002 of 4.5 per cent was 33 per cent short of the 6 per cent target; gross international reserves were the equivalent of only 1.9 months import cover compared to the 3 months target; and the domestic debt stock had risen sharply – to almost 29% GDP.

<b>Table 5: Ghana-Key Structural Performance Criteria and Benchmarks for 2002 Program</b>	
<b>Structural Performance Criteria</b>	<b>Status</b>
<ul style="list-style-type: none"> <li>• Elimination of the special import tax in the 2002 Budget, effective immediately (end-March 2002).</li> <li>• Announcement in the 2002 Budget of intent to create a full-service Large Taxpayers' Unit (LTU) for the 500 largest taxpayers, covering filing and payment, collection enforcement, and audit for all domestic tax liabilities, and adoption of a timetable for its establishment (end-June 2002).</li> </ul>	<p><b>Not met on time.</b> Passage of required legislation not completed until July 2002.</p> <p><b>Met.</b> Creation of LTU announced in Budget. Timetable drawn up with FAD advice; implementation underway but delayed, with launch of LTU scheduled for June 2003.</p>
<b>Structural Benchmarks</b>	
<ul style="list-style-type: none"> <li>• <b>Issuance of disaggregated expenditure ceilings for each MDA for the second, third, and fourth quarters of 2002, consistent with the budget and cash flow forecasts (end-April 2002).</b></li> <li>• Production by CAGD of monthly reports for November 2001 – March 2002 on aggregate budget outcomes and MDAs expenditure commitments and cash outlays, by function, with a maximum 6-week delay (end-May 2002).</li> <li>• Completion and publication of audit of 2000 non-road expenditure arrears (end-June 2002).</li> </ul>	<p><b>Met.</b> Disaggregated spending ceilings for relevant quarters issued to MDAs on April 25, 2002.</p> <p><b>Not met.</b> Reporting delays exceeded 6 weeks until second half of 2002.</p> <p><b>Partly Met.</b> Audit report completed (April) but not published.</p>
<b>Prior Actions for fifth Review</b>	
<ul style="list-style-type: none"> <li>• <b>Passage of a Budget for 2002 in line with the program framework described in EBS/02/16, and of revenue measures consistent with that Budget.</b></li> <li>• Publication by the PURC of its strategy for achieving full cost recovery in the public utilities, and implementation of automatic tariff adjustment formulae for electricity and water.</li> <li>• Completion of an external audit of the Bank of Ghana's financial accounts for 2001</li> </ul>	<p><b>Not met.</b> Key revenue measure not implemented.</p> <p><b>Met.</b> On July 22, 2002, PURC announced tariff increases of 60 per cent for electricity and 40 per cent for water effective August 1.</p> <p><b>Met.</b> Audit completed April 2002</p>
<i>Source: IMF Country Report</i>	

Looking back over the life of the Arrangement the IMF staff concluded rather wistfully:

*The sustained improvements in Ghana's economic performance that had been hoped for were undermined by recurrent policy weaknesses.... In the event, erratic fiscal and monetary policies and persistent delays in structural reforms have left the economy little stronger (and in some respects, such as the domestic debt burden, weaker), than it was four years ago...The 4.5 per cent real GDP growth and the 15.2 per cent (year-end) CPI inflation figures for 2002 compare with 4.7 per cent real GDP growth and 15.8 per cent inflation recorded in 1998.*

The last household survey was conducted prior to the start of the implementation of the programme. It is thus difficult to comment on trends in employment, unemployment, household incomes, food security and the incidence of poverty since the start of the implementation of the PRGF. This is unfortunate since these are (or should be) the fundamental and ultimate objectives of macroeconomic programmes.

## 1.5 Conclusions

The overall performance under the expired Arrangement brings up a number of challenges to be faced and lessons to be learnt. In particular, there are important issues that need to be resolved concerning program design and the role of the Bretton Woods Institutions (BWIs) in respect of monitoring performance and responsibility for outcomes. In sum, there is an overriding question of ownership of the program that must be squarely faced. The poverty reduction framework leaves absolutely no room for teleguidance even by the most well meaning institutions, agencies or organizations.

As one commentator on the development experience put it:

*If the adjustment process is to be sustainable, the authorities of the country must play a central role throughout all the various stages – conception, negotiations, design of the specific package of measures. Indeed, successful implementation requires that the authorities regard the program as their own and not an external imposition for urgently needed financial resources. It requires total commitment to mobilize the necessary public support to see the program through the difficult early period as well as for survival through any unexpected adverse exogenous shocks. Commitment in turn requires that the program is realistic and holds out a reasonable promise that its successful implementation will result in the country growing out of its problems (emphasis added).*

The design of the Poverty Reduction and Growth Facility is supposed to be guided by the Poverty Reduction Strategy Paper. The latter is a document that is supposed to be the result of participation by and consultation with civil society in its design and as a result of this should be “owned” by both the general populace, the administrators that are expected to implement the programmes and projects and the government. Ghana’s Poverty Reduction and Growth Facility preceded the preparation of the Poverty Reduction Strategy Paper. The challenges for the new Poverty Reduction and Growth Facility that has been signed are not limited to the already identified constraints of public expenditure management and effective revenue generation. What is also required is a consensus across the political spectrum regarding what the targets and objectives should be and how they should be achieved. Progression towards such a consensus is what should have been achieved during the process of preparing the Ghana Poverty Reduction Strategy Paper.