

# **MINISTRY OF FINANCE AND ECONOMIC PLANNING**



## **2009 SECTOR ANNUAL PROGRESS REPORT (SAPR)**

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## Abbreviations

APR	Annual Progress Report
BPEMS	Budget and Public Expenditure Management System
BRVM	Bourse Regionale Des Valeurs Mobilières
BTAs	Bank Transfer Advices
CAGD	Controller and Accountant General's Department
CMAs	Central Management Agencies
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CSIR	Council for Scientific and Industrial Research
DACF	District Assembly Common Fund
DMBs	Deposit Money Banks
ECF	Extended Credit Facility
EGPRC	Economic Governance and Poverty Reduction Credit
<b>FDI</b>	<b>Foreign Direct Investment</b>
FPCFS	Foreign Private Capital Flow Survey
GAEC	Ghana Atomic Energy Commission
GDP	Gross Domestic Product
GIFMIS	Ghana Integrated Financial Management System
GPRS	Growth and Poverty Reduction Strategy
GSS	Ghana Statistical Service
GSE	Ghana Stock Exchange
HIPC	Highly Indebted Poor Country
IGF	Internally Generated Funds
IMF	International Monetary Fund
IRS	Internal Revenue Service
ITC	
MDAs	Ministries Departments and Agencies
MDR	
MoFEP	Ministry of Finance and Economic Planning
MOU	Memorandum of Understanding
MSMEs	Micro, Small and Medium Scale Enterprises
MTEF	Medium Term Expenditure Framework
NDF	Net Domestic Financing
NDPC	National Development Planning Commission
NETS	National Expenditure Tracking System
NFA	Net Foreign Assets
NIC	National Insurance Commission
PHC	Public Health Care
PNDC	Provisional National Defence Council
PPP	Public Private Partnership
PRGF	Poverty Reduction Growth Facility
P2P	Procure to Pay

*2009 Sector Annual Progress Report (SAPR)*

SAPR	Sector Annual Progress Report
SEC	Securities and Exchange Commission
SMTDP	Sector Medium Term Plan
SSNIT	Social Security and National Insurance Trust
SSPP	Single Spine Pay Policy
XDS	Xpart Decision System

## EXECUTIVE SUMMARY

### Background

The year 2009 marked the final year for the implementation of the GPRS II, the national development framework which focused on accelerated growth as a means of achieving middle income status. The Sector Annual Progress Report (SAPR) of the Ministry of Finance and Economic Planning (MoFEP) for the period is therefore expected to track progress of policy implementation and effectiveness as well as to identify bottlenecks associated with the implementation and make recommendation.

The 2009 Annual Progress Report of the Ministry of Finance and Economic Planning is the first under the GPRS II and will provide an input into the 2009 National Annual Progress Report (APR). This report has been structured to address key issues about the performance of MoFEP in the year 2009.

From the various analyses, it was noted that amidst the many challenges experienced in 2009, some modest gains were made. There was improvement in the macroeconomic stability due mainly to government's cost cutting measures including the reduction of the number of Ministries from 28 to 24; the introduction of some revenue enhancing measures such as the national stabilization levy as well as the Airport tax which was also increased from \$50 to \$75.

Inflationary measures which characterized the later part of 2008 and early 2009 receded from a peak of 20.7% in June 2009 to 15.8% in December 2009. The end of year gross international reserves increased from two month of import in 2008 to three months of import in 2009.

The volatility in the exchange market eased in the third quarter of 2009 with the cedi appreciating relative to the US dollar for three consecutive months from August to December 2009.

With regard to the external resource mobilization, Government was able to negotiate with the IMF to approve a three year poverty reduction and growth facility. About US\$ 602.6 million was given to Ghana to ensure macroeconomic stability. The World Bank agreed to front load US\$ 300 million budget support. By the close of 2009, US\$ 150 million base tranche was released with the remaining amount as performance tranche.

Economic growth in 2009 continued to be led by strong private investment and robust private and public consumption. Growth in the agricultural sector was very strong, relative to previous years, while growth in services and industry declined. However the manufacturing sub-sector showed some level of resilience in 2009, growing marginally. The objective of the government to make the private sector the engine of growth suffered some setbacks in 2009, despite government's continued efforts to enhance the country's

competitiveness in global and regional markets. The continued implementation of policy reforms aimed at improving the environment for doing business notwithstanding, progress made in this area in 2009 was marginal. The area with significant challenges is the environment for doing business which was negatively affected by the global economic crisis.

The private sector continued to account for the bulk of credit facilities provided by deposit money banks (DMBs), while private fixed investment and FDI net inflows recorded an increase over the 2008 level. In 2009 private fixed investment remained strong on the back of robust investor confidence in the economy, in spite of the global economic crisis. Ghana Integrated Financial Management Information System (GIFMIS) was introduced to replace the Budget and Public Expenditure Management System (BPMS) which had been plagued with many challenges after being rolled out to 8 pilot Ministries. Successful implementation of the GIFMIS will improve public expenditure management.

### **Recommendations**

Future interventions should focus on continued improvement in management of public expenditure; improved fiscal resource mobilization; promote effective debt management; deepen the management of public debt; and institute mechanisms to manage external shock.

Expenditure should be prioritized and re-structured in favour of policies, programmes and projects that have the potential to yield higher returns on the economy and that easily lend themselves to private sector participation with minimal public investment.

The global recession caused severe problems as many macroeconomic targets including inflation, fiscal and current account deficits were not achieved. The complexity of the global environment requires a better understanding of how it impacts on domestic economy in order to be able to formulate and implement appropriate policy responses. The relevant capacity should be developed to deal with specialized and emerging areas such as climate change, extractive industry and oil and gas.

Weak institutional framework, unreliable power supply, high cost of borrowing and the high rate of inflation remain as challenges and render most businesses uncompetitive. Achieving an improved environment for doing business in Ghana will require that appropriate policy responses be developed to correct the macroeconomic imbalances which had adverse effects on the environment for doing business.

For the budget process to serve as a tool in delivering the objectives of national development policy framework the incentive mechanism has to be developed and effectively enforced.

In an effort to improve the monitoring mechanism for resources released for the implementation of programmes and projects, a National Expenditure Tracking System (NETS) was developed by MOFEP, and the Controller and Accountant General's Department (CADG).

For effective tracking of the public sector funds, the institutional arrangement for tracking resources should be clearly defined, and the mechanism for reporting be clearly outlined. For the year under review, the Ministry of Finance and Economic Planning has contributed to the general improvement in the management of the economy especially in the area of balance of payments, fiscal deficits, prices and exchange rates. For the ensuing years, the Ministry should sustain the gains and ensure an accelerated growth to enable us achieve the goal a middle income status by 2015.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background

The National Development Policy Framework forms the basis for which Ministries Departments and Agencies, (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs) prepare their respective development plans for implementation, monitoring and evaluation. These processes ensure that the policy framework is effectively linked to the budget and implemented by MDAs and MMDAs, in accordance with sections 1, 10 and 11 of the National Development Planning (System) Act 1994, (Act 480).

Over the past seven years, the Government of Ghana has adopted the Ghana Poverty Reduction Strategy (GPRS) as its medium term national development policy framework. The Ghana Poverty Reduction Strategy (GPRS I) which was implemented from 2003 – 2005 was prepared against the background of the need for Ghana to benefit from a significant measure of debt relief under the Highly Indebted Poor Country Initiative (HIPC). After the successful implementation of the GPRS I, the Growth and Poverty Reduction Strategy (GPRS II) was formulated to be implemented over the period 2006 – 2009 with the central objective of accelerating the growth of the economy so that Ghana can achieve a middle-income status (with a per capita income of at least US\$1,000) within a decade.

The Ministry of Finance and Economic Planning (MoFEP) like all MDAs is established under Section 11 of the Civil Service Law 1993 (PNDCCL 327) and has as its broad function, to formulate and implement fiscal and financial policies of the government as well as manage the economy. The key functions of the Ministry are to:

- Formulate and implement sound macroeconomic policies;
- Plan, implement, monitor and evaluate all economic policies;
- Efficiently mobilize, allocate and manage financial resources;
- Improve public expenditure management and reporting; and
- Improve human resource and institutional management capacity

It also exists to ensure macro-economic stability for the promotion of sustainable economic growth and development of Ghana and her people.

Drawn from its mandate and in order to support the attainment of the overall objective of the GPRS II, the Ministry is expected to pursue policies that will ensure continued macroeconomic stability and accelerate growth through a vibrant private sector. The policies that would enable the Ministry achieve the above mentioned objectives include, to:

- Pursue prudent fiscal policy management;

- Promote effective Debt Management;
- Improve fiscal resource mobilisation;
- Support a monetary policy that is flexible enough to respond to external shocks, promote growth and ensure price stability;
- Support the strengthening of the financial and private sector; and
- Monitor and evaluate the performance of the sector.

As part of the planning process, this Annual Progress Report (APR) is being prepared to track progress of policy implementation and effectiveness as well as to identify bottlenecks associated with the implementation for early resolution. The 2009 Annual Progress Report of the Ministry of Finance and Economic Planning is the first under the GPRS II and will provide an input into the 2009 National Annual Progress Report (APR).

The process of preparing Sector Annual Progress Report (SAPR) is part of the overall national agenda to institutionalise the act of monitoring the implementation of development policies particularly at the local level, as well as establish an efficient national Monitoring and Evaluation (M&E) system capable of generating accurate data on a timely basis to inform national policy decision.

## **1.2 The Monitoring and Evaluation (M&E) Mandate of MoFEP**

Section 10, sub-section 6 and 7 of the National Development Planning System Act 1994, Act 480 requires the Ministry/Sector to monitor the implementation of the Sector's Medium Term Development Plan (SMTDP) and submit a monitoring report at intervals in the prescribed form to the National Development Planning Commission (NDPC).

The roles and responsibilities of MoFEP with regard to M&E are:

- undertake M&E needs assessment to support capacity building;
- develop baseline and sector-specific programme indicators and define the indicators for measuring change(s);
- establish the sector targets for all relevant objectives in the SMTDP;
- establish a list of sector programmes/ projects to be carried out by the Ministry that will contribute to the indicator achievements;
- monitor progress of sector projects and programmes at regular intervals;
- collect, collate and analyse sector data on indicator achievements for reporting to stakeholders;
- undertake quarterly and annual performance review/ impact assessment of SMTDP policies, programmes and projects with all the sector stakeholders;
- support Ghana Statistical Service (GSS) to conduct national surveys and provide inputs into the Ghana Info database;
- disseminate SAPR information obtained from data collected to all stakeholders; and

- facilitate the evaluation of the SMTDPs and make recommendations for policy review.

As a key government institution responsible for the mobilisation, allocation, management and monitoring of financial resources, MOFEP plays a significant role in ensuring that: (i) MDAs are held accountable for resource use; (ii) the capacity of key CMAs/MDAs are strengthened to generate, analyse and disseminate financial data; and (iii) the feedback from the M&E process are fed into policy formulation and implementation through the annual budget.

### **1.3 Objective of the Sector Annual Progress Report (SAPR)**

Monitoring the progress of the implementation of the sector policies on an annual basis involves the use of agreed set of indicators. These set of indicators are selected in such a manner to include those that will help track the progress the Ministry is making towards the attainment of its objectives. To ensure effective analysis of the various dimensions of indicators, the possible level of data disaggregation, as well as the frequency of collection of data on each indicator is determined to allow the Ministry to put mechanisms in place to collect the required information.

The key instrument for reporting on the progress towards the implementation of the sector policies on annual basis is the Sector Annual Progress Report (SAPR). The SAPR reports on the progress against targets, provides information on resources that are released by Government to implement key activities, and the key activities implemented within a year that has possibly impacted on the attainment of targets or otherwise.

The outcome of this monitoring process is to, primarily, provide continuous and regular data to make informed decisions and the necessary adjustments about programme implementation.

### **1.4 Organization of the Report**

Following this introduction, chapter two deals with the status of implementation of key activities in 2009. Chapter three focuses on the analyses of progress made against targets on the selected indicators. Chapter four provides resource analyses while the conclusions and policy recommendations are in Chapter five.

## CHAPTER TWO

### STATUS OF IMPLEMENTATION OF KEY ACTIVITIES

#### 2.1 Introduction

This section seeks to assess the status of implementation of key activities for the year 2009. To this end, key activities have been identified and their levels of implementation indicated.

Ghana's Growth and Poverty Reduction Strategy (GPRS II) emphasized an accelerated growth that could help Ghana attain the middle-income status by the year 2015. Since the inception of GPRS II, Government has been making efforts to achieve this goal. However, the fiscal year 2009 continued to experience the effects of the global financial, food and fuel crises. Consequently, the 2009 macroeconomic policy of government was prepared against a backdrop of global crises and a combination of a widening current account deficit and large fiscal expansion.

Government then formulated a set of prudent fiscal and tight monetary policies to achieve the broad policy objectives of the GPRS II. Major activities implemented in 2009 were aimed at achieving the following:

- improve and sustain macroeconomic stability;
- improve fiscal resource mobilization
- improve public expenditure management
- promote effective debt management
- strengthen the private and financial sector and
- improve the human resources and institutional management capacity

#### 2.2 Status of Implementation:

The following related activities were implemented in 2009:

##### ***2.2.1 Improve and sustain macroeconomic stability***

Government implemented cost cutting measures by reducing the number of ministries from 28 to 24, reducing non-prioritized spending on service and investment expenses of MDAs and introduction of some revenue enhancing measures such as the National Fiscal Stabilization Levy and the increase in Airport tax from US\$50 to US\$75. This prudent fiscal policy stance coupled with a tight monetary policy helped stabilize the economy.

Inflationary pressures which characterized the latter part of 2008 and early 2009 receded from a peak of 20.7 percent in June 2009 to 15.8 percent in December 2009 as shown in figure 3.1. The end of year gross international reserves increased from two months of imports in 2008 to three months of imports in 2009. Interest rates declined

from the trend observed in the early part of the year as a result of decreasing inflationary pressures.

The volatility in the exchange market eased in the third quarter of 2009 with the Cedi appreciating relative to the US Dollar for three consecutive months from August to October, 2009

This shows the restoration of confidence in the performance of the economy, the positive expectation on the market, as well as signals the achievement of Government's fiscal consolidation stance and tight monetary policy in 2009

### ***2.2.2 Improve Fiscal Resource Mobilization***

#### ***Improve Domestic Resources Mobilization***

The Government was able to introduce some revenue enhancement measures in the areas of airport tax, national fiscal stabilization levies, improve non-tax revenue and measures to reduce exemptions. Distinct among the non-tax revenue measures is assistance to Council for Scientific and Industrial Research (CSIR) and Ghana Atomic Energy Commission (GAEC) to prepare viable revenue enhancement projects and business plans to leverage funds from commercial banks for their implementation. The Ministry also facilitated the cabinet's approval of proposals submitted by 25 MDAs for review of their fees.

As part of the process to improve tax administration for increased revenues, Government initiated the necessary processes for the establishment of an integrated tax system under the Ghana Revenue Authority.

#### ***Improve External Resources Mobilization***

On the external support side, Government negotiated for an Economic Stabilization and Growth Programmes such as the Poverty Reduction and Growth Facility (PRGF) with the IMF, and the World Bank Economic Governance and Poverty Reduction Credit (EGPRC). Following the negotiations, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for Ghana of about US\$602.6 million to support the government's economic programme to enforce macroeconomic stability. Under the EGPRC, the World Bank agreed to front load US\$ 300 million budget support. An amount of US\$ 150 million base tranche was released in 2009 with the remaining US\$ 150 million as performance tranche.

The Ministry developed a programme coordination and management system to monitor project/ programme implementation, whilst tracking disbursement and utilization of donor resources.

The Ministry commenced the drafting of an Aid Policy and implementation strategy with a view to streamlining Ghana's relationship with its Development Partners and also to enhance aid predictability and effective utilization.

### ***2.2.3 Improve Public Expenditure Management***

#### ***Cash Management***

Cash Management System was established, to provide frequent and up to date monitoring of revenues, expenditures and cash balances which has proved critical in setting up monthly cash ceilings for MDAs. Based on this monitoring process, releases were authorized depending on the level of revenue inflows subject to budgeted expenditure and cash ceilings. The framework provided the Ministry with an early warning system to guide the implementation and monitoring of the budget to ensure that, the programmed budget deficit was not exceeded.

In addition, an outstanding claims and payments framework was put in place to identify the level of claims on Government. The management of these claims was to help reduce the stock of arrears for Government.

#### ***Treasury Single Account***

The Ministry introduced the Treasury Single Account early in the year. Since May 2009, a number of MDA accounts at the Bank of Ghana have been closed and a Treasury Single Account opened to link all government accounts to ensure efficient monitoring and use of cash balances. The remaining accounts are now monitored on a daily basis. This has resulted in some cost savings, with idle cash balances reallocated to finance pressing expenditures, thereby reducing the need for new debt issuance during the weekly treasury bill auctions.

#### ***Public Sector Wages and Salaries***

Minimum wage negotiation was successfully completed with organized labour in April 2009. The national daily minimum wage was determined as GHC 2.655.

During the period under review increment in public sector salary was successfully negotiated between government and unionized public sector workers. In 2009 public sector salaries increased by 17% except for those in the health sector who received 10% increment

To ensure fiscal consolidation through the elimination of waste in Public Sector, the education sector headcount was undertaken. As a result over 2,300 persons were discovered not to be at post, out of which 1,000 names have been deleted from the pay roll.

Briefing notes on the Single Spine Pay Policy (SSPP) was prepared in April 2009. A government white paper on the SSPP was issued in November 2009.

### *Financial Management Systems*

The BPEMS faced a number of challenges after being rolled-out to 8 pilot Ministries. In the year 2009, government decided to upgrade and expand BPEMS under a user-driven Ghana Integrated Financial Management Information Systems (GIFMIS).

In 2009 the following activities were undertaken:

- The number of pilot Ministries fully using Procure to Pay (P2P) increased from one to six
- Upgrade and expansion of the Oracle Financials software under a user – driven GIFMIS was started
- Hardware for the upgrade was purchased and installed
- Work plan for a three phase programme for GIFMIS was drawn and approved by the Steering Committee. An Advisor and Project Director were appointed. Eight new project implementation teams including a change control management and help desk teams were put in place
- To mitigate the funding challenges that stood in the way of the implementation of phase one of GIFMIS, an interim strategy was developed and implemented starting August 2009.
- Flex fields were set up in new instances and the 2009 budget prepared from activities was loaded into the system for the MDAs to process their transactions.
- Budget officers and the Accounts departments in MoFEP among others are using the system to process warrants and make payments.
- The Chief Cashier's office at the Controller and Accountant General's Department also used the system to prepare warrants and Bank Transfer Advices (BTAs).
- A draft ICT policy was produced for discussion by stakeholders.

#### **2.2.4 Promote effective debt management**

By the end of 2009, public debt stood at US\$ 9,304 million, indicating a rise of about US\$ 1,230 million from the 2008 position. This rise is made up of about US\$ 973 million and US\$ 257 million for external and domestic debt respectively.

By the end of 2009, external debt stood at US\$ 5,008 million representing an increase of about US\$ 1422 million over the 2007 position. Of this increment, 2009 accounted for US\$ 973 million of which 30 percent came from the World Bank and the IMF financial assistance under the Extended Credit Facility (ECF) arrangement. The external debt focused on contracting concessional loans, exploring more avenues for grant aid and limited resource to commercial borrowing. This was supported by the restriction on non-concessional borrowing and guaranteeing under the ECF arrangement with the World Bank and the IMF

The stock of domestic debt stood at US\$ 4,296 million by end of 2009 showing an increase of about US\$ 258 million over the 2008 position. Though, the increment in domestic debt in 2009 was marginal, it was mainly captured under the short term instruments which rose from US\$ 906 million in 2007 to US\$1,777 million in 2009. This was basically driven by the excessive spending leading to the 2008 general election and the associated deficit financing which run through 2009. The worsened macroeconomic situation in 2008 and 2009 compelled government to resort to short term borrowing. This is contrary to the medium term domestic debt strategy of increasing the medium and long term instrument.

The Ministry prepared and published the first annual external financing performance report which provided detailed external finance disbursement by MDAs. Government undertook this exercise to comprehensively capture GOG's total resource envelop to ensure transparency and to assist accurate assessment of external funding. The exercise was also to help government allocate resources efficiently and thereby promote prudent borrowing and effective debt management.

The Ministry finalized its initial programme to capture domestic debt data into the Commonwealth-Secretariat Debt Recording and Management System (CS-DRMS) 2000+. Prior to this action, the domestic debt data (especially government securities) was managed by the Bank of Ghana while the Ministry provided the broad policy guidelines. Capturing of this data has enabled the Ministry to obtain a comprehensive public debt data to facilitate holistic analysis of public debt portfolio and development of effective debt management strategies.

### ***2.2.5 Strengthen the Private and Financial Sector***

#### ***Public Private Partnership Policy***

This involved the recruitment of a PPP Policy Advisor who would lead the process of developing legislative framework and provide technical and policy guidance to support the PPP process and to disseminate best practice in PPPs.

In 2009, the terms of reference were developed and an expression of interest was advertised for the recruitment of the PPP adviser.

#### ***Automating Trading System***

The automated trading system for Ghana Stock Exchange (GSE) was installed in March 2009, to improve surveillance and information dissemination. This is in line with the financial sector's aim of upgrading and enhancing supervision of the regulators in Ghana. The remote trading began in June 2009 whilst the transfer of equities to depository commenced and securities immobilized. About 37,000 accounts were opened in depository by the end of 2009.

#### ***Feasibility Studies for the Establishment of Commodities Exchange Market***

A commodity exchange market provides a venue, which may be physical or virtual (electronic), at which buyers and sellers are brought together to trade, through a group of registered brokers. Trading in this marketplace may be in physical commodities or in derivatives, which are financial contracts/instruments, whose values are derived from the value of an underlying asset, which can be commodities, equities (stocks), mortgages, bonds, interest rates, exchange rates or indices such as stock market and consumer price indices. The main types of derivatives are futures, forwards, options and swaps. They are usually used to reduce the risk that value of the underlying asset will change unexpectedly.

In 2009, a consultant was recruited to develop the feasibility studies for the commodities exchange and the final report submitted. The Ministry in collaboration with the Securities and Exchange is in the process of procuring a consultant to draft appropriate rules and regulation that will help in the establishment of the Commodities Exchange in the country.

#### *The Integration of the West African Stock Exchanges*

The vision of the integration is to have a single market for both trading and listing of securities, thus creating a single market in West Africa for rising capital and trading of securities.

The objective of this integration is to facilitate trading of securities within the West African markets with minimum transaction cost and to have an efficient market where companies within the region can easily access long-term capital.

In December 2009, a Memorandum of Understanding (MOU) was signed by the three exchanges (Nigeria Stock Exchange, Ghana Stock Exchange and Cote d'Ivoire Bourse Regionale des Valeurs Mobilieres (BRVM).)

A 21-member technical committee is working to address regulatory and operational issues. A Secretariat for the harmonization of the three markets has been established and is based in Ghana.

#### *Capital Flow Projects*

The Foreign Private Capital Flow Survey (FPCFS) project was to monitor capital flows and establish institutional framework to regularly and comprehensively collect data. This was to be achieved through the launch of cross-border capital flow survey to collate data on capital flows into the country.

The Bank of Ghana initiated the first phase of the 2009 survey and is to procure the necessary equipments to undertake the second phase in 2010.

The phase one of the 2009 capital flow activity included designing of the questionnaires, pre-testing of the questionnaire, identification of the sample and the actual survey.

Other activities included data editing and checking as well as inputting of data from respondents' questionnaires. The survey covered all the 10 regions of the country. A total of 300 entities were identified nationwide and 270 were served with questionnaires after the sample cleaning. There were 240 respondents out of the 270.

*Credit Reporting Act, 2007 (Act 726)/Credit Bureau*

The purpose of the Act is to provide a legal framework for the licensing, operation and supervision of credit bureaus in Ghana. It established conditions for the formation, processing storage and disclosure of credit information. The availability of credit information is accepted to be crucial for the development and maintenance of an effective financial sector.

The objective of the law is to provide timely, accurate and up to date information of the debt profile and repayment history of borrowers. The Act seeks to promote the orderly development of a credit reporting system and to promote public trust in credit bureau operation.

In 2009 the first credit referencing bureau company Xpart Decision System (XDS) was licensed and operational while a second bureau Hudsonprice Ghana Ltd has been granted a provisional licensing.

*Financial Literacy Awareness*

In 2009, the second financial literacy week was held to create public awareness of financial services, products and opportunities available to households, MSMEs and the private sectors in general. This brought together the stakeholders from the financial sector regulators and financial sector industry.

*National Pensions Act 2008 (Act 766)*

The main objective of the three-tier pension scheme as provided in the National Pension Act (Act 766) is to provide for pension benefits that will ensure retirement income security for workers. Ensure every worker receives pension benefits as and when due; and also to establish rules, regulations and standards for administration and payment of pension benefits.

In 2009, The National Pension Regulatory Authority board was inaugurated and Final Conversion specification Paper for an External Actuarial review of SSNIT to facilitate pension reforms was submitted and data required for actuarial calculation has been obtained from SSNIT.

A preliminary discussion was held with the Attorney-General and other stakeholders on appropriate Legal Instruments for second-tier system of Tier Pension Scheme (Occupational Scheme).

Public Education pilot Outreach Programme was embarked on in five out of the ten regions in Ghana. The regions are; Volta, Eastern, Western, Central and Ashanti Region.

### Legal and Regulatory framework for the Financial Sector

To date sixteen (16) financial bills have been enacted into laws out of Twenty Three (23) proposed bills. The bills that were initiated in 2009 include:

- Credit Union Regulation (Draft); and
- Legislative Instrument for National Pension (Act 2008), Act 768 (Consultation with Attorney-General).

Among the key financial bills enacted to date are:

- Banking Act, 2004 (Act 673);
- Payment System Act, 2004 (Act 662);
- Long Term Savings Act, 2004 (Act 679);
- Venture Capital Trust Fund Act, 2004 (Act 680);
- Insolvency Act, 2006 (Act, 708);
- Foreign Exchange Act, 2006 (Act 723);
- Credit Reporting Act, 2007 (Act, 726);
- Insurance Act, 2006 (Act, 724);
- ARB Apex Bank Regulations, 2007 (LI 1825);
- Central Depository System Act 2007 (Act 733);
- Banking (Amendment) Act, 2007 (Act, 738);
- Anti-Money Laundering Act, 2008 (Act 749);
- National Pensions Act, 2008 (Act 766);
- Lenders and Borrowers Act, 2008 (Act 773);
- Non-Bank Financial Institution Act (NBFI), 2008 (Act 774); and
- Home Mortgage Financial Act, 2008 (Act, 770).

The financial institutions bills expected to be passed by 2010 include:

- Credit Union Regulation (LI);
- Public-Private Partnership Bill (PPP);
- National Pension Regulations (LI); and
- The Securities Industry Law 1993 (SIL) PNDCL 333 As Amended.

### **2.2.6 Improve the Human Resources and Institutional Management Capacity**

Training was organized in Gender Responsive Budgeting for 11 MDAs. In addition, 200 budget committee members from 7 MDAs were also trained.

Internal Audit Agency and Ghana Audit Service Staff were trained in procurement

## CHAPTER THREE

### PROGRESS ON INDICATORS

#### 3.1 Introduction

This chapter presents the key indicators for monitoring the achievements of the sectors performance against the set target. The progress report also includes key activities implemented in 2009 that indirectly impacted on the attainment of the target. Report on key indicators in relation to macroeconomic stability and economic governance is presented in this chapter.

#### 3.2 Progress on indicators

##### *3.2.2 Improve and sustain macroeconomic stability;*

In order to track progress towards the attainment of the above policy objective, the following macroeconomic indicators were monitored in 2009:

- Real Sector Indicators – GDP, inflation etc.
- Fiscal Sector Indicators – Revenue, Expenditure Deficit Financing etc.,
- Monetary Sector Indicators – Money Supply, Reserve Money etc.
- Balance of Payments / External Sector Indicators - Balance of Payments, Exports and Imports, exchange rates

##### *Real Sector Indicators*

Real GDP growth target for 2009 was estimated at 5.9%. Preliminary data from the GSS is estimated at 4.7% a decline of 1.2 percentage points from the target set for 2009. This low performance is mainly driven by a slowdown in aggregate demand due partly to the economic slowdown during the first two quarters of 2009.

**Table 3.1: GDP Growth rates (2007-2009)**

Item	2007 Orig.	2007*	2008*	2009 Target	2009*
<b>1. AGRICULTURE</b>	<b>4.3</b>	<b>2.5</b>	<b>5.1</b>	<b>5.7</b>	<b>6.2</b>
Crops and Livestock	4.0	3.1	5.8	6.5	7.0
Cocoa Production and Marketing	6.5	-3.5	5.0	3.5	5.0
Forestry and Logging	2.5	2.5	3.5	3.5	3.5
Fishing	5.0	5.0	3.0	5.0	5.0
<b>2. INDUSTRY</b>	<b>7.4</b>	<b>5.1</b>	<b>8.1</b>	<b>5.9</b>	<b>3.8</b>
Mining and Quarrying	30.0	13.9	2.1	5.5	8.0
Manufacturing	-2.3	-2.3	4.5	4.0	5.0
Electricity and Water	-15.0	-17.2	19.4	5.0	9.0
Construction	11.0	15.0	12.0	8.0	-1.0
<b>3. SERVICES</b>	<b>8.2</b>	<b>10.0</b>	<b>9.3</b>	<b>6.6</b>	<b>4.6</b>
Transport, Storage and Communication	6.0	9.8	8.9	7.0	7.0
Wholesale and Retail Trade, Restaurants and Hotels	10.0	10.6	10.2	7.0	2.0
Finance, Insurance, Real Estate and Business Services	15.0	14.4	9.6	10.0	10.0
Government Services	6.0	9.2	9.7	5.0	3.0
Community, Social and Personal Services	5.0	5.0	4.5	4.5	4.5
Producers of Private Non- profit Services	5.0	5.0	5.0	4.0	4.0
<b>SUB-TOTAL</b>	<b>6.5</b>	<b>5.7</b>	<b>7.4</b>	<b>6.1</b>	<b>5.0</b>
Net Indirect Taxes	4.4	5.8	6.2	4.4	2.0
<b>EQUALS: Gross Domestic Product in Purchasers' Value</b>	<b>6.3</b>	<b>5.7</b>	<b>7.3</b>	<b>5.9</b>	<b>4.7</b>
* Provisional					
** Projection					

Source: Ghana Statistical Service

The sectoral performance indicates that agricultural sector grew significantly higher than the estimated target while the industry and service sectors performed below targets.

The Agricultural sector grew by 6.2 per cent against a target of 5.7 per cent largely on account of expansion in areas of cultivation and good rainfall pattern in 2009 in the farming areas of the country.

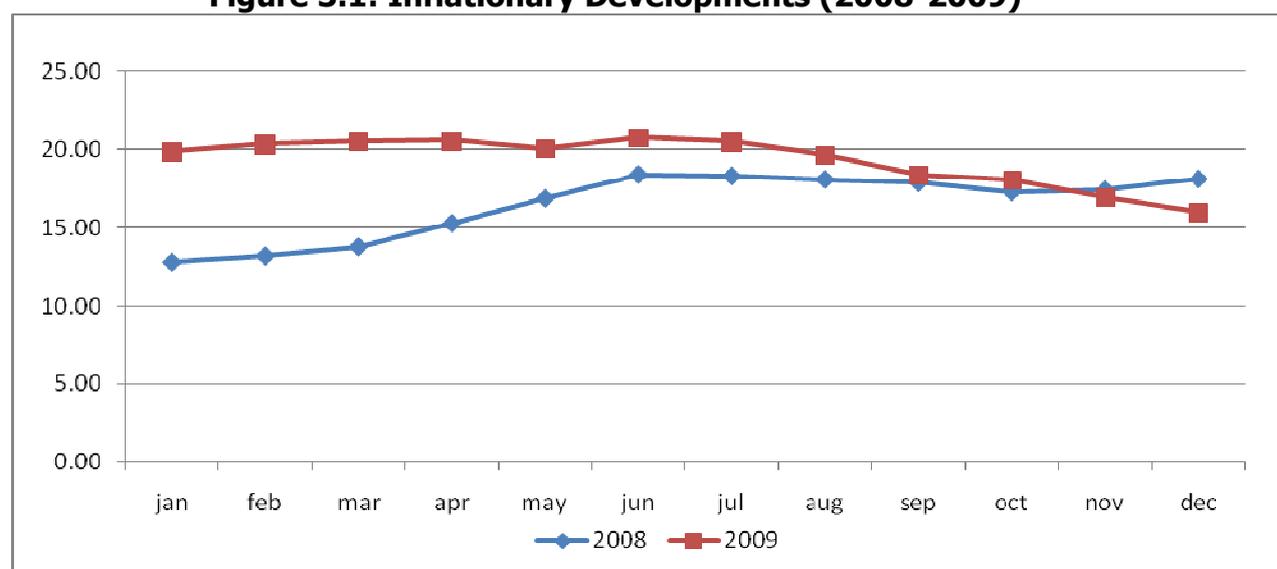
The Industrial sector recorded a growth rate of 3.8 per cent against the target of 5.9 per cent. This low performance is as a result of the contraction in the construction sub-sector..

The Services sector experienced a growth rate of 4.6 per cent against a target growth rate of 6.6 per cent. This low performance is mainly explained by slowdown in economic activities which affected the performance of Wholesale & Retail, Restaurants & Hotels and the contraction in Government Services sub-sectors.

### Inflation

For the 2009 fiscal year, inflation target was estimated at 14.6 % from the outturn of 18.1 per cent at the end of 2008. Inflationary pressures which characterized the latter part of 2008 continued in early 2009 and peaked at 20.7 per cent in June 2009. Government's fiscal consolidation stance, tight monetary policy and improved food harvest contributed significantly to a reduction in inflation to 15.97 per cent by the end of 2009.

**Figure 3.1: Inflationary Developments (2008-2009)**



As a result of favorable rainfall and good harvest, food inflation declined significantly from 19.42 per cent in January 2009 to 11.84 per cent in December 2009. Non-Food inflation also showed the same trend with a reduction from 20.16 per cent in January 2009 to 18.82 per cent in December 2009. This compares to an increase of 10.64 per cent in January 2008 to 19.12 per cent in December 2008.

### Fiscal Sector

To contain the high fiscal deficit of 14.5% of GDP at the end of 2008, the 2009 fiscal framework targeted a fiscal deficit of 9.4% of GDP. By the end of the year, the fiscal outturn of government operations was generally on track with a provisional fiscal deficit of 9.5 % of GDP. This performance was mainly as a result of the development of policies and programmes aimed at reducing public expenditure and increase revenue mobilization.

Total revenue and grants for 2009 amounted to GH ₵ 6,775.2 million equivalent to 31.3% of GDP. This indicated a slight decline from the target of GH ₵7,474.2 million. Total revenue which comprises tax and non-tax revenue, amounted to GH ₵5,674.0 million against a target of GH ₵6,172.1 million indicating a short fall in revenue mobilization. This was mainly as a result of slowdown in economic activities which affected indirect taxation.

Total expenditure amounted to GH ₵8,345.5 million against a target of GH ₵8,838.36 million. This outturn reflects a shortfall in receipts to finance the expenditure.

Recurrent expenditure amounted to GH ₵5, 631.8 million against a target of GH ₵6120.67 million. Out of this amount, payments for wages and salaries amounted to GH ₵ 2,478.70 million equivalent to 11.5% of GDP.

The overall budget deficit amounted to GH ₵ 2,130.70 million equivalent to 9.9% of GDP as against a target of GH ₵ 2, 033.77 million.

The overall budget deficit was financed from both domestic and foreign sources. The net domestic financing amounted to GH₵ 1,042.06 million while the net foreign financing amounted to GH ₵ 9, 55.46 million.

### Monetary Sector

Growth in total liquidity (M2+) was 26.9 per cent as at the end of 2009, compared to 40.2 per cent in 2008. This was mainly as a result of a significant growth in Net Foreign Assets (NFA) in the Banking System. The NFA grew by **16.1** % as against a target of 17 per cent for the year.

Reserve Money grew from 27.1 per cent in 2008 to 36.3 percent in 2009 indicating 9.2 percentage points increase.

The Deposit Money Banks credit to private sector and public institutions increased by 16.1 percent in 2009 compared to 43.9 percent growth in 2008.

The developments in the money market showed a shift from short dated securities to long dated ones in line with the significant slowdown in inflation in the last quarter of 2009

Developments in the capital market also showed a bearish market on the Ghana Stock Exchange with significant low volumes and values of trade. The GSE All share index slipped from 10,431.64 at the end of December 2008 to 5,572.34 at the end of December 2009 to represent a change of -46.58 percent. This drop of negative 46.58 percent in 2009 from 58 percent in 2008 in the GSE All - Share Index, makes the Ghana Stock Exchange performance as the least performing market in Africa for 2009.

The market capitalization dipped by 10.91% from GH¢17,895.12 million in December 2008 to GH¢ 15,941.92 million representing 11% as at the end of December 2009. The decline was due to a number of factors including the effect of the global economic crises, market correction, a buoyant T-bill market/inverted yield curve and company specific issues related mainly to less than expected corporate performance.

### Balance of Payments

Provisional data for the balance of payments indicated a surplus of US \$ 1,158.79 million in 2009 as compared to a deficit of US\$ 940.8 million recorded in 2008.

Total merchandise imports recorded US\$ 8,046.25 million in 2009, a reduction of US \$ 2,222.25 million from the 2008 figure of US\$ 10,268.50 million. Out of the total merchandise imports of US\$ 8,046.25 million, oil imports alone accounted for 18.5 per cent, a significant drop of 36.8 per cent from the 2008 amount of US\$ 2,365.75 million. Non-oil imports amounted to US\$ 6,557.3 million. The reduction in imports for 2009 can be attributed to the fiscal restraint stance of Government in 2009 and a reduction in a heavily import related investment activities.

Total merchandise exports amounted to US\$ 5,839.70 million - a significant increase of 10.8 per cent from US\$ 5,269.74 million in 2008. This was as a result of an increase in export of cocoa beans and products as well as gold.

### **3.2.2 Allocate and manage resources efficiently and effectively**

In order to track progress towards the attainment of the above policy objective, the following indicators were monitored in 2009:

- Percentage allocation of resources to GPRS thematic areas
- Poverty related expenditures as percentage of GDP

- Budget deviation index
- Number of budgetary targets met

*Percentage allocation of resources to GPRS II thematic areas*

The GPRS thematic areas comprise Private Sector Development, Human Resource Development and Good Governance and Civic Responsibility. The 2009 allocations from the budget are shown in Table 3.2. About 26.6% was expected to be allocated to the Private sector competitiveness thematic area, 45.2% to the Human Resource thematic area and 28.2% to the Good Governance thematic area.

**Table 3.2: Approved Spending (GH¢) for 2009 through Appropriation Act**

Priority Area	Discretionary	Statutory	Donor	Total	% of TOTAL
Private Sector	279,527,913.00	123,282,407.00	966,816,850.00	1,369,627,170.00	26.67
Human Resource	1,509,674,072.00	650,287,045.00	160,093,990.00	2,320,055,107.00	45.17
Good Governance	760,158,084.00	345,687,483.00	340,720,421.00	1,446,565,988.00	28.16
TOTAL	2,549,360,069.00	1,119,256,935.00	1,467,631,261.00	5,136,248,265.00	100.00

Source: 2009 Budget Appropriation Act

The actual outturns according to thematic areas are as in Table 3.3 below.

**Table 3.3: Discretionary Spending on Thematic Areas, 2009**

Thematic Areas	Spending Priorities for 2009 (GH¢)			
	Approved	Released	Variance	Variance (%)
Private Sector	157,615,413	131,938,141	-25,677,272	-16.29
Human Resource	101,939,977	71,880,750	-30,059,227	-29.29
Governance	318,632,024	143,412,912	-175,219,112	-54.99
Overhead Cost	2,112,514,795	2,513,616,036	401,101,241	18.99
MDRI	93,270,000	82,300,168	-10,969,832	-11.76
HIPC	132,288,000	196,479,992	-64,191,992	48.52
Tax Refund	43,142,000	30,784,042	30,784,042	-28.64

*Poverty related expenditures as percentage of GDP*

The 2009 Budget Statement projected total Government Expenditure for the year under review at GH¢7, 203.06 million out of which GH¢1, 791.95 million (representing 24.88 per cent) was meant for expenditure on poverty reduction. The poverty reduction expenditures were to be made in the areas of Basic Education, Primary Health Care, Poverty Focused Agriculture, Rural Water, Feeder Roads and Rural Electrification.

*Discretionary Spending on Poverty*

Actual Poverty Reduction Expenditure was slightly higher than budgeted at GH¢1, 856.19, which accounts for 24.2 per cent of actual total Government expenditure.

Expenditure on poverty reduction in 2009 is higher than in 2007 and 2008 both in quantum and as a percentage of total government spending.

**Table 3.4: Government Spending on Poverty Reduction 2007-2009**

	2007 Budget	2007 Actual	2008 Budget	2008 Actual	2009 Budget	2009 Actual*
Total Poverty Reduction exp.	1,317,687,364.40	1,050,767,194.64	1,341,537,451.94	1,584,276,285.38	1,791,953,584.00	1,856,189,300.34
Total Govt. expenditure	5,017,191,239.00	4,605,297,395.00	5,465,910,111.00	7,103,281,883.72	7,203,006,342.00	7,669,968,040.00
Total Poverty Reduction Exp. As % of Total Govt. Exp.	26.26	22.82	24.54	22.3	24.88	24.20
<b>BASIC EDUCATION</b>						
Basic Education Exp. as % of Education Exp.	60.03	52.29	62.71	48.4	59.07	53.58
% of Total Poverty Exp.	45.88	41.42	53.4	47.24	48.57	54.97
<b>PRIMARY HEALTH CARE</b>						
PHC Exp. as % of Health Sector Exp.	54.65	50.90	48.86	48.98	48.98	50.98
% of poverty Spending	20.10	19.50	19.92	18.05	20.84	16.84
<b>POVERTY FOCUSED AGRIC.</b>						
Poverty Focused Agric. As % of Agric Sector Exp.	90.54	89.46	84.16	90.64	87.63	94.45
% of Poverty Spending	3.67	2.56	2.06	4.63	3.13	2.84
<b>RURAL WATER</b>						
Rural Water Exp. as % of Works & and Housing Exp.	50.32	52.49	69.38	33.97	80.61	19.00
% of Poverty Spending	1.06	1.57	2.20	1.36	3.12	0.45
<b>FEEDER ROADS</b>						
Feeder Roads Exp. as % of Roads & and Transport Exp.	24.55	33.36	25.5	24.01	21.41	24.78
% of Poverty Spending	4.08	5.05	4.16	5.04	2.61	3.06
<b>RURAL ELECTRIFICATION</b>						
Rural Electrification as % of Energy Sector Exp.	46.43	43.37	95.66	25.32	95.66	51.42
% of Poverty Spending	7.63	7.23	2.83	3.84	3.09	2.30
<b>OTHER POVERTY EXPENDITURES</b>						
Percent of Poverty Spending	17.57	18.62	?	19.83	18.63	24.52

Source: MOFEP, Budget Statements, GPRS II Document,  
\* Provisional

Poverty related expenditure on Basic Education continues to increase both as a percentage of overall poverty related expenditure and expenditure on Education as a whole. The GH¢1, 020.33 million represents 53.58 percent of actual education spending in 2009, compared to the budgeted figure of GH¢870.34 million (59.07 per cent of educational budget). Spending on Basic Education in 2009 as a percentage of total poverty reduction expenditure also showed an increase (54.97 per cent) compared to 2008 where Basic Education spending represented only 47.24 per cent of total poverty reduction expenditure.

Expenditure on Primary Health Care (PHC) which represents almost 51 percent of all Health Sector expenditure in 2009 also accounted for less than 17 percent of all poverty related spending. This compares to over 18 percent in 2008 and 19.5 percent in 2007. As a percentage of health sector expenditure, poverty related expenditure on PHC has been on a continuous decline.

Poverty focused agriculture received lower than budgeted for expenditure of GH¢52.81 million in 2009, representing 94.45 per cent of all Agricultural sector spending and 2.84

per cent of all poverty reduction expenditure. This is low compared to the GH¢73.36 million spent on this area in 2008, even though this is almost twice as much as was spent in 2007.

Expenditure on Poverty related Rural Water in 2009 fell short of the budgeted amount which represented one-third of the spending in 2008. As a percentage of Works and Housing Expenditure, Rural Water expenditure continues to decline significantly. It accounted for only 19.00 percent in 2009 even though it represented almost 34 percent of total sector expenditure in 2008. Rural water expenditure is however an insignificant proportion of total poverty spending, accounting for only 0.45 percent in 2008.

Spending on feeder roads for poverty reduction was above budgeted in 2009, but below the 2008 spending levels. It fell from GH¢79.786 million in 2008 to GH¢56.85 million in 2009. However it showed an increasing proportion of total Road and Transport sector expenditure. Whilst it accounted for 24.01 percent of Roads and Transport sector expenditure in 2008, it represented 24.78 percent of the sector's expenditure. It also represented a decreasing proportion of total poverty spending.

The huge reduction on total energy sector spending in 2009 meant that Rural Electrification expenditure as a percent of total energy sector saw a significant improvement between 2008 and 2009 even though it represents a decreasing proportion of total poverty spending. The GH¢42.68 million spent on rural electrification in 2009 represents 51.42 percent of total Energy sector spending and 2.30 per cent of total poverty spending.

#### Budget Deviation Index

The 2009 Budget projected a total expenditure for MDAs for Personal Emoluments, Administration, Service and Investment were GH¢ **3,211.43** million. At the end of the year, the outturn for the four items amounted to GH 3,483.6 million. This indicates a positive deviation of 8 %.

The item level expenditure shows that P.E. deviation was 14 %. This was mainly due to unanticipated salary increases for some agencies. Administration expenses exhibited a budget deviation of a negative 26 per cent while service expenses showed only a negative deviation of 1 %. Investment expenses show a positive deviation of 48%.

**Table 3.5: Budget Deviation Index**

	<b>2009 Target</b>	<b>2009 Actual</b>	<b>Budget Deviation</b>	<b>Deviation Percent</b>
<b>Personal Emoluments</b>	2171.37	2478.7	307.33	14%
<b>Administration</b>	593.32	437	-156.32	-26%
<b>Service</b>	186.64	184.2	-2.44	-1%
<b>Investment</b>	260.1	383.7	123.6	48%

<b>Total</b>	3211.43	3483.6	272.17	8%
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*Source: Budget Statement and CAGD information*

### **3.2.3. Promote Effective Public Debt Management**

Public debt to GDP ratio, which measures the solvency position of the public debt, recorded 62.4% by the end of 2009. This showed an increase of about 7.0 percentage points from the 2008 position of 55.3% and also exceeded the 2009 target of 60.0%. However, other indicators showed that Ghana's debt stock remained within sustainability thresholds.

The overshooting of the target is attributed to the significant rise in public debt of about US\$1.3 billion and a slower growth in GDP.

Domestic debt strategies targeted the lengthening of the maturity profile of the portfolio by increasing the size of the medium and long term instruments and reducing the short term instruments within the Net Domestic Financing (NDF) targets of US\$1,032.8 million. Domestic debt which stood at US\$4,296 million achieved the NDF target but could not achieve the strategy of restructuring the maturity profile.

The main reason for the failure was that short dated instruments were rather doubled and the medium and long dated instruments reduced a complete reverse of the targets of the strategy. This development was mainly caused by investors' preference for short term instruments due to high inflationary pressures in the first half of 2009.

By the end of 2009, external debt stock stood at US\$5,008.0 million, representing an increase of about US\$973 million over the 2008 position. Of this increment, about 30% came from the World Bank and the International Monetary Fund (IMF) financial assistance under the Extended Credit Facility (ECF) arrangement.

Measures to reduce and restructure external debt focused on contracting concessional loans, exploring more avenues for grant aid and limited recourse to commercial borrowing. This was supported by the restriction on non-concessional borrowing and guaranteeing under the ECF arrangement with the World Bank and IMF.

The strategy was largely pursued to ensure that debt sustainability was maintained as well as meeting the structural benchmark under the programme with the IMF.

### **3.2.4 Strengthen the private and financial sector**

In order to track progress towards the attainment of the above policy objective, the following indicators were monitored in 2009:

- % of regulated institutions inspected by Securities and Exchange Commission (SEC);
- % of insurance companies inspected within the year;
- Number of equity new issues in the Ghanaian Market;
- secondary market turnover as a % of market capitalization

Percentage of insurance companies inspected:

In enhancing the competitiveness and improve the effectiveness of regulating the insurance sector, 10 out of the 36 insurance companies were inspected in 2008. This represent 65% as against the targeted of 90%. In 2009 the number of the insurance companies increased to 40 as at the end of December 31, 2009. Out of these 40 insurance companies, 15 were inspected in 2009. This brings the percentage of the insurance companies inspected in 2008 and 2009 to 66% as against the targeted of 95%. Targets were not met due to the significant increase from 22 in 2007 to 40 in 2009, arising from the re-licensing exercise which required composite insurance companies to separate their life and non-life business. New companies also entered the Ghanaian insurance market.

The on-site inspections team will be strengthen in 2010 to enable the regulators (NIC) meet the 95% target by the end of 2010

Securities and Capital Markets Sector (Number of new equity issues in the Ghanaian Market and secondary market turnover as a % of market capitalization):

The year 2009 was particularly difficult for the stock market and this was against the background of 2008 being one of the best years of the market. The path that the market went through in 2009 resulted from the effect of the global financial crisis which began to be felt in the fourth quarter of 2008 and the fact that in 2009, the Exchange also effectively began migrating from paper certification to electronic book entry securities under our new automated Trading System. That process naturally requires time since investors needed to be convinced to get on board. The rise in domestic interest rate thus making money market instruments relatively more attractive was also a contributory factor. Other uncertainties resulted from external sources which was fears about the second round impact of the global financial crisis. These generated a chain of uncertainties adversely impacted on the economy in general and the capital market in particular. Consumer expectations became unstable and fuelled an inflation spiral. With inflation rising and strong fiscal demands on government, the consequence was an increase in interest rates on the money market. The renewed attractiveness of money market instruments contributed to weakening activity on the Ghana capital market.

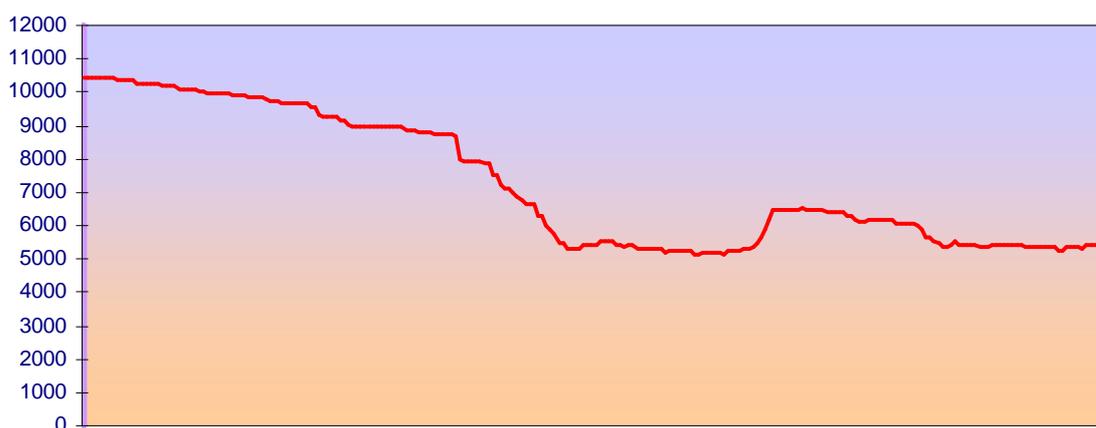
Further, the uncertainties also caused foreign investors holding Ghana Government medium to long-term bonds to redeem these instruments. These were, however, picked up by local nominees who sought for foreign exchange on the open market to pay these foreign investors. The resultant pressure on the foreign exchange market in Ghana led to a steep depreciation of the local currency, the cedi.

There was a spill-over on the market for domestic funds under management. In the first quarter of 2009, mutual funds in Ghana came under severe pressure as there were massive redemptions by investors. What is not clear is whether these redemptions were the result of impact of the global financial crisis or due to the uncertainties about the Ghanaian economy. The threat of a run on funds in Ghana was the worse scare as far as resource mobilization in Ghana is concerned in recent times. The Securities and Exchange Commission and the Ghana Securities Industry Association organized a one day public education seminar to calm tension among the investing public. By the middle of the second quarter of 2009, confidence has been restored to the system and investors have resumed placements with the managed funds again.

Another uncertainty which adversely impacted on the Ghana market was a contagion effect of the meltdown in Nigeria. A major stock, with a strong weight in the index of the Ghana Stock Exchange, is cross-listed in Ghana, Nigeria, and the francophone region. Arbitrage trading in this stock ensured that the depression the stock suffered on the Nigerian market was transferred to the Ghana market as well. This caused the market index in Ghana to depreciate by about 40 percent during 2009. In spite of the fact that other stocks on the Ghana market have made gains, the weight of the depressed stock overwhelmed the whole market into a bearish mode.

In conclusion the 2009 market performance was thus in sharp contrast with that of 2008 as may be seen in the various indicator comparisons.

**Figure 3.2: Movement of the GSE All-Share Index in 2009**



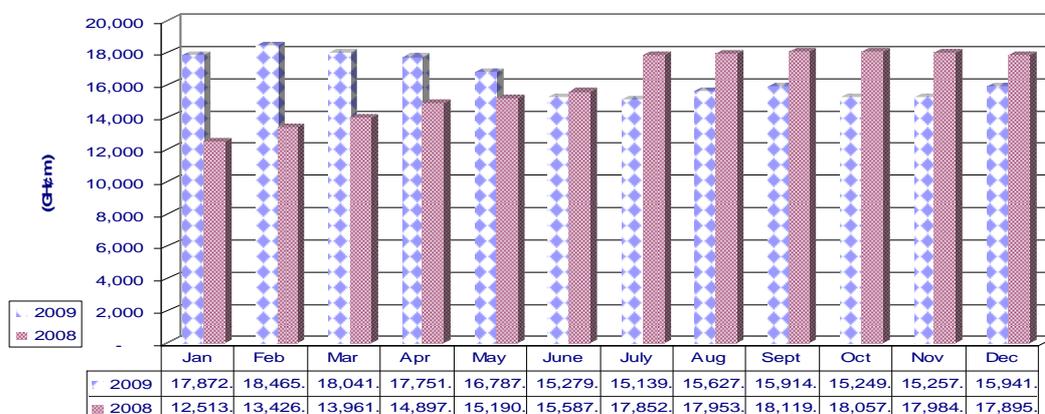
The GSE All-Share Index slipped from 10,431.64 at the end of December 2008 to 5,572.34 at the end of December 2009 to represent a change of negative 46.58%. The Index maintained a downward trend from the beginning of 2009 with the biggest monthly loss of 27.64% occurring in June. Thereafter, the index showed a slight

recovery, with the highest monthly gain of 12.81% occurring in August. The index recorded modest gains towards the close of the year.

### Market Capitalization

The market capitalization dipped by 10.91% from GH¢ 17,895.12 million in December 2008 to GH¢ 15,941.92 million in December 2009. The decline was due to a number of factors including the effect of the global economic crisis, market correction, a buoyant T-bill market/inverted yield curve and company specific issues related mainly to less than expected corporate performance.

**Figure 3.3: Market Capitalization in 2009/2008**



### The Bond Market

There were no new bond listings in 2009. A total of 86 listed government securities, made up of 49 2-year, and 37 3-year instruments were redeemed in the course of the year. HFC Series H "House bonds" and Standard Chartered Bank's Medium Term Notes (MTNs) were also redeemed in 2009.

## **CHAPTER FOUR**

### **RESOURCE ANALYSIS**

#### **4.1 Introduction**

This chapter will look at the financial and human resource analysis for 2009. This involves analysis of budgetary allocation to the Ministry for the implementation of programmes in 2009, as well as the requisite human resource in place at the Ministry.

#### **4.2 Financial Resources**

##### ***4.2.1 Budgetary Allocation***

The Ministry of Finance and Economic Planning was allocated a total budget of GH¢146.7 million. This was made up of GH¢64.0 million of G.O.G Funds, GH¢2.4 million of I.G.F., GH¢6.5million of HIPC, GH¢12.7million of MDRI and GH¢61.1 million of Donor Funds for its activities in 2009.

The breakdown of the GOG funds is as follows: Personal emolument allocated was 29.0 million, 8.7 million for administration, 8.0 million for Services and 18.3 million for investment activities. The analysis for this breakdown shows that personal emoluments as a share of the total GoG allocation was 45.3% percent and the rest for administration, service and investment.

The sum of GH¢2.3 million being the total retained IGF for the Controller and Accountant General's Department, Securities and Exchange Commission and the Institute of Accountancy Training to implement some of their activities for the year.

A HIPC allocation of GH¢6.5 million was made to CEPS and the BPEMS upgrade hardware.

An amount of GH¢12.7 million was made under the MDRI for IRS computerization census activities and other public financial management issues.

A donor amount of 61.1 million for Public Financial Management, Economic Management Capacity Building – Financial Sector Reform Project and the commencement of the census for the Ghana Statistical Service.

##### ***4.2.2 Actual Expenditure***

At the end of the 2009 fiscal year, an amount of GH¢ 62.0 million was spent on the achievements of programmes and projects for the Ministry. This represents 98 % of the budgetary allocation for the year.

Spending on wages and salaries for the Ministry amounted to GH¢ 32.0 million, an increase of 3.1 million over the allocation for the year. This increase was as a result of wage increases enjoyed by civil servants in 2009.

Releases for administration expenses amounted to GH¢ 8.7 million. Releases for service activities amounted to GH¢ 7.4 million, indicating a shortfall of GH¢ 0.566 million. Releases for Investment activities amounted to GH¢ 14.4 million against a budgetary allocation of GH¢ 18.3 million.

#### MDRI

An amount GH¢11.12 million was utilized out of an allocation of GH¢12.74 million. The amount was spent on IRS Computerization, Census Activities, Support and Maintenance Fees for BPEMS hardware, VSAT Transponder Services for implementation of BPEMS and Ghana Customs Secure Documents Management Project amongst others.

#### I.G.F

The sum of **GH¢2.4 million** being the total retained I.G.F for the Controller and Accountant General, Securities and Exchange Commission, and Institute of Accountancy Training were utilized in undertaking their core activities.

#### Donor

In 2009, an amount of **GH¢61.1 million** was allocated to the Ministry and its agencies, however **GH¢14.6 million** was disbursed. The amount disbursed were in the area of Public Financial Management, Economic Management Capacity Building – Financial Sector Reform Project (EMCB-FSR), the 2010 Trial Census and other activities of the Ghana Statistical Service.

**Table 4.1: 2009 G.O.G Provision and Releases to Date**

ITEM	2009 PROVISION	RELEASE AS	BALANCE	%
		AT 31-12-09	ON VOTE	RELEASES
Personal				
Emolument	28,916,182	32,037,500	(3,121,318)	111%
Administration	8,734,855	8,734,855	-	100%
Service	8,005,032	7,438,945	566,087	93%
Investment	18,304,887	14,385,324	3,919,563	79%
<b>TOTAL</b>	<b>63,960,955</b>	<b>62,596,424</b>	<b>1,364,332</b>	<b>98%</b>

### 4.3 Human Resources

The achievement of the mandate of the Ministry depended largely on the dedication and the skills and competencies of the available staff.

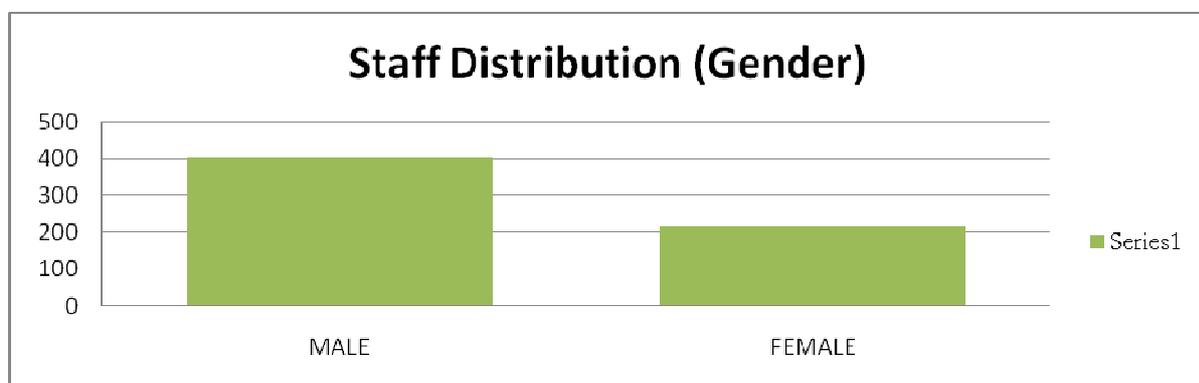
#### 4.3.1 Staff Strength

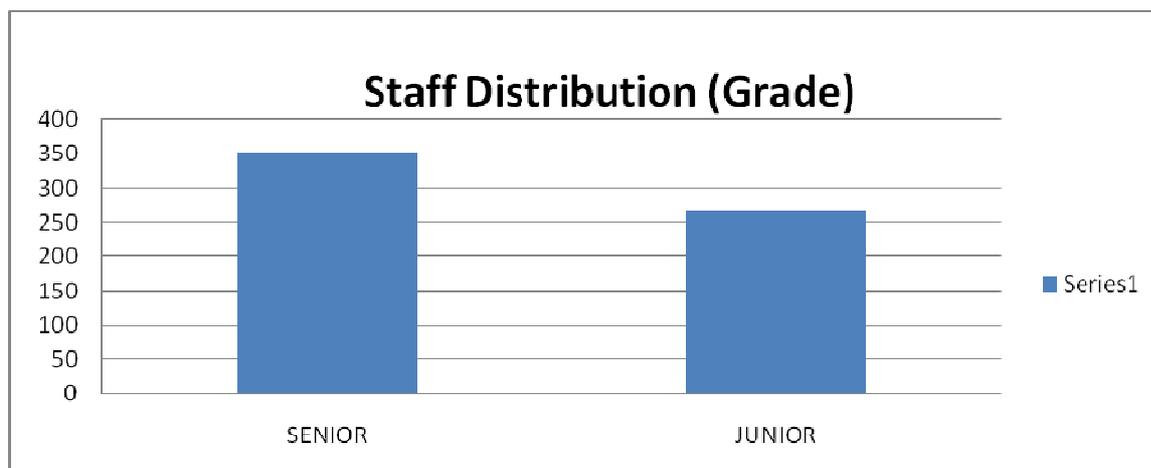
The Ministry had a total staff strength of six hundred and twenty one (621) as at 31<sup>st</sup> December, 2009 who contributed to the realization of the objectives in this report. There were five hundred and eighty-five (585) regular staff (Civil Servants) and thirty-six (36) consultants. The 36 consultants have varied expertise and skills which were and are not currently available to the Ministry. Their infusion provided the needed competencies so much required by the Ministry to deliver on its mandate.

Of the total staff of 621, 43% (268) were junior officers whilst 67% (353) were Senior officers giving a proportion of 1.0 senior officer to 0.74 junior officer. From the gender perspective there were about 65% (405) male officers as against 35% (216) female officers in the ratio of 1 male staff to 0.88 female.

The following charts show the staff distribution by gender, age and grade.

**Figure 4.1**





#### ***4.3.2 Staff Training and Development***

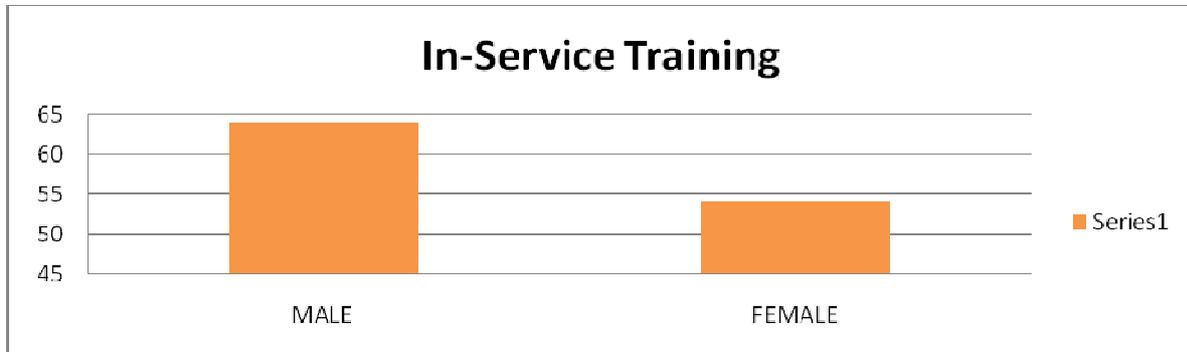
##### In-Service Training

In 2009 the Ministry pursued vigorously a training and development programme to improve the capacity of the staff to empower them to deliver. One hundred and eighteen (118) officers were trained in various short courses (competency based and scheme of service related training programmes) offered by GIMPA, WAIFEM, IMF, Civil Service Training Centre, Government Secretarial School and other training Institutions during the year.

Emphasis was placed on training in macroeconomics, financial management debt management, Public/Economic Policy Analysis, CGE Modelling and other management programmes, areas that pertinent to the work of the Ministry. The male and female beneficiaries stood at 55% and 45% respectively.

The Ministry is encouraging its female staff to upgrade themselves to be relevant to the dictates of current developments. To this end six female staff enrolled in various tertiary Institutions during the year under review. Four (4) female staff who had enrolled previously graduated with full honours in various relevant disciplines in 2009.

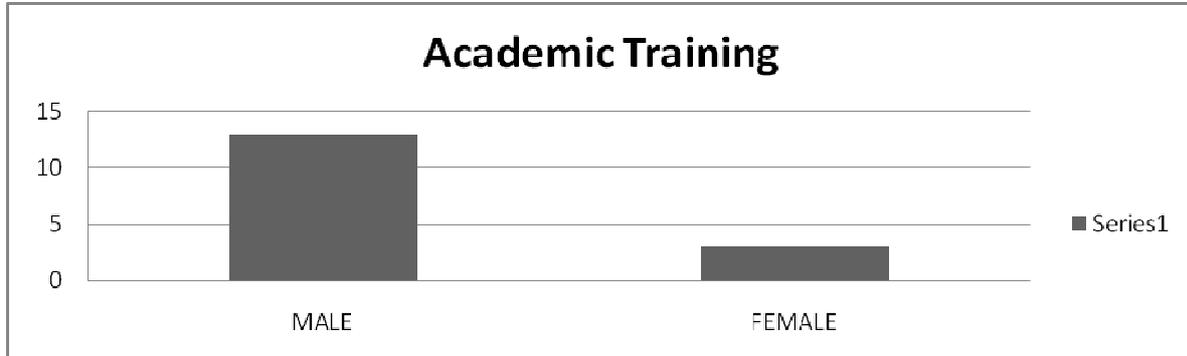
**Figure 4.3**



**Academic Training**

In terms of academic training programmes, sixteen (16) officers sponsored to read Masters Degree programmes in Economics, Finance and other related disciplines in recognized universities in UK, South Korea Japan and the USA. Three (18.7%) of these were female.

**Figure 4.4**



**Study Tour**

One (1) officer was sponsored on a study tour to Canada which included visits to the Prime Minister’s Office, the Ministry of Finance and other institutions that fall under the planning and budgeting framework of Canada.

This tour offered the officer the opportunity of sharing and learning from the experiences of these institutions on the issues of budgeting and planning, strategic thinking, planning process, development management, debt management, economic policy analysis etc.

### Recruitment

A total of sixty-eight (68) Assistant Budget Analysts were recruited for the implementation of the Public Financial Management Reform Program (PUFMARP) at the Metropolitan, Municipal and Districts levels.

They were trained, together with other District Finance Officers, to build their capacity to promote efficiency, transparency and accountability in public financial management through the re-engineering of the process of budgeting and public expenditure management and the proper monitoring and evaluation of the process at the district level.

Two consultants were also contracted, with the support of donor partners, to provide technical advice and support to the Minister in his responsibility as the leader of the process of mobilizing and ensuring the judicious use of resources.

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents the key conclusions from the monitoring progress of implementation of the Ministry's programmes, and makes recommendations for the necessary adjustments about programme implementation.

#### 5.2 Conclusions

In the light of the global economic crisis, economic growth recorded a modest gain in 2009. Economic growth in 2009 continued to be led by strong private investment and robust private and public consumption. Growth in the agricultural sector was very strong, relative to previous years, while growth in services and industry declined. However the manufacturing sub-sector showed some level of resilience in 2009, growing marginally.

The objective of the government to make the private sector the engine of growth suffered some setbacks in 2009, despite government's continued efforts to enhance the country's competitiveness in global and regional markets. The continued implementation of policy reforms aimed at improving the environment for doing business notwithstanding, progress made in this area in 2009 was marginal. The area with significant challenges is the environment for doing business which was negatively affected by the global economic crisis.

This notwithstanding the private sector continued to account for the bulk of credit facilities provided by deposit money banks (DMBs), while private fixed investment and FDI net inflows recorded an increase over the 2008 level. In 2009 private fixed investment remained strong on the back of robust investor confidence in the economy, in spite of the global economic crisis.

Ghana Integrated Financial Management Information System (GIFMIS) have been introduced to replace the Budget and Public Expenditure Management System (BPMS) which was faced with many challenges after being rolled out to 8 pilot ministries. Successful implementation of the GIFMIS will improve public expenditure management.

The capacity of the Ministry for macroeconomic policy formulation, implementation and monitoring and evaluation has been enhanced through training, study tours, re-tooling, re-structuring of the various division, and provision of office space. The advisory services of the Ministry have also been enhanced through contracting of consultants in specialized areas.

### 5.3 Recommendations

With significant gains so far achieved in the area of macroeconomic stability, and the economy placed on the path of recovery, it is important to deepen the policies that have the capacity to sustain these gains. Interventions should focus on continual improvement in management of public expenditure; improved fiscal resource mobilization; promote effective debt management; deepen the management of public debt; and institute mechanisms to manage external shock.

Expenditure should be prioritized and re-structured in favour of policies, programmes and projects that have the potential to yield higher returns to the economy and that easily lend themselves to private sector participation with minimal public investment.

The global recession caused severe problems as many macroeconomic targets including inflation, fiscal and current account deficits were not achieved. Inflationary pressures continued to be high in the first half of 2009 as a result of an excessive expansion of the money supply during the last quarter of 2008 and the food and energy crises of 2008.

The complexity of the global environment requires a better understanding of how it impacts on domestic economy in order to be able to formulate and implement appropriate policy response. It is therefore important for the capacity of the ministry to be enhanced through training, hiring of qualified persons to fill the relevant positions, contracting of relevant advisory services when appropriate, and re-tooling of staff. The relevant capacity should be developed to deal with specialized and emerging areas such as climate change, extractive industry and oil and gas.

As effort is being made at commencing the production of oil and gas at the last quarter of 2010, future economic performance is expected to be primarily shaped by investments in oil-related infrastructure and expected revenues from the oil exports. To minimize the risk of Dutch disease, it will be imperative to develop a strategy for the judicious use of oil and gas revenues, in terms of the size and nature of additional public expenditure. Oil production should be combined with strong private sector investment and sustained strong growth in the non-mineral sector, and continued export diversification.

Though the private sector continued to show some measure of resilience in 2009 in the wake of global economic crisis, private enterprises faced huge structural challenges. In spite of recent progress in improving the business climate in Ghana, fundamental challenges still remain in the areas of infrastructure, the institutional framework and the administrative system. Weak institutional framework, unreliable power supply, high cost of borrowing and the high rate of inflation remain a challenge and render most businesses uncompetitive.

Achieving an improved environment for doing business in Ghana will require that appropriate policy responses be developed to correct the macroeconomic imbalances which seem to be having adverse effects on the environment for doing business. Other specific recommendations with respect to the financial sector are:

- In deepening the capital market in Ghana, efforts to improve liquidity through more promotion and public education under the share immobilization programme should be undertaken. There should be a continue discussion with prospective listed companies (private) and encourage our Government to see local content as including the listing of companies doing business in Ghana's mining, telecom, banking and insurance and the energy sectors. With regards to the Integration of West African markets, efforts should be geared towards full implementation of the signed MOU. This would allow for a Speed up the common dealers' passport and the harmonization of rules and strengthen financial market structure and efficiency through the demutualization process of the exchange.
- There is the need to develop a national strategy for financial education and consumer protection in Ghana and launch a private sector supported financial education endowment fund to support sustainability of the financial literacy programme in Ghana.
- Ensure the enactment of the relevant bills into law for efficient legal and regulatory environment for the financial sector.
- Complete the phase II of the capital flow. The successful completion of the two phases of the capital flows project would enable the Bank to have the internal capacity to sustain regular compilation of capital flow data in the country
- Engage in Public education and sensitization programme on the new National Pension Scheme with emphasis on the informal sector.
- Facilitate the development of an Alternative Investment Market (OTC), acquire an electronic surveillance system for the Securities markets and reviewing all the Securities Industry Laws to remove any provision that impedes the development of the capital market and include such provisions that will help development the market.
- Facilitate the enactment of the relevant legislation to provide a conducive legal, regulatory and policy framework for public private partnership.

Over the years, several attempts have been made to improve budget execution at the sector level. These include:

- organizing workshops for MDAs to improve their understanding of the MTEF process as well as processes involved in linking the GPRS to the budget;
- requesting MDAs to show progress made in achieving targets set in the GPRS and the remaining gaps during the regular budget hearings;
- requesting MDAs to submit procurement plan as part of their budget submissions; and
- ensuring that National Development Commission (NDPC) fully participates in the budget preparation process to ensure that the GPRS priorities and the findings of the Annual Progress Report on the implementation of the GPRS are incorporated in the budgets.

However, budget execution continued to be weak at the sector level because of the weak linkage between the budget and the national development policy framework arising out of the weak coordination mechanism. The budgeting process has not developed the relevant mechanism to ensure that only MDAs who have approved Sector Medium Term Development Plans (SMTDP) received budgetary allocation. Neither was there a mechanism to ensure that only programmes and projects from the SMTDP receive resource allocation. There is no a mechanism to sanction MDAs who renege on providing their procurement or cash flow plans as part of the budget preparation process. MDAs are not sanctioned for not meeting their respective target in the previous year. For the budget process to serve as a tool in delivering the objectives of national development policy framework the incentive mechanism has to be developed and effectively enforced.

In an effort to improve the monitoring mechanism for resources released for the implementation of programmes and projects, a National Expenditure Tracking System (NETS) was developed by MOFEP, and the Controller and Accountant General's Department (CAGD) in 2007. This tool facilitates the harmonization of the GPRS II framework with the MTEF budget format, and by capturing all sources of public sector funds and expenditure, the NETS additionally served as a useful linkage for tracking expenditures on the implementation of the GPRS II.

Though some progress has been made, the mechanism continued to operate on an adhoc basis and lacks the appropriate institutional arrangement for its effective operation. Currently a comprehensive mechanism does not exist for automatic capturing of all releases electronically at MOFEP. In addition the format for capturing data from key national institutions responsible for supervising the release of public sector funds including MOFEP, BOG, CAGD and DACF Secretariat, and MLGRD continue to vary, making it difficult to reconcile the data from these sources. For effective tracking of the public sector funds, the institutional arrangement for tracking resources should be clearly defined, and the mechanism for reporting be clearly outlined.

For the year under review, MoFEP has contributed to the general improvement in the management of the economy especially in the area of balance of payments, fiscal deficits, prices and exchange rates. For the ensuing years, the Ministry should sustain the gains and ensure an accelerated growth to enable Ghana achieve the goal of middle-income status by 2015.

## APPENDICES

### Appendix 1: Indicator Matrix

MoFEP POLICY	PROPOSED INDICATORS	2007	2008	2009 TARGET	2009
<b>1. To formulate and implement sound Macroeconomic policies</b>	<b>National Accounts and Prices</b>				
	Real GDP growth	6.2	7.3	5.2	4.7
	GDP growth per capita	3.6	4.7	2.6	2.1
	Inflation (%)				
	Average inflation	12.8	18.1	19.1	15.97
	end-period inflation	10.7	16.5	14.6	19.25
	Fiscal Sector				
	<b>Budget deficit</b>				
	Overall balance(cash, including divesture) % of GDP	-8.1	-11.3	-9.4	-9.5
	Overall balance(cash, excluding divestures) % of GDP	-9.25	-14.52	-9.4	-9.5
	Domestic expenditure as % of GDP	29	32	29.9	
	Wage Bill as % of GDP	10.15	11.28	10.04	
	<b>Balance of Payments</b>				
	Real Exchange Rate Depreciation(Cedis to US\$)		-8.4		-5.2
	Private inward remittances(% growth)	19.3	26.8		8.2
	Balance of Payments(US millions of dollars)	-413.11	940.75		1158.79
	Gross international Reserves(US million Dollars)	2836.7	2036.2		3164.8
	Gross international Reserves in months of imports	2.6	2.1		3
	<b>Monetary/ Financial Sector</b>				
	Banking sector credit to private sector(% of GDP)	24.2	29.7		26.6
	91 Day T-bill	10.61	24.65		22.53
	<b>Prime Rate</b>				
	Review time for SEC to approve public offers	4wks	4 -6 wks	4wks	4 -6 wks
	% of insurance companies inspected within the year	40	65	90	66
	Number of equity new issues in the Ghanaian market	2 listing	3 listing	4 listing	1 provision al listing
	Secondary market turnover as a % of market capitalization	3.4	5.4	4	1.39
	Banking sector credit to private sector(% of GDP)	24.2	29.7		26.6
<b>2. To improve Fiscal Resources mobilization</b>	Domestic revenue as a % of GDP	22.9	22.8	28.5	
<b>3. To Allocate and Manage</b>	GPRPS Thematic Areas				

<b>MoFEP POLICY</b>	<b>PROPOSED INDICATORS</b>	<b>2007</b>	<b>2008</b>	<b>2009 TARGET</b>	<b>2009</b>
<b>Resources Efficiency</b>	Private Sector Development	27.62	30.68		22.98
	Human Resources Development	44.47	40.38		42.55
	Good Governance	23.45	23.2		23.67
	Others	4.4	5.73		10.8
<b>4. To Promote Effective Public Debt Management</b>	Gross Domestic Debt stock as % of GDP	26.2	27.7	28.0	28.8
	Gross External debt stock as % GDP	24.6	27.6	32.0	33.6
	Public debt stock to GDP	50.9	55.3	60.0	62.4
<b>5. Improve the Human Resource and Institutional management Capacity</b>	Number of training programmes organized (workshop/seminars/ conference)				
	Number of post graduates trained and at post				

**Appendix 2: Government Spending on Poverty Reduction 2007-2009**

	2007 Budget	2007 Actual	2008 Budget	2008 Actual	2009 Budget	2009 Actual*
Total Poverty Reduction exp. in billion cedis	1,317,687,364.40	1,050,767,194.64	1,341,537,451.94	1,584,276,285.38	1,791,953,584.00	1,856,189,300.34
Total Govt. expenditure	5,017,191,239.00	4,605,297,395.00	5,465,910,111.00	7,103,281,883.72	7,203,006,342.00	7,669,968,040.00
Total Poverty Reduction Exp. As % of Total Govt. Exp.	26.26	22.82	24.54	22.3	24.88	24.20
<b>BASIC EDUCATION</b>						
Basic Education Exp. in billion cedis	604,669,578.96	435,266,551.50	716,354,055.34	748,445,671.51	870,336,189.23	1,020,330,758.33
Education Exp. c billion	1,007,304,335.13	832,087,780	1,142,327,725.13	1,546,347,537.11	1,470,845,774.79	1,904,393,211.73
Basic Education Exp. as % of Education Exp.	60.03	52.29	62.71	48.4	59.07	53.58
% of Total Poverty Exp.	45.88	41.42	53.4	47.24	48.57	54.97
<b>PRIMARY HEALTH CARE</b>						
Primary Health Care Exp. in billion cedis	264,899,766.35	247,545,506.03	267,269,849.54	286,050,995.07	373,454,626.50	312,652,717.12
Health Sector Exp. c billion	484,687,016.35	486,354,165.27	547,030,393.76	583,990,853.24	762,424,303.52	613,295,237.22
PHC Exp. as % of Health Sector Exp.	54.65	50.90	48.86	48.98	48.98	50.98
% of poverty Spending	20.10	19.50	19.92	18.05	20.84	16.84
<b>POVERTY FOCUSED AGRIC.</b>						
Poverty Focused Agric. Exp.	48,367,2900.00	26,917,298.68	27,656,287.00	73,358,074.89	56,040,487.33	52,814,211.95
Agric Sector Exp. in billion c	53,422,200.00	30,087,077.88	32,861,791.00	80,937,828.95	63,949,730.33	55,916,649.95
Poverty Focused Agric. As % of Agriic Sector Exp.	90.54	89.46	84.16	90.64	87.63	94.45
% of Poverty Spending	3.67	2.56	2.06	4.63	3.13	2.84
<b>RURAL WATER</b>						
Rural Water Exp. c billion	13,940,249.31	16,464,887.84	29,501,209.97	21,512,357.69	55,962,525.35	8,449,542.84
Works & Housing exp.	27,702,749.31	31,368,754.09	42,523,529.97	63,320,569.25	69,425,612.35	44,466,819.84
Rural Water Exp. as % of Works & and Housing Exp.	50.32	52.49	69.38	33.97	80.61	19.00
% of Poverty Spending	1.06	1.57	2.20	1.36	3.12	0.45
<b>FEEDER ROADS</b>						
Feeder Roads Exp. c billion	53,721,124.74	53,041,085.91	55,875,005.36	79,786,123.70	46,808,849.09	56,847,826.30
Roads & Transport Exp. in c	218,800,401.74	158,993,732.85	219,087,182.97	332,306,398.93	218,614,428.09	229,441,825.81
Feeder Roads Exp. as % of Roads & and Transport Exp.	24.55	33.36	25.5	24.01	21.41	24.78
% of Poverty Spending	4.08	5.05	4.16	5.04	2.61	3.06
<b>RURAL ELECTRIFICATION</b>						
Rural Electrification Exp. c	100,553,679.17	75,828,758.42	37,937,812.96	60,873,218.3	55,464,434.71	42,682,020.61
Energy Sector Exp.	216,553,254.17	174,821,673.08	39,660,339.96	240,434,078.56	57,980,113.71	83,005,979.61
Rural Electrification as % of Energy Sector Exp.	46.43	43.37	95.66	25.32	95.66	51.42
% of Poverty Spending	7.63	7.23	2.83	3.84	3.09	2.30
<b>OTHER POVERTY EXPENDITURES</b>						
Other Poverty Exp. c billion	231,535,765.87	195,703,106.27	206,943,231.77	314,249,844.22	333,886,471.79	362,412,223.19
Other Poverty Exp. as % of Total Govt. Expenditure	4.61	4.25	3.79	4.42	4.64	4.73
Percent of Poverty Spending	17.57	18.62	?	19.83	18.63	24.52

Source: MOFEP, Budget Statements, GPRS II Document,  
\* Provisional

## **Appendix 3: Human Resource Matrix**