2021

GHANA

COMMITMENT TO REDUCING INEQUALITY INDEX (CRII)
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Ranks 2nd in ECOWAS+¹, but only about a third of Ghanaians have a pension, much lower than many other lower middle-income African countries.
Cancelling just external debt payments in 2020 would have enabled government to give a cash grant of $20 dollars a month to each of the country’s 16 million children, disabled and elderly people for a period of six months during the pandemic.

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The least committed to spend on agriculture as a way to fight inequality across West Africa.

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A progressive tax system “on paper” but collecting only 21% of what it could collect. More corporate tax collection could increase the impact dramatically on the reduction of inequality.
Ghana has the third highest income inequality in ECOWAS+\(^1\), rising in recent years. It performs only 121\(^{st}\) globally on the CRII, though 20\(^{th}\) in Africa and 3\(^{rd}\) in ECOWAS+, boosted by reasonably strong anti-inequality tax policies, but slightly weaker public services and much weaker labour policies.

Its education policies have had a strong inequality-reducing impact due to high public spending and free primary and secondary education. Progress has been less impressive on health due to lower spending and inadequate access to services and health insurance; and social protection coverage has remained very low, also reflecting low spending. Its tax system is progressive on paper, but undermined by low corporate tax rates and lack of progressive taxes on inheritances or wealth, as well as very low collection of income taxes due to exemptions and deductions. Its labour policies are strong on women’s rights, but much less so on union and broader worker rights, and it has the lowest minimum wage in the ECOWAS+ region. Government spending in agriculture is marginal, the debt burden is extremely high and dramatically crowding out SDG spending, and the COVID-19 response has focussed on inequality only by expanding social protection.

To achieve its goal of eliminating extreme poverty by 2030, Ghana will need to accelerate anti-inequality policy efforts by:

i) spending even more especially social protection and health to reach universal coverage;

ii) making its tax system and collection reduce inequality by increasing corporate tax, making other income and wealth taxes more progressive and reducing exemptions;

iii) increasing its minimum wage and extending rights and social protection to informal and vulnerable workers; and

iv) receiving comprehensive debt relief to free funds for anti-inequality spending.
Ghana has the third highest level of inequality in the ECOWAS+ region as measured by the Gini coefficient (0.435 in 2016) or Palma Ratio (2.25). Inequality has been rising over the last decade.

Recent trends suggest that the richest are capturing an ever-larger share of the benefits of growth. In the decade up to 2016, the country saw 1,000 new US dollar millionaires created, while nearly one million were pushed into poverty. The wealthiest 10% of Ghanaians now account for 32% of the country’s total consumption [more than the bottom 60%], while the poorest 10% of Ghanaians consume only 2%.  

The third edition of the CRI Index ranks 158 governments on their commitment to reducing inequality. It measures their policies in three areas proven to reduce inequality significantly: 1) Public services (health, education and social protection); 2) Taxation; and 3) Workers’ rights.

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*OUT OF 158, – OUT OF 15 ECOWAS MEMBER STATES + MAURITANIA  #OUT OF 47 COUNTRIES (NOT ALL COUNTRIES HAVE DATA AVAILABLE)
Ghana does relatively poorly in the global CRI Index, coming 121st out of 158 countries. It performs poorly in equitable public services (113th) and especially labour rights (128th), but does somewhat better on tax (68th). Its rankings in ECOWAS+ (3rd) and Africa (20th of 47), are somewhat higher, but it needs to do much more to reduce inequality if it is to eliminate poverty by 2030.

### 2a PUBLIC SECTOR PILLAR

On public services, Ghana comes 2nd in ECOWAS+. However, some areas of social spending have fallen slightly in recent years, partly because debt levels have sky rocketed.

#### EDUCATION

Ghana’s education spending has fallen in recent years to 17% of the budget, 5th within ECOWAS and short of the SDG 4 benchmark of 20%. Its commitment to universal free secondary education has helped it outperform other ECOWAS+ countries in terms of equity of coverage, with one in five of the poorest children completing upper secondary school.³

#### HEALTH

Spending is 8% of the budget and has increased marginally in recent years, but remains well below the 15% Abuja commitment and only 5th highest in ECOWAS+. Ghana scores poorly on equity of health coverage, with only 47% covered by essential services, partly because government health insurance is predominantly accessed by better-off households.

#### SOCIAL PROTECTION

Social protection spending is low in Ghana, only 11th in ECOWAS+. Only about a third of Ghanaians have a pension, much lower than many other lower middle-income African countries, and coverage of other vulnerable groups through other forms of social protection is also very low.⁴

#### IMPACT ON INEQUALITY

Overall, public services spending is estimated to have been reducing inequality [Gini] by only 5%. Only health and education spending are having a significant impact on inequality: social protection spending is too small and covers too few people.⁵
On tax, Ghana performs well compared to its neighbours and across the African continent:

- **PROGRESSIVE TAX SYSTEM**

Ghana has progressive tax policies “on paper”, ranked 35 globally and 6 in ECOWAS+. This reflects a relatively progressive PIT though the top rate has been reduced in 2019, as well as a VAT which exempts basic foodstuffs to reduce the burden on the poorest. However, it lets itself down with a CIT rate at 25% - lower than the regional average in West Africa of 27.8%, and below a number of countries at 30%. Its gift tax which covers inheritances is not progressive, and it does not have any wealth tax.

- **TAX COLLECTION**

On productivity of tax collection, Ghana performs considerably worse - ranked at 137. It is only collecting 21% of what it could collect, and has a very low tax-GDP ratio (just 12.8% in 2019). This is mainly because Ghana collects very little CIT, reflecting widespread tax exemptions (which the government has been trying to reduce) as well as tax-dodging. But there is a lack of political will to push for difficult and necessary reforms, such as on property taxation. Given about 80% of economic activities in the country take place in the informal sector, there is also a weak approach to taxing some parts, such as large businesses, which could be taxed without exacerbating inequality, instead of focusing on taxing the poorest [i.e. market women], which further widens the inequality gap.

- **IMPACT ON INEQUALITY**

Overall, tax is reducing inequality (Gini) by about 3%, a reasonable amount. However, it could increase this impact dramatically by increasing its corporate tax rate and collecting more of the progressive corporate taxes.
Ghana performs less well on protecting workers and labour rights, and tackling wage inequality – 7th in ECOWAS+ and 26th in Africa:

- **LABOUR RIGHTS**

  On labour and union rights, even though its scores have improved since 2018, Ghana ranks only 10th in ECOWAS+.

- **WOMEN’S LABOUR RIGHTS**

  Women workers are relatively well protected in Ghana, with equal pay laws; laws to prevent gender-based discrimination in the workplace; and laws against rape. However, this covers only the relatively few women in the formal labour sector.

- **MINIMUM WAGE.**

  Ghana performs badly in terms of the minimum wage as a % of average GDP (worst in the ECOWAS+ region), explaining its high wage inequality.

- **COVERAGE OF WORKERS’ RIGHTS.**

  Only 30% of the population are protected by labour rights, with most of the population (especially women) eking out a living in informal or vulnerable work.

- **INEQUALITY OF WAGES.**

  Ghana ranks low in this indicator, with actions on labour rights and its very low minimum wage doing too little to tackle inequality.
Agriculture has halved as a share of Ghana’s GDP since 2000, currently at only around 23%. However, it still represents 28% of the labour force, and rural poverty is now four times as high as urban poverty. In 2014 West African countries recommitted to the Comprehensive Africa Agricultural Development Programme (CAADP), which called for governments to increase their budgetary allocations to the sector to 10%. How far has Ghana gone in fulfilling their commitments to boost agriculture? Ghana has the lowest spending on agriculture across West Africa at just 1.4% of the budget - and therefore appears to be the least committed to supporting agriculture through government spending as a way to fight inequality.

Like many other countries, Ghana was not well prepared for COVID. At end-2019, it had achieved only 47% access to healthcare, and 70% of its workforce had no formal contracts and therefore no access to sick pay. Nevertheless, Ghana’s government has been praised for its initial health response to COVID, with a proactive approach of ‘3T’s’ (i.e., Tracing, Testing, and Treatment). It has also set about adapting health facilities and incentivising health workers through extra allowances and insurance. Partly as a result, Ghana has managed to keep COVID deaths (337) and cases (127,016) very low. On the other hand, COVID has very severely affected Ghana’s economy, with GDP growing by only 0.4% (compared to recent growth around 7%).

Ghana’s broader programme of measures responding to COVID has been the 5th largest among ECOWAS+ countries in 2020–21, reaching 3.3% of GDP. In 2020 (2.3% of GDP), it included 0.5% of GDP on health, and 1.8% on economic support - covering water and electricity bills and providing food assistance for the very poor, and broadening social protection through the Livelihood Empowerment Against Poverty (LEAP) and Labour-Intensive Public Works (LIPW) programmes. In 2021, it has focussed on health spending (0.7%, especially vaccinations; and establishing a development bank (0.3%). To reduce the resulting budget deficit, in 2020 government cut other spending by 0.3% of GDP and postponed domestic debt payments of 0.3%, as well as drawing on its stabilisation fund and borrowing from Bank of Ghana.
FISCAL POLICIES, DEBT AND THE ROLE OF IFIS

Debt servicing was already a massive drain on the government budget before COVID. In 2019, total public debt service (external and domestic) reached 75% of government revenue, with two thirds of this going to domestic debt. Ghana was already spending 4 times as much on debt service as on education, 8 times as much as on health, 14 times social protection and 55 times agriculture.17 COVID has necessitated additional borrowing from external and domestic sources: debt/GDP has risen to 79% of GDP in 2020, and will reach 87% of GDP by 2024, while debt service will exceed 150% of revenue throughout 2023-26.18 Cancelling just external debt payments in 2020 would have enabled government to give a cash grant of $20 dollars a month to each of the country’s 16 million children, disabled and elderly people for six months.

In response to this burden, Ghana has adopted a policy of refinancing existing debt with new borrowing, mainly via external and domestic bonds, most recently via a $3 billion Eurobond in March 2021. It has negotiated deferral of interest payments on bonds held by domestic public sector institutions, but has avoided participating in any external debt relief programmes such as the G20 Debt Service Suspension Initiative (DSSI), which could have saved it 1.1% of GDP in debt service during 2020-21, fearing that participating in this would damage its access to further bonds. Nevertheless, if it is to fund its recovery from COVID and make more rapid progress towards the SDGs and on reducing inequality, Ghana could well do with urgent debt relief.

What has been the role of the international financial institutions, charged by the G20 with leading the global financial response to the pandemic? The IMF provided $1 billion under the Rapid Credit Facility, and the World Bank has disbursed $130 million for the Ghana COVID-19 Emergency Preparedness and Response Project.

The IMF does not currently have a programme with Ghana, but has provided advice and TA to support stronger tax collection, especially through large taxpayer audits; and helped government to introduce a COVID Health Levy which increases VAT by 2% (1% for general revenue from on VAT and 1% for the National Health Insurance Levy). Nevertheless, the IMF is currently suggesting to government that it should restore the top income tax rate of 35% (currently 30%), eliminate CIT tax holidays, make property tax more progressive, and introduce solidarity taxes on companies doing well during the pandemic – all measures which would increase the impact of tax on reducing inequality.19 It is also suggesting shifting the composition of spending to make more room for social protection, but at the same time encouraging a fiscal “consolidation” which will cut overall spending by 5.5% of GDP during 2022-26, leaving precious little room for any more ambitious levels of spending on reaching the SDGs by 2030.

The World Bank has in the past conducted comprehensive analysis of the impact of taxes and spending on poverty and inequality in Ghana.20 Nevertheless, it has persisted with support for the inequitable national health insurance and narrowly targeted social protection, both of which fail to reduce inequality significantly. Support during the pandemic has allowed broadening of social protection as well as free COVID related health treatment, but it remains to be seen if these policies will be able to persist post-COVID given broader budget cuts.
Based on the areas where the CRI Index points to clear action, Ghana should:

**PUBLIC SERVICES**

- Increase public services spending, especially on social protection to 10% of the budget by 2030 to move more clearly to universal coverage by 2030 for all vulnerable groups; but also on health to 15% of the budget to ensure the poor have access to free universal services; and on education to 20% of the budget to achieve universal completion of secondary school.

**TAX**

- Increase the corporate income tax rate as soon as possible to 30%, restore the top personal income tax rate to 35%, make the gift tax which applies to inheritances more progressive, and introduce a wealth tax.
- Increase tax collection rapidly by accelerating efforts to end exemptions and deductions for corporations and wealthy individuals.
- Design an effective and context specific property taxation strategy. Property taxation, a form of wealth tax, presents an excellent opportunity to make up the gaps created from COVID. However, measures to taxing the sector is very weak, not well enforced and unpopular among politicians.

**LABOUR**

- Sharply increase the minimum wage, and ensure it is implemented by all companies.
- Extend rights and social protection to workers in informal and vulnerable employment.

**DEBT AND THE IFIS**

- Explore prospects for negotiating a comprehensive cancellation of its debt as soon as possible, so as to free up massive amounts of money for anti-inequality spending.
- Request from the IMF, World Bank and other experts a comprehensive analysis of potential policies to reduce inequality, to ensure that Ghana can eliminate poverty by 2030.
References

9. We do not have data allowing us to disaggregate spending further to see if it is helping smallholders or food production.
10. Data for 30 September from www.coronavirus.jhu.edu
13. In cooperation with the Commitment to Equity Institute of Tulane University. See https://commitmenttoequity.org/publications-ghana/