

POLICY BRIEF

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CUTTING WASTEFUL SPENDING
TO REDUCE THE TAX BURDEN ON CITIZENS



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Government Wasteful Spending

Cutting wasteful spending to reduce the tax burden on citizens

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Summary

Government wasteful spending poses a significant challenge to public finance. It hinders economic growth and diminishes public trust in the government's ability to effectively manage taxpayer funds. It also militates economic prosperity and leads to high tax burdens on citizens. This often affects business transition and growth, slows individuals' efforts to lift themselves out of poverty, and thwart efforts to save for the future. Several factors including the lack of transparent and accountable procurement processes, and the presence of redundant or obsolete government programmes contribute to the wasteful spending of taxes. Certainly, major programmes and statutory obligations such as the Presidential travels, the National Cathedral project, Saglemi Housing project abandonment, Government size, Youth employment programmes, the Bank Clean-Up Exercise, and fighting Galamsey among others were disclosed through a Representative Perception Poll as contributing factors to the wasteful spending by the citizens. It was revealed that 72.5% of Ghanaians are of the view that the government is wasting taxes on Ex-gratia and 90.5% Ghanaians do not trust the government with their taxes. An accumulative GH73 billion in a space of 7 years saw taxpayers' contributions going into wasteful spending. However, to mitigate wasteful spending and gain citizens' trust, the Government wasteful spending report suggests the strengthening of budgetary processes and introducing effective oversight mechanisms in promoting a culture of fiscal responsibility within the government's financial architecture. Also, there should be a comprehensive review of government programmes to identify and reduce redundancies and inefficiencies.

1.0 Introduction

Government wasteful spending refers to the inefficient utilization of resources by government entities, resulting in unnecessary cost, reckless spending and financial losses. In recent years, Ghana's government has been plagued with a series of corruption scandals and inefficient spending, leading to public uproar. This poses significant challenges to the sustainability of public finances, hindering economic growth and diminishing public trust in the government's ability to effectively manage taxpayers' funds. This creates the notion of wasteful spending of taxes.

The public officials who have been elected and appointed to provide solutions to the problems of the country have become the problem in leadership. Considering the great resources (gold, oil, bauxite, forest, food, timber) available, Ghana still remains underdeveloped and referred to

as a “third-world Country” due to the hourly mismanagement of public funds. This highlights the assertion “resource curse and the paradox of plenty”, with Ghana having 48% of its population multidimensionally poor.¹ With huge trust issues between the citizens and government on the management of mobilized revenues, the introduction of new taxes and amendment of fiscal policies are greeted by taxpayers with protests and reluctances to embrace such decisions by governments.

In order to promote transparent and accountable governance in Ghana, it is crucial that citizens, governance observers, civil society organisation, and international bodies ensure the prudent management and responsible utilisation of allocated resources. Spending practices that hinder good governance and economic prosperity, lead to inefficiency and ineffectiveness in the functioning of government institutions. Such wasteful expenditures may involve illicit transactions and often coincide with corrupt tendencies, as well as budget overruns. The presence of government wasteful spending not only places excessive tax burdens on citizens but also leads to significant borrowing, which can have adverse macroeconomic consequences. These factors contribute to imbalances, macroeconomic instability, poverty and poor economic ratings.

1.1 Framework of Government Wasteful Spending

ILAPI contextualised Government Wasteful Spending into five factors. This includes; ***Inefficient Spending, Overspending, Misapplied Spending, Spending for Vote, and Improper Spending.***

The aforementioned categories of wasteful spending can be further described by taking into consideration wasteful Indicators such as Lack of Accountability, Excessive spending, Duplicative Programmes, Inefficient Procurement Practices, Low Return on Investment (ROI), Failure to Prioritize Essential Services, Lack of Cost-Control Measures, Inadequate Planning and Evaluation, and Failure to Implement Recommendations.

2.0 Key Findings

2.1 The Fight Against Corruption is a Wasteful Spending

We identified that, the fight against corruption in itself is a waste of public funds. This is expounded that, various institutions such as the Auditor General, Attorney General, Economic

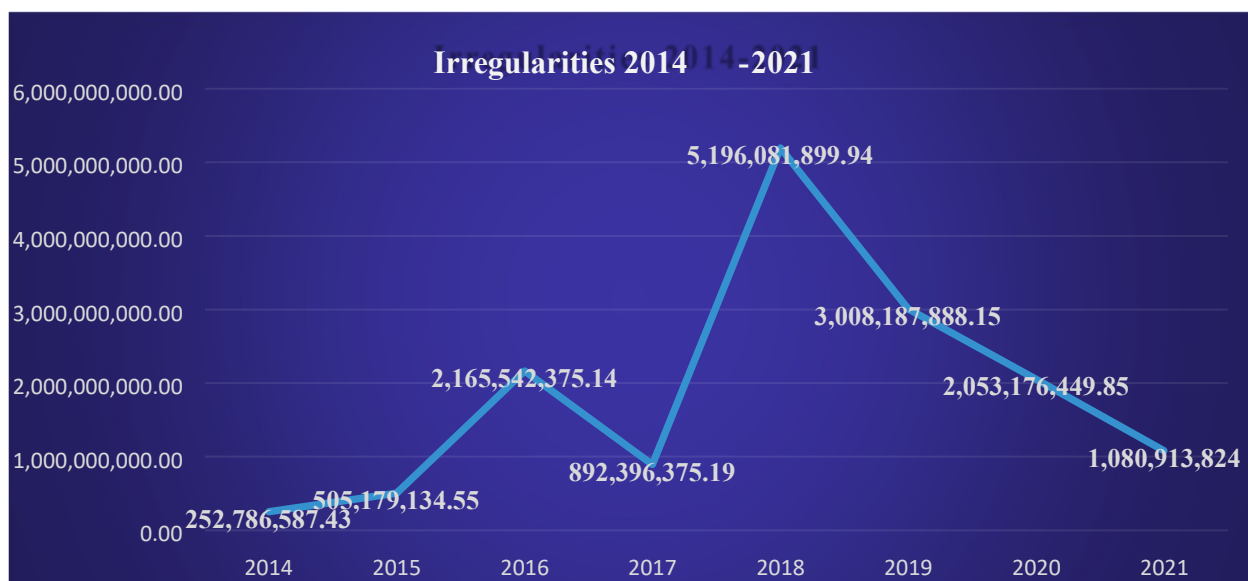
and Organise Crime (EOCO) etc, have been established with taxpayers' contributions to fight economic crime and political corruption. In addition, the Special Prosecutor Office (OSP) has also been established in 2017 to perform similar obligations. It was observed that fighting corruption in Ghana is just like fighting the government's own evil because corruption is not far from the government actors themselves.

The establishment of OSP by the government is nothing more than a duplication of duties and responsibilities. The institutions already in existence are mandated by law to fight corruption of all forms but have not been resourced enough to perform their functions rather than allocating over GH¢446 million for the period of four years for only OSP to fight the same organized crimes other institutions are still been paid for. Notwithstanding the importance of the OSP, the fight against corruption looks endless and a waste of taxpayer's contribution.

2.2 Financial Irregularities

The Auditor General's Report disclosed a total of GH¢15,154,264,534.25 (GH¢15.1 billion) as financial irregularity for the period of 2014 to 2021. These irregularities are often associated with non-compliance with the Public Financial Management Act 2016 (Act 921) and omission of information relating to financial transactions or matters such as embezzlement, fraud, and the falsification of records to misappropriate assets. See Figure ¹...

Figure 1: Financial Irregularities 2014-2021



¹ https://statsghana.gov.gh/gssmain/fileUpload/pressrelease/Multidimensional%20Poverty%20Ghana_Report

2.3 Citizens Trust for the Government on Tax Usage

A Perception Representative Poll (RPP) conducted by ILAPI with 2000 respondents across the 16 regions of Ghana, shows that 92% of Ghanaians are of the view that the government is wasting taxes on programmes such as National Cathedral, Planting for food and Jobs, Youth employment programmes (YES, NABCO...), Banking sector Clean up, Fighting Galamsey, Saglemi Housing unit abandonment, and other statutory obligations which include Presidential Travelling, Government Appointees, Ex-gratia, Payroll Ghost Names, among others. This perception influences the citizen's degree of trust in the government. The Poll unearthed that, 90.5% of Ghanaians have lost trust in the Government due to corruption, and lack of accountability and transparency in the implementation and execution of policies and programmes. Consequently, the government is perceived to waste an average GH¢0.70 out of every GH¢1.00 received as revenue. This denotes that the government waste about 70% of every revenue generated from taxpayers' contributions. *See Figure 2...*

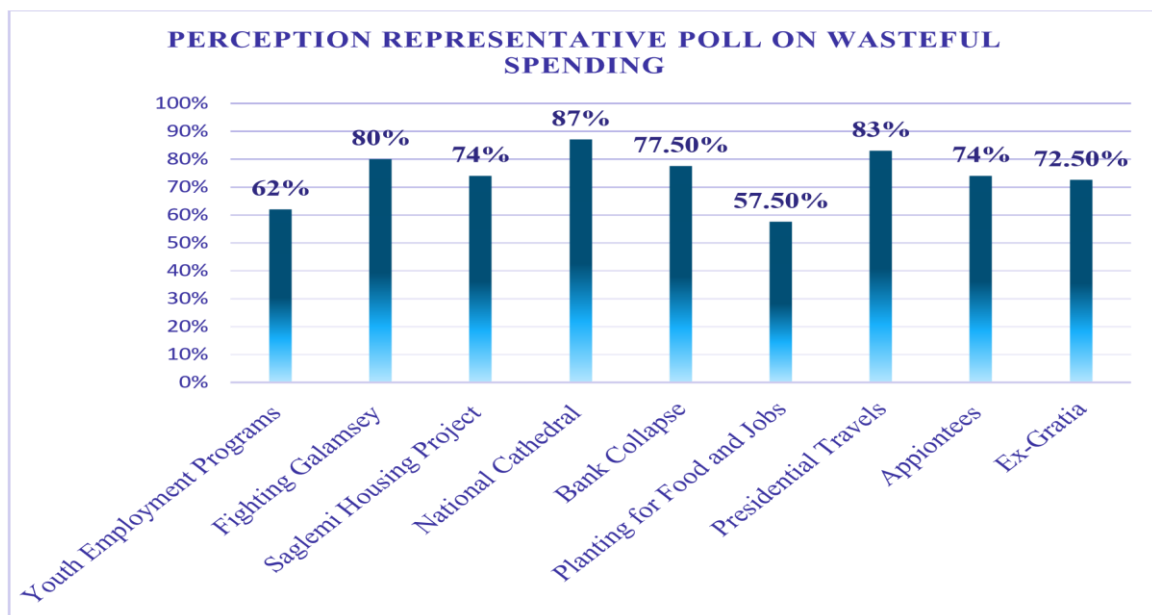
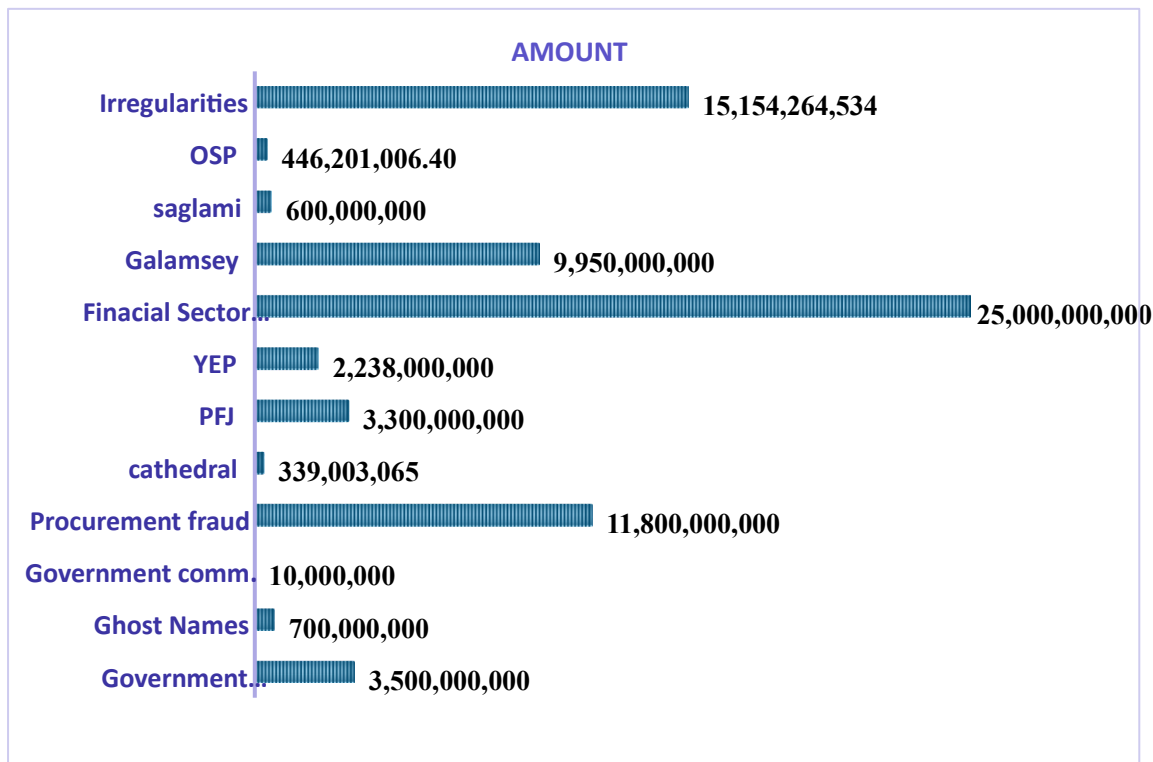


Figure 2: Poll Results: Citizens' Perception on Wasteful Spending

2.4 Crumbs of Wasteful Spending

The Government Waste Report 2022, identified crumbs of wasteful spending of about GH¢73 billion in a space of seven years (2014 – 2021). This denotes that annually, the Government's crumbs of wasteful spending is about GH¢10.4 billion. *See Figure 3...*

Figure 3: Crumbs of wasteful spending



3.0 The Big Government

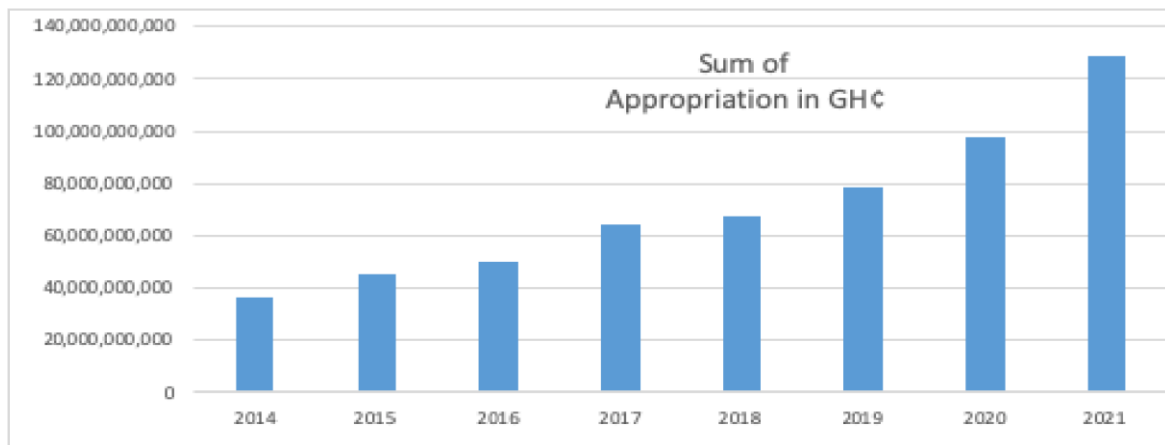
We define Big Government in three ways:

- How much it spends
- How much it does,
- How many people it employs²

3.1 How much it spends

Government expenditure has increased and there seems to be no measures in place to decrease spending. From 2014 to 2021, the government budget has increased by 257% (GH568 billion). In 2021, the appropriation budget increased up to GH129 billion, a 101% increment of the 2017 budget but 77 % to the 2014 appropriation budget.

² <https://www.brookings.edu/blog/fixgov/2017/02/13/ten-questions-and-answers-about-americas-big-government/>



Source: Appropriation Act, 2014 - 2021

3.2 How much it does

The Knowledge of how much the government does with taxpayers' contributions is a valid information that many Ghanaians are interested. Expenditure must commensurate to satisfactory infrastructures including good roads, rails, health, education, energy, security and peace. We cannot underrate the important role governments should play in ensuring peace and security. However, the government has taken over every economic and social activities, doing more than it can bite.

In manufacturing, the government borrows to act as a businessman and an entrepreneur. An economic activity the government should not have engaged in it. The Komenda sugar factory which was established in 1964 and as a result of poor management, grounded to a halt in the 1990s. About 13 years without operation, the government in 2016 invested an Indian Import-Export (EXIM) Bank loan of \$58 million dollars to resuscitate it. Another \$28 million dollars was injected in 2019 to allow the factory to undergo rehabilitation. It is expected to be commissioned and operated by the end of 2022.³ The factory has ever since not been in operation and taxpayers must pay for the loans on their hard-earned incomes.

Also, in housing, the Saglemi Housing Project saw the government securing a loan of \$200 million from the Credit Suisse International for the construction of up to 5,000 affordable housing units on 2,172 acres of land under Engineering-Procurement-Commission (EPC) Agreement with Construtora

³ <https://www.modernghana.com/news/1181275/komenda-sugar-factory-to-be-commissioned-by-close.html>

OAS Ghana Limited (the Brazilian company). It was recorded that, out of the 5,000 proposed housing units, only 668 housing units were completed.⁴

Furthermore, the Attorney General claimed that the completed houses were not habitable and that the projects at the site were only worth \$ 64 million, far from the stipulated \$196 million spent. This led to a legal tussle where Collins Dauda, Agyeman-Mensah; the Chief Director at the Housing Ministry from 2009 to 2017, Alhaji Ziblim Yakubu; the Executive Chairman of Construtora OAS, the Brazilian company which constructed the affordable housing project at Saglemi, Andrew Clocanas, and a director of RMS, the Engineering, Procurement and Construction (EPC) consultancy subcontractor, Nouvi Tetteh Angelo faced 52 counts of criminal charges and were accused for willfully causing financial loss to the state.^{5 5}

Arguably, cost inefficiency is an issue of waste, and abandoning projects is equally a waste. The Saglemi Housing project is a prime example of the government's wasteful spending in its inability to generate any returns yet or fulfil its intended objectives.

3.3 How much it Employs

The year 2022, government spent GH¢35.841 billion on compensation of employees. Averagely, a monthly GH¢2.4 billion is used in the payment of compensation of employees on the Government payroll. The expenditure on Wages, Salaries and Allowances for 2017 amounted to GH¢17.907 billion, resulting in an increase of 7.53% against a budget figure of GH¢16.653 billion and 18.49% higher than the actual amount for 2016.⁶ The reasons for the over expenditure was attributed to three things:

1. Payment of arrears to article 71 office holders
2. Recruitment of teachers and nurses
3. Restoration of trainees' allowance to teachers and nurses

In the years 2020 and 2021, Compensation of Employees amounted to GH¢28.272 billion and GH¢32.096 billion respectively. The staff strength on the government payroll in 2021 was

⁴ Details of the Saglemi housing project agreement the Government of Ghana signed". GhanaWeb. 2021-08-05. Retrieved 2022-05-16 ⁵ Saglemi Project: Collins Dauda, 4 others in court for causing \$200m financial loss to state". Graphic Online. Retrieved 2022-05-16.

⁵ Nartey, Laud (2021-08-05). "Saglemi suit: Evidence abounds in favour of Collins Dauda – Kwakye Ofofu". 3NEWS. Retrieved 2022-05-16.

⁶ <https://mofep.gov.gh/sites/default/files/basic-page/2023-Citizens-Budget.pdf>

647,650 higher than 586,114 in 2020. Conversely in the 2021 saw 5,098 retirees but government recruited 80,571 more employees in the same year compared to 49,645 in 2020.

Notwithstanding the data above are other appointees made by the President onto ministerial positions and State-Owned Enterprises (SOEs). The SOEs in 2020 recorded a loss of GH¢2.1 billion amounting to \$346 million. Ghana State Owned Enterprises Recorded huge losses in the past years. Consistently has SOEs made losses including a GH¢2.1 billion loss in 2015. The year 2019 saw SOEs recording a GH¢5. 1 billion and GH¢2.61 billion (US\$346 million) Loss In 2020. The SOEs also recorded GH¢2.61 billion loss in 2020, according to the 2020 State Ownership Report. It is imperative to ensure that, SOEs though could not make profits should not make such huge losses. The number of appointees and ministries created in 2017 made a section of the Ghanaian population labelled it a “Big Government”.

4.0 The Ex-gratia

To determine the emoluments of article 71 office holders, the President in consultation with the council of State put together an emolument committee. Emolument committees formed in the past include the Greenstreet Committee, 1993 (for 1993-1997), Greenstreet Committee 1998 (for 1997 – 2000), The Chinery-Hesse Committee, 2005 (for 2001 – 2005), Chinery-Hesse Committee 2008 (for 2005-2008), The Ewurama Addy Committee, 2011 (for 2009-2013) as well as the Edu-Buando Committee 2016 (2013-2017) and the 2020 committee, Prof. Ntiamoah Committee.

The cost of congregating a committee to determine the emolument of the Article 71 office Holders has never been made public. There are ten (10) guided principles of Prof. Ntiamoah’s committee. These include, “(i) Equity and Fairness, (ii) Vested and Acquired rights, (iii) Dignity of the position, (iv) Ability to pay, (v) Context, (vi) Reasonableness, (vii) Risk associated with the Office, (viii) Responsibilities and requirements of the Office, (ix) Security of tenure and (x) Motivation and attractiveness to enable the recruitment of persons of high calibre.” The government's decision to pay ex-gratia while many state employees like teachers and nurses remain underpaid, raises public anger and frustration.⁷

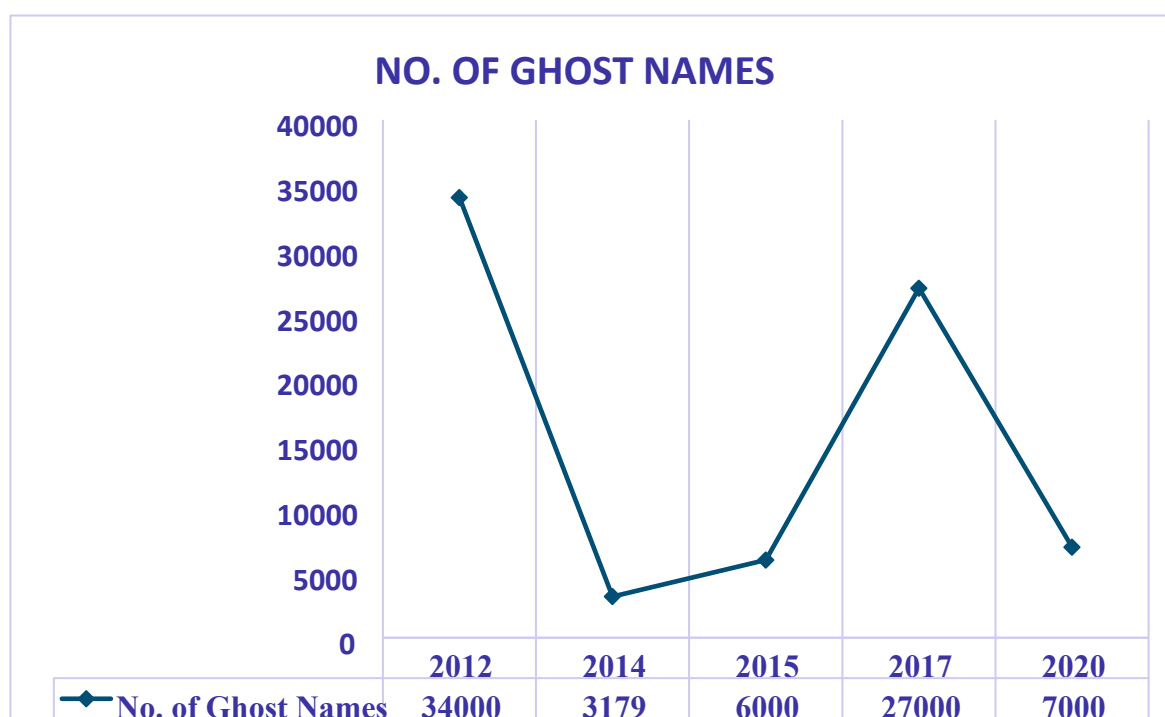
The disparities between public service pay structure and Article 70 office holder is widening due to the upward adjustment. In 2020, Public servants had no salary increment until 2022 when

⁷ <https://ghanalawhub.com/article-71-office-holders-and-retiring-emoluments-when-ex-gratia-meets-nemo-dat-quod-non-habet-russia-ukraine-war-andduring-debt-exchange-reflections-of-a-citizen-not/>

they received COLA. Prior to this, there was similar case in 2015. The retirement benefit of some civil servants of 20 -30 years of service could amount to GH¢50,000 and less (depending on the sector) and an article 70 office holder in 4 years could have GH¢365,000 (over 7 times and more) in retirement benefits. The number of article 70 office holders is becoming huge without a cap, eating deep into taxpayers' contributions.

5.0 Mechanised Ghost Names and Bloated Payroll in Ghana

The perennial bloating of government payroll with Ghost Names is causing taxpayers millions of Ghanaian Cedi. In 2015 after staff auditing, about 2,913 ghost names were found on the Ghana Education Service Payroll alone. Approximately GH100 million are lost annually to payroll fraud. Consistently since 2011, whenever the International Monetary Fund (IMF) is contracted for a bailout and as part of the debt and financial sector restructurings, the government would conduct a nationwide employee audit on its payroll. This was observed in 2015 and 2022 IMF's 16th and 17th and bailouts for Ghana.



Source: Controller and Accountant General Department Report

6.0 Financial Sector Reforms

In 2017, the Bank of Ghana (BoG) embarked on a financial sector reform program aimed at addressing the weaknesses and restoring stability in the banking sector. This included the revocation of licences of insolvent banks and the creation of the Consolidated Bank Ghana

Limited to absorb selected assets and liabilities of the affected banks.⁸ The government and the BoG took several measures to address the financial sector crisis, such as capital injections, issuance of bonds, and financial support to some affected institutions.

These measures were claimed to protecting depositors' funds, improving the overall health of the financial sector, and restoring confidence in Ghana's banking system. According to the Finance Minister, Ken Ofori-Atta, over Gh¢25 billion was spent by the government in the bank clean-up to protect 4.6 million depositors' funds.⁹ Contrary to that statement, the 2020 budget statement disclosed that GH¢11.7 billion was the cost of the cleanup. This created a question of transparency and accountability that needed to be addressed. Nevertheless, the number of banks in Ghana declined from 34 to 23 whilst the licences of 347 microfinance institutions, 15 savings and loans, and 8 financial houses were revoked. This led to the loss of jobs and an increase in the unemployment rate as at 2018.

7.0 Conclusion

It is evidence that Ghanaians trust in the Government have been eroded. However, for government to address wasteful spending and regain the trust of the citizens, it requires a comprehensive approach that combines Legal and Policy Reforms, sanctions, efficient utilization of public funds with accountability, and a commitment to fiscal responsibility; by taking into consideration the subsequent recommendations by the Auditor General to facilitate the use of public resources, improve service delivery, and restore public confidence in the management of taxpayers' funds.

8.0 Recommendations

Based on the findings, ILAPI recommends the following:

- It is crucial to stop the politicisation of developmental projects and conduct thorough planning, feasibility assessments, and risk analyses before initiating a project to minimize the likelihood of abandonment.

⁸ Abor, Joshua Yindenaba, Sam Mensah, Baah Aye Kusi, and David Mathuva. "Explaining Banking Failures in Africa." In *The Economics of Banking and Finance in Africa: Developments in Africa's Financial Systems*, pp. 455-490. Cham: Springer International Publishing, 2022.

⁹ <https://www.ghanaweb.com/GhanaHomePage/business/Over-GH-25-billion-spent-on-banking-sector-clean-up-exercise-Finance-Minister-1499375#:~:text=4.6%20million%20depositors%20funds%20were,clean%20Dup%20the%20banking%20sector.>

- There should be regular monitoring, evaluation, and proactive decision-making to help identify issues at their prime stage and take corrective measures to prevent wastes, resulting from project abandonment just like the Saglemi Housing project etc.
- The government needs to apply strict sanction mechanisms to curtail any corrupt act without fear or favour to promote transparency and accountability and enhance value for money in developmental operations and projects. This comes with prosecution and making corruption unattractive for state officials and civil servants.

Additionally, the enforcement of e-procurement systems to enhance transparency and reduce the opportunities for corruption need to be embraced to streamline the procurement process, minimise human interference, and provide a decentralized platform for bid submissions and evaluation. Legislators must be barred from becoming board members on SOEs to enhance the independence of independent state institutions to minimize corruption.

- The Government should cut down expenditures and spend efficiently by declaring war on wasteful spending. A 20% annual cut on wasteful spending will save taxpayers GH¢14.6 billion in revenue, thereby taking off the tax burdens on citizens. Government should therefore desist from prioritising vote-buying programmes over national interest policies to save taxpayers' contributions. This will be prudent if the government declares war on its wasteful expenditure or spending.

Policy Recommendation

- The lack of implementation of a National Development Planning Agenda (NDPA) is a recipe for government waste. Most often, the developmental agenda is fragmented and skewed towards political party manifestos. Consequently, capital-intensive national projects are politically biased and uncoordinated. To mitigate the politicisation and vote-buying policies and programmes, there is the need to effectively implement the National Development Planning agenda to guide all policies and government initiatives, ensure efficient use of state resources and in the interest of taxpayers for national development.
- Formulating A New Fiscal Covenant as a Tool for Reducing Waste in Government Expenditure. The state must be guided and there should be consistency in that behavior in terms of how it collects resources and how they can be used. This expectation could be realizable if there is a political agreement between social actors regarding the amount of taxes to be collected, what

manner and form the taxes would be collected, as well as how those taxes must be expensed and accounted for. Therefore, there is a consensus need for Legislators to develop fiscal responsibility laws and rules apart from the Public Financial Law, to guide the effective and efficient use of state resources.

The Government Wasteful Spending Report, uncovered 12 different projects and statutory activities costing taxpayers, and leading to the reforms and introduction of more taxes in the country.

Read full report here: <https://ilapi.org/reports#>

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