

Fiscal Space Analysis for Social Protection in Ghana - Brief



Republic of Ghana

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Introduction

Social protection instruments are a critical tool in protecting citizens from multidimensional poverty, with a wealth of evidence demonstrating a high return on investment. Ghana has developed a strong and comprehensive social protection strategy, predominantly funded by the government, anchored on five flagship programmes. However, social protection expenditure often falls short of budgets, and funding represents just 1.04% of GDP in 2018. This is well below the share allocated to social protection by other middle-income countries, who typically spend between 6.7% and 8.7% of GDP.

The severe disruption posed by the COVID-19 pandemic has exacerbated the need for greater investment into social protection. Indeed, the Ghana Statistical Service estimates that since March 2020, 77.4% of Ghanaian households have suffered a decline in their incomes, with 52.1% having had to cut down their food consumption to cope with inflation. Based on IMF growth projections, UNICEF estimates that 660,000 additional Ghanaians could fall below the poverty line, 206,000 of which would

fall below the extreme poverty line. Urgent investment must be made into social protection to alleviate the pressure on the most vulnerable, and to ensure an inclusive and sustainable future to Ghanaian economic growth.

UNICEF Ghana – in discussion with key development partners and the Government of Ghana – conducted an analytical study into the current state of social protection financing. The report provides estimates of the annual costs, and subsequent annual fiscal gaps, of these social programmes if current policy plans are maintained. It also provides comparator cost estimates for programme-specific scenarios in which, for example, beneficiary coverage is widened. We have taken a conservative approach, incorporating the IMF forecast for government revenues¹ in these forecasts throughout the analysis period. In addition, further research was undertaken to identify potential efficiency savings for each programme. This analysis is summarised in this brief, in addition to recommendations that more broadly concern potential opportunities to lessen the fiscal space constraints facing the Government.

¹ The scenario analyses were conducted prior to the release of the 2022 Budget. For that reason, they use the IMF's forecast for a 13% reduction to government revenues in 2020 to account for the shock posed by the COVID-19 pandemic. This reducing factor for revenues is maintained throughout the study period to account for uncertainty with the projected decline and the potential of a slow recovery in revenue mobilisation.



Livelihood Empowerment Against Poverty (LEAP)

As of 2019, the LEAP programme reaches 332,196 households in Ghana. The programme was primarily donor-financed in its early stages but is now funded by the Government of Ghana. The programme is undoubtedly a success: several studies have linked its implementation with improvements in household consumption, school enrolment and attendance, and improvements in the local rural economy. However, despite nominal increases in LEAP expenditure, when adjusted for inflation, benefit levels now represent less than half of what was disbursed in 2015. If this trend continues, there is a significant risk to programme effectiveness.

As shown in Table 1, under the government’s current plans, our analysis has discovered a projected fiscal gap for the LEAP programme. We would urge the government to consider not only meeting this minimum funding

requirement, but to either increase beneficiary coverage to all extremely poor households, or to increase the benefit levels to match the extreme poverty line. The positive economic and social impact of these actions cannot be understated as the programme directly targets the most vulnerable in Ghana’s society in their times of need.



Table 1: LEAP scenario analysis

Analysis	Projected Cost (2023)	Projected Fiscal Gap (2023)
Status Quo: no structural changes to the programme, accounting for planned changes to increase beneficiaries	GH¢390 million	GH¢133 million
Increasing Beneficiary Coverage to all extremely poor households	GH¢659 million	GH¢401 million
Increasing Benefit Levels of current recipients to a level matching the extreme poverty line	GH¢762 million	GH¢339 million



It is worth noting that, aside from funding, there are potential administrative efficiencies that could be put in place. The average total cost-transfer ratio for the programme is high compared to the World Bank benchmark of 5%-15% in well-executed cash-transfer programmes, with approximately 20% of total costs categorised as administrative. Significant savings could be made by streamlining administrative processes, which

could be re-invested into the programme to increase coverage or benefit levels at no further cost.

In what is a testament to the success of the LEAP programme, some beneficiaries have achieved financial stability following the programme’s intervention. There is, however, no process to reduce or halt payments to these successful beneficiaries. The government could consider the introduction of a process to graduate beneficiaries who achieve financial stability and re-invest these savings by widening coverage to more people in need. Although officials have made efforts to improve on targeting by verifying the accuracy and ensuring compliance with the programme operations manual, this process is subject to human influence and political interference in the selection of communities. Recommendations include using Proxy Means Tests (PMT) via the Ghana National Household Registry (GNHR) for a more transparent and universal approach to selecting beneficiaries.

Ghana School Feeding Programme (GSFP)

The GSFP aims to provide social assistance and improve child nutrition, school enrolment and local production of food crops. There is evidence of improvements in school enrolment, attendance, and nutrition because of the programme. The GSFP has been scaled up following several assessments and reforms, almost entirely funded by the Government of Ghana, and now covers 2.7 million children, representing about half of the total number of children enrolled in public primary schools. Total allocation has increased from 0.07% of GDP in 2015 to 0.13% of GDP in 2018. However, actual expenditure (GH¢270 million in 2015 to GH¢555 million in 2019) remain well

below budgetary allocations (GH¢134 million and GH¢359 million respectively).

The projected fiscal gap in Table 2 is based on government expenditure in the previous three years leading to the baseline, and assumes a continued expenditure of 0.69% of total government revenue. Though significant fiscal gaps are expected for all scenarios analysed, recommendations include exploring the expansion of the GSFP into JHS in deprived areas, where UNICEF’s qualitative surveys have identified JHS students suffering from severe malnutrition. This invariably affects their attendance and learning, and in practice, caterers in some of these schools indicate that they also serve some JHS students due to their precarious situation.

Table 2: GSFP scenario analysis

Analysis	Projected Cost (2023)	Projected Fiscal Gap (2023)
Status Quo: based on business-as-usual trends and public policy announcements	GH¢1.1 billion	GH¢626 million
Increasing Beneficiary Coverage option 1: All Public Primary Schools	GH¢1.4 billion	GH¢1 billion
Increasing Beneficiary Coverage option 2: All Public Basic Schools (KG to JHS)	GH¢2.3 billion	GH¢1.8 billion

An analysis of the GSFP has found that the programme has relatively low administrative costs, indicating that it is run efficiently. However, it is likely that the available data is incomplete, as it does not include the cost associated with school staff, caterers and other personnel who work directly on the programme. A more thorough interrogation of the full dataset is required to identify potential efficiency advantages that could help to narrow the projected fiscal gap.

There have been persistent delivery challenges for the programme, such as delays in payment to caterers, political interference in the governance system, issues with daily enrolment validation, limited coverage, and low benefit levels. Recommendations include increasing payment per child to GHS1.5, ensuring a prompt payment of caterers, monitoring and validating enrolment figures, increasing motivation for DICs and SICs, and undertake a review of the payment process.



Labour Intensive Public Works (LIPW)

The LIPW was introduced in 2010 to provide seasonal employment opportunities to extremely poor households during the long dry season, with interventions directed towards rehabilitating and maintaining public and community assets. The original target of direct project beneficiaries was increased from 16,800 to 190,000 in 2017 with a 50% enrolment target for women. At the close of the programme in May 2018, 167,636 extremely poor individuals had earned a total of GH¢93,939,890 in direct wage earnings, of which roughly 61% were women. Results from an impact evaluation exercise has indicated

that the programme contributed to addressing unemployment, improving household consumption and food security, and curbing out-migration.

However, despite an increase in spending from GH¢30 million in 2015 to GH¢43 million in 2016, funding has since declined to GH¢9.6 million in 2018. The LIPW is solely donor-funded, primarily from the World Bank. Since the inception of the programme in 2010, the World Bank has disbursed more than \$800 million. The scenarios set out in Table 3 all assume no government financing – fiscal gaps are calculated against a GH¢154 million (US\$28 million) commitment from the World Bank.

Table 3: LIPW scenario analysis

Analysis	Projected Cost (2023)	Projected Fiscal Gap (2023)
Status Quo: Discrete number of beneficiaries added each year onto the programme	GH¢1.8 million	-GH¢141 million (surplus)
Status Quo: Cumulative costs, assuming previous beneficiaries stay on the programme until 2023.	GH¢304 million	GH¢150 million
Increasing Benefit Levels to meet the level of the prevailing minimum wage	GH¢641 million	GH¢487 million

Our analysis discovered that, as with other social protection programmes, LIPW’s payment mechanism has improved considerably with the introduction of an electronic payment system. Furthermore, the LIPW programme has achieved tremendous successes in providing targeted, poor, and rural households with employment and income earning opportunities. However, the administrative cost of the LIPW (18%) remains high compared to the global standard of 10% (though costs for newer projects usually hover around 15%-20%). Additional challenges have included a lack of commitment on the part of District Assemblies, and a limited scope and scale resulting from inadequate funding and short-term nature of the LIPW. Greater ownership by the Government of Ghana, deepening digitization of implementation process, and a further mainstreaming of the project, would help to build on the programme’s success, and could reap further social and economic dividends.

National Health Insurance Scheme (NHIS)

The NHIS was established in 2003 to reduce health financing risk among Ghanaians. Studies that have assessed the NHIS show increased utilization rates, reduced out of pocket payments, and increased access to improved health services. Between 2015 and 2019, expenditure on the NHIS was, on average, only around 80% of the total budget allocated, and has fallen from 3.9% to 3.1% as a percentage of total government revenue. More than 70% of financing comes from the

National Health Insurance Levy, with the remaining 30% of the scheme financed from contributions by formal sector workers (2.5% of social security contributions), premium payments from NHIS subscribers and other sources.



Table 4: NHIS scenario analysis

Analysis	Projected Cost (2023)	Projected Fiscal Gap (2023)
Status Quo projections based on historical growth	GH¢3.3 billion	GH¢ 425.4 million
Increasing Beneficiary Coverage to all Ghanaians who fall under the exempt status	GH¢7 billion	GH¢4.2 billion

The NHIS has undergone several reforms, culminating in considerable improvement in service delivery. For example, significant improvements have recently taken place through the scheme's digitization, including transitioning from manual and desktop renewal to Mobile Renewal services to provide a convenient method to renew NHIS policy by dialling a dedicated number. Despite this, the scheme's administrative costs remain high, and despite marked improvements in payments to service providers, there are regular complaints about long delays in payment claims, which have threatened the longevity of the scheme.

Key recommendations include focusing on prompt payment of service providers and further investment in automation and total digitalization, in order to improve the administrative capacity for both purchasers and providers, to enhance efficiency of service delivery and to ensure continued financial sustainability.

Basic Education Capitation Grants

The Capitation Grant provides a per-child grant to public schools based on total enrolment for each academic year, and is designed to cover school-level expenditure including teaching and learning materials, minor repairs, school supplies and extracurricular activities. Following its nationwide introduction in 2005, a 2006 review indicated that enrolment was increased by 16.7%. Total expenditure has steadily increased from GH¢25 million in 2015 to Gh¢61 million in 2019, coinciding with the government's doubling of the grant amount per child from GH¢4.5 (2009) to GH¢9 (2017), and a subsequent increase to GH¢10 (2018).



Table 5: Basic education capitation grants scenario analysis

Analysis	Projected Cost (2023)	Projected Fiscal Gap (2023)
Status Quo: public basic enrolment, with inflation-adjusted disbursements	GH¢106 million	GH¢33 million
Increasing Disbursement per Child by doubling the current level to GH¢20, and inflation-adjusting in future years	GH¢197 million	GH¢123 million

Fiscal Space Recommendations

There is a clear imperative to build on the successes of these flagship social protection programmes by scaling them up. The need for doing so is particularly acute following the unfolding fiscal crisis posed by COVID-19, and more recent global economy developments. Given the significant funding gap that exists between the

resources available and the projected cost of scaling up the five priority social protection programmes, there is a clear need for the government to create fiscal space to ensure adequacy and sustainability of financing enhanced social protection over the medium term. There are, however, clear constraints on the government in light of the current fiscal and macroeconomic headwinds.

Below, in Table 6, we explore several alternative financing options that have the potential to increase fiscal space for funding a scaled-up social protection in the medium term. The alternative options are based on four broad measures, namely: increasing tax revenue; improving efficiency and expenditure reallocation; borrowing, aid or debt restructuring; and fiscal and foreign exchange reserves. An additional suggestion is also given concerning deficit financing.

Table 6: Fiscal space policy measures

Policy Measure	Recommendations
<p>Ring-fenced Increases in Corporate Tax</p>	<p>There is scope for an increased fiscal space by introducing new, or enhancing existing, tax policy measures. To increase the likelihood of public support of measures, we recommend exploring the option of gradual increases in tax, with a significant component of new revenues ring-fenced for social protection expenditure. Options could include:</p> <ol style="list-style-type: none"> 1. Increase corporate income tax from 25% to 30% over a multi-year period 2. Introduce a VAT of 15% on fintech transactions or online financial services and ringfence it for social protection 3. Increase communication tax from 7% to 10%, and ringfence the additional 3% for social protection 4. Increase corporate income tax from 25% to 30%, and ringfence the additional 5% for social protection 5. Review the import duty benchmark which has not generated the expected income from a reduction of 50% to 25% on general merchandise goods, and eliminate the 35% reduction on automobiles, particularly as the automobile industry in Ghana takes shape 6. Introduce a 3% levy on natural resource exports such as gold, oil & gas and bauxite, and ringfence it for social protection 7. Reintroduce the high-income tax rate of 35% 8. Increase tax compliance in payment of property tax
<p>Improving Efficiency and Expenditure Reprioritization</p>	<p>Given rigidities in government expenditure, and that Ghana's expenditure to GDP of around 22% remains below the sub-Saharan African average of 27%, the most appropriate step is to increase expenditure through ramping up domestic revenue mobilization measures to cater for scaled-up social protection.</p> <p>There is also scope to increase fiscal space by improving the efficiency of government expenditure by strengthening the public financial management system to reduce corruption. The government could embark on expenditure waste minimisation / elimination measures, such as efficient and bulk procurement, rationalisation of the public travel budget and public sector employment, re-prioritisation of government spending away from poorly targeted programmes, and ensuring quality public investment management. The administrative efficiency of social protection programmes could be improved, as discussed in this brief and the larger report.</p>
<p>Public Debt Management: Borrowing, Aid, or Debt Restructuring</p>	<p>UN DESA has released recommendations, in conjunction with a consortium of international agencies, recommending that middle-income countries are made eligible for debt relief, debt swaps, and re-channelling of unused special drawing rights. There is a strong emphasis on aligning finance flows with sustainable development. Ghana could be a prime candidate for these interventions. We recommend that the Government of Ghana explores the option of earmarking savings from debt restructuring for social protection financing.</p>
<p>Fiscal and Foreign Exchange Reserves</p>	<p>Utilise the petroleum fund to finance social protection. In line with Section 21(6) of the Petroleum Revenue Management Act (PRMA), we recommend the revision of the priority areas to include spending on social protection.</p> <p>Establish a "Mining Fund" dedicated to social protection financing: just as the Petroleum Fund was set up from oil revenue for fiscal stability and future generation, part of the mining revenues – particularly from royalties – should be put into a sovereign wealth fund, a "Mining Fund", with a greater proportion of it earmarked for financing social protection.</p>