ECONOMIC AND FINANCIAL POLICIES FOR THE MEDIUM TERM

PREPARED BY

THE GOVERNMENT OF GHANA

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INTRODUCTION

1. The Government of Ghana has adopted a comprehensive stabilization and reform programme to correct the imbalances that have occurred in recent years and to lay the foundation for transforming the structure of the economy and safeguard its positive medium term prospects. While this policy document sets out Ghana’s economic and financial policies for the medium term (2014-2017), it is important to stress that it consolidates policies that the country has outlined in the 2013 and 2014 Budgets presented to Parliament. Indeed, in several instances, most of these policies have been part of the Public Financial Management (PFM) reforms that were launched between 2009 and 2010.

2. Hence, the main purpose of this document is to show a consolidated form of the “home-grown” policies that the Government is implementing to correct the current imbalances in the economy with a view to securing the positive future prospects for the country. The absence of a document that is dedicated exclusively to the consolidation effort has often given the impression that Ghana was not implementing enough measures to bring the fiscal situation under control. Besides the 2013 and 2014 Budgets, the background to this document also includes the State of the Nation Address as well as the existing and impending Ghana Shared Growth and Development Agenda Phases I and II (GSGDA I & II) documents.

3. Ghana successfully went through keenly contested presidential and parliamentary elections in December 2012. President Mahama’s National Democratic Congress was re-elected in December 2012 but after disputing the election results, the opposition New Patriotic Party contested the results in the Supreme Court. President Mahama emerged victorious and the Supreme Court declared him as the validly elected President after nine months of proceedings.

4. There is no doubt that the outcome of the long election and court processes is a positive manifestation of the consolidation of Ghana’s democratic credentials and adds to the certainty in making Ghana a stable and positive environment for domestic and international investments. It makes the country a strong functioning democracy in Africa, and the outcome of the case stands out as the single most remarkable achievement in the country’s governance history. On the other hand, it contributed to the slow-down in economic activity in 2013. In addition to the election petition’s effect on output, the year 2013 also witnessed significant energy disruptions which affected growth.

RECENT ECONOMIC DEVELOPMENTS AND MEASURES

5. Ghana has witnessed significant expansion in output in recent times with the real GDP growing steadily from 3.7 percent in 2000 to 8.8 percent in 2012 before decelerating slightly to 7.1 percent in 2013. Growth averaged 8.3 percent from 2007 to 2013. After declaring HIPC in the context of an IMF programme from 2002 to 2006, the country benefited significantly from
debt relief with fiscal space to embark on critical infrastructure investments, particularly in the energy and road sectors as well as targeted social spending.

6. The favourable prospects for Ghana’s oil and gas resources have attracted large inflows of foreign direct investment (FDI). The rebasing of the GDP in 2010 and onset of oil production in 2011 boosted Ghana’s growth further, making it one of the fastest growing economies in Africa. The resulting significant improvement in per capita income from US$1,292.5 in 2010 to US$1,570 in 2012 has placed the country into a Lower Middle-Income Country (LMIC) status. On the other hand, these positive developments and Ghana’s new middle-income status are leading to a change in the country’s classification by donors as well the multilateral institutions such as the World Bank and African Development Bank (AfDB). The main effect is limiting the country’s access to grants and concessional financing in the near term.

7. The combination of higher output growth, declining inflation, and improved social spending under the Ghana Poverty Reduction Strategy (GPRS) and Ghana Shared Growth and Development Agenda (GSGDA) has contributed significantly to lower poverty levels. The incidence of poverty declined from 39.5 percent in 1998/99 to 28.5 percent in 2005/06. At this rate, Ghana is poised to achieve the Millennium Development Goal (MDG) of halving extreme poverty ahead of 2015.

8. Since the initiation of the MDGs, Ghana has made significant progress towards reducing poverty; improving access to education; reducing gender disparities in primary education; and providing access to improved water sources and these efforts have been recognized globally. Despite these achievements, challenges still exist in the areas of reducing maternal and child mortality and increasing access to improved sanitation. Given the nearness to the deadline for achieving these targets, Government is intensifying its efforts in these areas to enable the country achieve these targets by 2015. Ghana stands ready to implement policies and programmes towards the achievement of the post-2015 development agenda.

9. In the financial sector, important structural and institutional reforms have also been undertaken recently. In particular, under the Basel and other initiatives such as the development of payment system infrastructure, a comprehensive legal and regulatory framework and strengthened risk-based prudential supervision policies have been put in place to further deepen the financial sector and safeguard the safety and soundness of the financial system.

10. These developments in the economy have taken place within major adverse developments in the global economy which culminated in the global financial crisis or meltdown that started to change the fortunes of many economies from about 2008. Many developing and emerging countries, including Ghana, escaped the full effects of the initial crisis, mainly as a result of improvements in commodity prices and overflow of credit from quantitative easing (QE) programmes in the advanced countries. More recently, however, many of these economies are experiencing the negative impact of the winding down of the stimulus and QE programmes that were designed to stimulate growth in the major global economies. The main impact on Ghana’s economy is the slump in gold and cocoa prices on the international commodity markets.
in 2012 and 2013 thereby affecting revenue generation and output expansion and foreign exchange inflows.

**Macroeconomic Performance in 2012**

11. In 2012, real GDP grew by 8.8 percent and was mainly driven by the non-oil sectors, namely agriculture, industry, and services. Inflation stabilized at 8.8 percent following measures put in place by the monetary authorities to contain the rapid depreciation of the currency in the first half of 2012. In spite of the progress in the macroeconomic and structural areas, the economy, particularly fiscal management, has come under severe stress since 2012, due to both global and domestic factors. Fiscal policy implementation suffered some setbacks as the budget deficit widened to 11.5 percent on account of several exceptional factors outlined below:

   i. implementation challenges associated with the single-spine wage policy initiated in 2007 to correct distortions and inequities in the public sector wage structure;
   
   ii. significant shortfall in grants from Development Partners;
   
   iii. non-realisation of projected revenue from the oil companies, due mainly to shortfall in projected output in 2011 and 2012;
   
   iv. larger-than expected petroleum and utility subsidies;
   
   v. higher interest costs arising from the steep rise in short term domestic interest rates—from the round of bonds that were issued to fund the national budget;
   
   vi. the continued disruption in gas supply to the country from the West African Gas Pipeline (WAGP) that led to a substantial increase in subsidies.

12. Further, in relation to several of these factors, the current account deficit deteriorated to 11.8 percent of GDP from 9.1 percent in the previous year and gross international reserves remained low at 2.8 months of import cover. It is important to note, however, that the large current account deficit is closely associated with sizable foreign direct investment, mainly in the extractive industries, as well as the negative terms of trade attributable to the falling price in commodity exports, notably gold and cocoa.

**Macroeconomic Performance in 2013**

13. The 2013 Budget and Mid-year review ushered in bold decisions to improve the fiscal and monetary situation. Even though these measures helped to improve the situation, the continuing adverse global and domestic developments posed challenges to economic management in 2013. As noted, the prices of Ghana’s key commodities have declined on the international markets, giving rise to a worsened external sector performance that complicated the macroeconomic situation.

14. Nonetheless, revised growth outturn for 2013 released by the Ghana Statistical Service (GSS) in April 2014 showed an overall GDP growth of 7.1 percent over the growth of 8.8
percent recorded in 2012. The 2013 growth was however, below the year’s target of 8.0 percent. The services sector recorded the highest growth of 8.9 percent, followed by industry (7.0 percent) with agriculture recording a growth rate of 5.2 percent. The relative slowdown in growth in 2013 was due mainly to the energy crisis that the economy faced from mid-2012 and falling gold production related to the drop in world prices.

15. Inflation surged in 2013 and early 2014 mainly on account of removal of subsidies on petroleum prices and utility tariffs as well as pass-through effects of exchange rate depreciation, the latter reflecting a general weakness of the external sector developments in 2013. After ending 2013 at 13.5 percent, inflation rose to 14.5 percent in March, further drifting away from the target band of 9.5±2 percent. The latest developments in inflation also reflect a seasonal pick-up of food prices, rising to 8.2 percent in March from 7 percent in January. Core inflation rose at a moderately lower pace, signaling the importance of deregulation in the inflation dynamics.

16. The Monetary Policy Committee (MPC) of the Bank of Ghana recently tightened monetary policy in response to rising inflation and inflation expectations, and the sharp depreciation of the cedi. It increased the policy rate by 200 basis points to 18 percent in February 2014.

17. To improve revenue performance in support of the fiscal consolidation effort, in July 2013, Government introduced the following additional revenue measures:

i. National Fiscal Stabilization Levy of 5 percent of profit before tax of institutions in banking, insurance, other financial services, communication, and brewery sectors with a sunset clause to end at the end of 2014;

ii. Special Import Levy of 1 and 2 percent on some imported goods;

iii. A broadened base of the environmental tax and a reduction in the tax rate from 15 percent to 10 percent; and

iv. Re-imposition of import duty of 20 percent and VAT on imported mobile handsets.

18. These revenue measures yielded revenue of about GH¢168 million or 0.2 percent of GDP in 2013 and are expected to yield GH¢630 million or 0.6 percent of GDP in 2014.

19. In addition to the revenue measures, expenditure measures were introduced for purposes of achieving the fiscal target for the year, namely:

i. regular adjustment of fuel and utility prices to achieve better targeting and thereby reduce related subsidies to the barest minimum;

ii. minimizing waste in expenditure on goods and services and capital;

iii. minimize the award of new contracts and contracting of new loans with a change in focus on existing contracts and loans;
iv. refinancing of short term expensive debt with a view to extending the maturity dates and reducing interest costs;

v. provision of matching funds to fast-track disbursement of existing loans; and

vi. processing of all GoG expenditures on the Ghana Integrated Financial Management and Information System (GIFMIS) to control unauthorised commitments.

20. These expenditure rationalization measures helped to contain most expenditures within the 2013 total Appropriation.

21. Notwithstanding the significant measures to contain the fiscal deficit in 2013, the deficit at the end of the year was 10.1 percent of GDP against a target of 9 percent due mainly to the following factors:

i. shortfall in tax revenue resulting from lower domestic output and import levels as well as a decline in commodity prices on the world market, notably gold and cocoa;

ii. continuous shortfalls in grants from Development Partners relative to the budget target;

iii. overruns in the wage bill due to the continuing implementation of the SSPP;

iv. overruns in subsidies due mainly to the payment of arrears; and

v. overruns in interest costs, due mainly to financing of the deficit.

22. In spite of the non-achievement of the fiscal target for 2013, Government remains committed to its short-to-medium term fiscal consolidation objectives. Indeed, the 2014 Budget outlines additional measures to address the main causes of the fiscal slippage in 2013 and ensure the achievement of our medium term targets.

23. On the external front, Ghana’s key commodity prices generally softened during the first half of 2013 while a recovery in cocoa prices in the second half was not sufficient to prevent an overall deterioration of the terms of trade. This, alongside a large net service and income outflows as well as slowdown in official and private transfer inflows resulted in a deterioration of the current account balance to 12.0 percent. This was financed mainly by foreign direct and portfolio investments as well as drawdown of reserves.

THE GOVERNMENT’S ECONOMIC PROGRAMME

Medium-Term Development Objectives

24. The medium term macroeconomic programme of Government draws from the medium term national development policy framework, GSGDA II (2014 – 2017) which has an
underlying theme of socio-economic transformation. This transformation entails changing the structure and composition of national output in ways that enhance

i. broad-based, inclusive and sustainable growth;

ii. the process of production through skills and technological upgrading;

iii. the competitiveness of industry and trade; lifting workers from low-productive agriculture to higher productive agriculture and other activities; and

iv. putting the economy on a growth path that creates jobs, opens up decent work opportunities for all, alleviates poverty and reduces income and social inequalities.

25. The GSGDA over the medium term (2014-2017) will be anchored on:

i. continued pursuit of macroeconomic stability;

ii. creating the appropriate fiscal space for accelerated investments in key priority programmes, in partnership with the private sector;

iii. sustainable exploitation of Ghana’s natural resource endowments in agriculture, minerals, oil and gas; and

iv. strategic investments in human capital, infrastructure, human settlements, science, technology and innovation to drive industrialization, in particular manufacturing.

26. The strategy for attainment of these medium term goals and objectives will be underpinned by the Government’s overall agenda of:

“Investing in people, building a strong and resilient economy, expanding infrastructure, and ensuring transparent and accountable governance.”

27. Some of the specific sectors that the measures introduced since 2012 to 2014 to consolidate the medium-term prospects of the country include:

i. further expanding the services sector—with Ghana becoming a hub for financial and transportation services;

ii. increasing crude oil production from existing and new oil fields;

iii. completion of, and further expansion and investments in, gas production and processing;

iv. linking the oil and gas prospects to a wider energy mix that includes substitution of gas for household and business use; fertilizer and petrochemical industrial production; and export of power as part of the West African Power Pool (WAPP); and

v. expansion of the transportation network of road, river and rail which also integrates into the ECOWAS infrastructure agenda.
28. The prospects for the medium term are based on more value addition, diversification and enhancement of local content initiatives.

**Medium Term Macroeconomic Objectives**

29. As stated earlier, the medium term macroeconomic programme and annual budgets will be anchored on the GSGDA II. The main goal of the medium term macroeconomic programme is to achieve and sustain macroeconomic stability for the promotion of growth and development. The strategy for achieving macroeconomic stability will include:

i. ensuring fiscal discipline that hinges on prudent public expenditure management;

ii. enhanced domestic revenue mobilization;

iii. public sector reforms, with particular emphasis on right-sizing the public service;

iv. reclassification of public debt and improvement in public debt management; and

v. encouraging the private sector to participate in the accelerated growth agenda through Public Private Partnerships (PPPs).

**Fiscal Policy**

30. In the medium term, fiscal policy will aim at consolidation to achieve a sustainable fiscal deficit and public debt. In this regard, Government aims to reduce the fiscal deficit from 10.1 percent of GDP in 2013 to 8.5 percent in 2014, 7.5 percent in 2015, and further down to 6.0 percent in 2016. The reduction in fiscal deficit will be driven mainly by expenditure rationalization and revenue enhancing measures.

31. Medium term expenditure rationalization measures will include:

i. shifting the focus of expenditure from low-priority public spending for all MDAs;

ii. rationalization of the wage bill, pensions, gratuities, and social security payments as part of measures to reduce the wage bill (excluding arrears) to tax revenue ratio from 57 percent in 2013 to 35 percent by 2017. This would put us within reach of the ECOWAS criterion of wage-to-revenue ratio of 35 percent. This will be done in the context of GIFMIS, HRMS and payroll reforms that are being implemented already;

iii. negotiate public sector wage adjustments subject to budgetary constraints and within a medium term framework consistent with the wage bill-to-tax revenue ratio;

iv. rationalization of public sector staff in MDAs – which elements include the ongoing payroll upgrade and installation of new HRMS programme for Office of Head of Civil Service (OHCS) and Public Services Commission (PSC). These measures will include a broad public sector reform with a voluntary retirement plan as well as a review of MDAs organizational structure;
v. restructuring of the District Assemblies Common Fund (DACF) and other Statutory Funds to reduce rigidities in the budget and aligning them to priority programmes;

vi. continuation of the policy of regular adjustment of fuel and utility prices to keep expenditure on subsidy within budget constraints;

vii. deepen the implementation of GIFMIS through completion of the budget modules and roll-out to all MDAs and MMDAs to improve efficiency in public expenditure management and provide a more effective way of controlling commitments;

viii. undertaking a more thorough privatization of the downstream of the electricity distribution systems at ECG and NEDCO, by using the private sector in the collection of revenues under performance-based contracts; and

ix. Debt management measures approved in the 2014 Budget with the view to:
   a. managing the debt sustainability limits;
   b. adopting recovery schemes such as escrows and on-lending for commercially viable projects;
   c. lengthening of maturity profile of domestic debt and financing the capital component of the budget through the issuance of longer dated bonds;
   d. Channeling grants and concessional borrowing to social investments while using non-concessional funding largely for commercially viable projects; and
   e. establishing the Ghana Infrastructure Investment Fund (GIIF) as a quasi-fiscal body to raise and provide sustainable funding for infrastructure development.

32. It is expected that these measures will lead to a reduction in public expenditure in relation to GDP and shift the balance from recurrent spending to infrastructure investments.

33. Government will pursue enhanced revenue mobilization mainly through tax reforms and improved revenue administration and efficiency. Over the medium-term, revenues in relation to GDP will be increased to levels consistent with peers in the Lower Middle Income Country category. In addition, the GRA’s medium-to-long term strategic plan is currently being revised to include a goal of placing the nation’s revenue mobilization effort within the bands for Lower Middle Income countries.

**Monetary Policy**

34. In the medium term, the objectives of monetary policy will continue to target an inflation rate of 9.5 percent within a band of ±2 percent, and gross international reserves will also be targeted to cover not less than 4 months of imports of goods and services by 2016. The Bank of Ghana is committed to price stability to support sustainable growth of the economy. In this
regard, the Bank will continue with refinements to its operational polices to enhance the efficiency of the transmission mechanism.

35. From mid-2013, the Bank made good progress in improving its liquidity management framework, evidenced by a convergence of the overnight interbank rate with the policy rate while further operational reforms are currently being considered with the aim of further improving its liquidity management operations. The Bank is currently receiving technical assistance in this regard. To further enhance the Primary Dealer (PD) System of government securities, in 2014, the Bank of Ghana will work towards using the PD system solely for wholesale trading while the non-PDs will be encouraged to participate in secondary market trading activities.

36. Enhanced foreign exchange market operations and relatively benign outlook for cocoa and oil as the world economy continues to recover should help improve reserve buffers. The reforms in the foreign exchange market and liquidity management, along with expected improvement in external conditions and anticipated improvement in cocoa production, improved non-traditional exports and oil production, as well as possible decline in the oil import bill with the onset of gas production, should create conditions for gradual recovery of foreign exchange reserves. Moreover, the ramped-up Jubilee crude oil production in 2014 and 2015, the coming on stream of the Twenenva-Enyenra-Ntomme (TEN), as well as the Sankofa-Gye Nyame fields in the second half of 2016 should boost the medium-term prospects of shoring up the foreign exchange reserves to more comfortable levels, in line with the medium-term projections.

37. The combined effects of ensuring stability both on the domestic and external front, is to ensure that monetary policy in conjunction with fiscal operations deliver on the key macroeconomic objective of improving the levels of income. In this regard, the Bank of Ghana will collaborate with the Ministry of Finance to effectively implement government’s debt restructuring strategy with a view to reducing interest costs, which will enhance efforts to bring down the cost of credit to support improved credit delivery, in line with medium-term growth projections as well as job and wealth creation.

Summary of Medium Term Macroeconomic Targets

38. In line with the above policies, the macroeconomic goals for the medium term include:

i. An average real GDP growth (including oil) of 8.7 percent with the growth increasing from a projected 8.0 percent in 2014 to 8.2 percent in 2015 and further to 10.0 percent in 2016;

ii. An average non-oil real GDP growth of 8.2 percent with growth increasing from 7.4 percent in 2014 to 8.3 percent in 2015 and further to 8.9 percent in 2016;

iii. An end period inflation of 9.5 ± 2 percent by 2016;
iv. Gross international reserves of not less than four months of import cover by 2016;

v. Fiscal deficit equivalent to 6.0 percent of GDP by 2016; and

vi. Stabilisation of the total public debt relative to GDP at 45 percent by 2016.

Macroeconomic programme for 2014

Fiscal Policy

39. The government’s 2014 budget, approved in November 2013, was based on a growth projection of 8.0 percent, an end period inflation rate of 9.5±2 percent and gross international reserve cover of not less than 3 months.

40. On the fiscal front, the 2014 Budget introduced additional policy initiatives to strengthen revenue and expenditure regimes towards the achievement of a fiscal deficit target of 8.5 percent of GDP.

Revenue Measures

41. The revenue measures sought to broaden the tax base and, thus, spread the burden of national development on all of our citizens rather than the few who meet their tax obligations. It also sought to make the system fairer and more efficient. In this regard, the following revenue measures are being implemented:

i. increase of the VAT rate by 2.5 percentage points and a broadening of the VAT base to cover fee-based financial services and real estate – to reflect its essence as a tax on all consumption expenditures;

ii. a change in petroleum excise tax from specific to ad valorem – in line with other excise regimes;

iii. an increase in withholding tax on rent on commercial properties from 8 to 15 percent – to encourage the provision of residential accommodation;

iv. an increase in the withholding tax on management and technical services fees from 15 to 20 percent – to make the overall tax regime fairer to all taxpayers;

v. an increase in corporate income tax rate of free zones companies selling on the local market from 8 to 25 percent – to prevent discrimination against firms marketing all their output on the domestic market; and

vi. more effective application of the communication service tax.

42. These tax measures go beyond the sole objective of raising revenue or even addressing the current challenges exclusively. As noted they broaden the tax base, remove inefficiencies,
make the regime fairer to all tax payers, and launch Ghana’s tax effort within ranks of Lower Middle Income Countries. Together with ongoing improvements in revenue administration, these tax measures are estimated to yield additional revenue of not less than GH¢700 million or 0.7 percent of GDP in 2014.

43. The Ministry of Finance has initiated a process to change the upfront exemptions regime to a credit and refund system to minimize abuse, tax evasion and tax avoidance. In addition the Ghana Investment Promotion Centre (GIPC) Act will be reviewed to ensure that exemptions granted by the GIPC are consistent with the government exemption policy.

**Expenditure Measures**

44. The main theme of the 2014 Budget is to realign expenditures. In this regard, the Budget includes expenditure rationalisation measures such as:

   i. continuation of the policy of bringing utility and petroleum subsidies within budget estimates and making them more targeted towards our social intervention goals;

   ii. the development of a multi-year framework in the immediate term as part of wage sustainability measures emerging from a growing consensus between government and labour;

   iii. a proposal of a moratorium on public sector wage increase in 2014 through the public sector wage negotiation process;

   iv. continuation of the policy of net freeze on employment in some sectors of the public service.

   v. payroll management measures such as payroll audits and Electronic System Payment Voucher (E-SPV) to reduce the incidence of ‘ghost’ workers on government payroll; and

   vi. continuation of the moratorium on the award of new contracts and new loans with continuing emphasis on pipeline items.

45. In addition to the above measures, the following Public Financial Management (PFM) reforms that are structural in nature are also being implemented:

   i. the shift of all government transactions to a new Chart of Accounts (COA) – to enhance transparency;

   ii. the shift of budget and financial accounting from cash to semi-accrual basis to help government better track its financial commitments; and

   iii. deployment of all transactions to a GIFMIS electronic platform comprising ten (10) budget and accounting systems.
Monetary Policy

46. The key monetary policy concern is re-anchoring inflation expectations and exchange rate stability. The Bank of Ghana (BOG) took the following measures to re-anchor inflation expectations and prevent the second round impact of the deregulation from getting entrenched in the economy. The measures were also designed to moderate pressures in the foreign exchange market.

i. The Monetary Policy Committee raised the policy rate by 2 percentage points, from 16 percent to 18 percent with a bias towards further tightening should conditions warrant such an action.

ii. Besides, the Bank issued a new set of foreign exchange regulations and code of conduct to guide operations in the foreign exchange market, including:

   a. the revisions on the rules for operation of foreign exchange and foreign currency accounts;

   b. restrictions on foreign currency denominated loans;

   c. repatriation of export proceeds and margin accounts for import bills; and

   d. revised operating procedures for forex bureaux (including mandatory use of electronic platforms).

47. The BOG measures are designed to ensure transparency, streamline activity and reduce leakages in the foreign exchange markets, address anti-money laundering issues and promote the use of the Cedi as the sole legal tender.

THE STRUCTURAL REFORM AGENDA

48. Achieving success in the medium term will depend on strengthening fiscal institutions, enhancing revenue mobilization with a strong public expenditure management agenda. Public Financial Management and real sector reforms, as well as reforms in the financial sector which will bolster the monetary policies of the Bank of Ghana are, therefore, needed to ensure a speedy achievement of the medium term socio-economic goals of government. Some of the key structural reforms being implemented are summarized below.

Tax Policy and Tax Administration

49. Ghana’s revenue administration and tax policy has seen significant reforms since the 1990s. Reforms have included the creation of new administrative structures and the introduction of new taxes.
Tax Administration

50. The placing of the erstwhile Customs, Excise and Preventive Service (CEPS); Internal Revenue Service (IRS) and Value Added Tax Service under a single apex organization—the Ghana Revenue Authority (GRA) in 2009, marked the culmination of tax reforms. The process also resulted in the integration of the VAT and Internal Revenue Services into a single Domestic Tax Revenue Division (DTRD), along with the conversion of CEPS into the Customs Division; and consolidation of the administrative wings of the three Services into a single Management Services Division.

Domestic Tax Integration and modernization

51. The focus of the GRA Reform in the past 3 years has been on the integration of the erstwhile IRS and the Value Added Tax service to create the DTRD. GRA has continued and is consolidating the concept of Segmentation by creating 15 Medium Taxpayer Offices (MTO) and 51 Small Taxpayer Offices (STO) in addition to the existing Large Taxpayer Office (LTO).

52. Additionally, a functional approach organized around Taxpayer Services, Tax Accounting, Debt Management as well as Audit and Investigations was adopted and have been implemented in all 66 offices, along with training in new operational manuals. Following best practice in tax administration, GRA has adopted Self-Assessment for all taxpayers. The project was publicly launched in May 2012 and to date, 7 MTOs are practicing Self-Assessment while the remaining 8 started in January 2014. As a matter of policy, GRA will roll out self-assessment for all taxpayers who are not on the Presumptive Tax regime designed for only small entities in the informal sector.

Integrated Revenue Processing System

53. An integral part of the DTRD modernization is the implementation of the Tax Administration software known as TRIPS (Total Revenue Integrated Processing System) which automates the DTRD processes and provides management information for decision making. System development and testing is complete and the roll out phase has started. As at the end of 2013, 13 offices were operational in Greater Accra Region. Under a revamped process, GRA will roll out the complete suite of tax administration modules in the LTO and all MTO from 2014 and start creating the requisite interface between the domestic and international trade tax electronic systems under the Domestic and Customs Divisions respectively.

54. The government will streamline the tax legislation process so that all legislation affecting the tax system is reviewed and tabled by the Ministry of Finance. In this regard, administrative provisions existing separately within each of the previous tax laws have been harmonized into a single Tax Administration Bill. The Internal Revenue Act (now the Income Tax Bill), the VAT law, Excise law and the Customs Law have been reviewed and simplified. Parliament has passed the new VAT Act and it is currently debating the Excise Duty Act (with a supporting Excise Tax Stamp Act to enhance compliance and prevent revenue losses). MOF and GRA will consult with Parliament, with a view to accelerating the pace of the passage of the remaining tax and administration Bills.
Tax policy

55. Current tax policy initiatives emphasize on improving revenue mobilization through tax effectiveness and efficiency. To that effect, the GRA is continuing its tax modernization programme to support the establishment of a Tax Policy Unit in the Ministry of Finance. The policy measures being formulated include rationalizing the tax regime, minimizing abuses in the tax exemption regime, and analysing the impact of the specific tax regimes in sectors such as petroleum and mining.

Transfer Pricing

56. The OECD assisted Ghana to formulate a transfer pricing policy and a draft Bill that was passed into law in 2012. The purpose is to follow international best practice in assessing the tax and examining the records of domestic entities that operate in conjunction with other domestic and foreign affiliates. Ultimately, by promoting effective auditing in 2014, the process will reduce the abuses and under-declaration of profits and, thereby, resulting in higher revenues from the tax regime. From 2014, GRA will train more staff in the new transfer pricing regime and extend its application to strategic and expanding sectors of the economy.

Taxation of Capital Gains for Petroleum Operations

57. Provisions relating to the capital gains tax in the Internal Revenue Act, 2000 (Act 592) will now be applied to petroleum operations.

Expenditure Management Initiatives


59. In spite of these developments, a number of weaknesses and challenges still persist and the intention of the Government is to deepen and continue these reforms on an integrated, focused and prioritized manner to ensure maximum benefit for the economy.

Cash Management

The introduction of a Programme Based Budgeting also requires an amendment to the budget implementation process. One major requirement is the preparation of the MDAs work and cash plans to ensure an effective and smooth implementation of the budget. Consequently, MoF would communicate to all MDAs with the appropriate templates to provide their Programme and Cash Plan Requirements for all expenditures. This would be followed by periodic meetings (at least once a quarter) with MDAs to discuss their cash requirements and to agree on a plan of cash releases to them. Furthermore, MDAs would be engaged to discuss their quarterly feedback on the execution of their programmes and their quarterly resource releases.

Budget Management Systems
The GIFMIS which started in 2009 was a four-year project expected to end in June 2014. It is based on a multi-donor pooled funding mechanism. The GIFMIS project has made significant improvements in establishing and enhancing systems and processes, including accounts payable and receivable, cash management, general ledger, and procurement modules. It has also culminated in the use of uniform Chart of Accounts (COA) for all government revenue and expenditure transactions. Since some of the work has taken longer than initially anticipated, not all GIFMIS related work will be completed by June 2014. The second phase of the GIFMIS project is expected to commence from the third quarter of 2014.

A redesigned budgeting process from a detailed activity-based budget, to a programme-based approach was implemented for all MDAs in the 2014 Budget – the first change since 1999. The implementation of this budget classification is to address the excessively detailed MTEF classification under activity basis; improve the linkages between the policy objectives as articulated in the GSGDA and the budget; and provide for a better budget monitoring and analysis to increase the efficiency and effectiveness of public spending.

Over the medium term, MDAs are to migrate unto the Hyperion system for budget preparation. The system is under construction and is an integrated system with the GIFMIS which is robust for efficiency and effectiveness in budget preparation. MOF expects to launch the pilot phase of the project in 2014.

The commencement of the second phase of the GIFMIS project has necessitated the development of a PFM Strategy document which will facilitate the prioritisation, sequencing and coordination of all PFM reforms in the medium to long term. The Government is in the process of setting up a technical committee to oversee this process and also hiring a consultant to assist with the process. During 2014, MOF will complete negotiations with DPs who have expressed interest in funding the project while it takes steps to make provision in the Budget to implement the measure to coordinate policy initiatives.

With the GIFMIS and PBB in place, attention and focus over the medium term will be on monitoring and evaluation of the projects and programmes in the budget for better results, based mainly on reporting and deviation analysis. This will include both financial and non-financials.

Fiscal Decentralization

Since 2011, the Government has been implementing the Local Government Capacity Support Project (LGCSP) through the Ministry of Local Government and Rural Development with a donor funding mechanism. The objective is to strengthen institutions that support accountable local governance for improved service delivery. Earlier, MOF established a Fiscal Decentralization Unit (FDU) to facilitate coordination and oversight over subnational government reforms and processes—which are linked to the GIFMIS. Government has achieved major milestones in the areas of provision of budget guidelines for Composite Budgeting, PFM templates for budgets, financial statements and auditing.

Over the medium term, Government will harmonise Budget Guidelines for both central and local government; strengthen the regulatory framework to support fiscal decentralization
and the composite budget reforms; facilitate the rollout of the GIFMIS to all MMDAs; and support the legal and institutional reform to improve PFM systems.

Other Expenditure Reforms

Managing Undischarged Commitments

66. As per the implementation of the annual budget within the GIFMIS, a major risk identified is the treatment of undischarged commitments at various stages of the GIFMIS as at the end of each year. To ensure an efficient and effective management of undischarged commitments within the GIFMIS, an administrative instruction will be issued to:

   i. CAGD to communicate undischarged Commitments of the previous year at various stages of processing within the GIFMIS system to MDAs with guidelines on how they should be processed against the annual Appropriation; and

   ii. MDAs to validate their undischarged Commitments held at MOF as at 31st December of previous year for it to be charged to the annual appropriation.

Abolishing Central Payment of Utilities

67. Government has observed with concern the lack of efficiency and prudence in the management of utilities at the MDA level as result of centralized payment at MoF. Starting with the 2014 Budget, MDAs are to take responsibility to pay their utility bills from their Goods and Services budget, as well as from Internally Generated Funds. This rule applies to the use and payment for telephones, water and electricity for public officers.

Restructuring of Statutory Funds

68. Government’s determination to ensure that funds are set aside to cater for specific capital investments influenced the creation of statutory funds which are by law, a percentage of government revenues. This phenomenon has resulted in a more or less rigid budget, minimizing government discretion on the use of its revenue and also leading to a buildup of arrears payments. Going forward Government will consult the necessary stakeholders and embark on restructuring of the statutory funds to ensure that their expenditures are aligned government priorities. The restructuring may involve review of administrative and legislative framework guiding the operations of the Statutory Funds.

Management of Domestic Contracts and Arrears

69. Over the years, the Government has discovered that MDAs enter into contracts with contractors and suppliers, who also accept contract awards and purchase orders without appropriate authorized purchase orders. This has contributed to the accumulation of huge arrears and increase in non-performing loans in several cases. As a response Government has put a moratorium on new projects to control the growing commitments in MDAs.
70. To further strengthen commitment control in this area, the Ministry of Finance has published the legal and administrative requirements for the award of contract to ensure that only duly authorized purchase orders generated from the GIFMIS system are recognized as valid commitments on Government and therefore payable from budgetary allocations. Another control built into the GIFMIS is that, all requests for the release of funds are to be initiated by MDAs on the system before funds can be released. On the GIFMIS transaction cannot proceed if the MDA’s budget has been exhausted.

71. Going forward, the Ministry of Finance would regularly interact with MDAs as a proactive measure in determining MDAs commitments and requirements in the implementation of their budget. The first of these engagements are scheduled for the first half of 2014.

Management of Purchase Orders

72. All purchase orders (including contract awards) are to be done using the Procure-to-Pay (P2P) module of the GIFMIS system. Any contract awarded outside the P2P system would not be a valid commitment on Government. In this regard, MoF will issue instructions in the media to inform suppliers and contractors of the new system requirements and the risk they face in not complying.

Indexation and Foreign Exchange Contracts

73. Another risk to foreign finances is the award of contracts with values that are indexed or denominated in foreign exchange. Often, these provisions are not supported by the underlying transactions, where capital equipment and goods are bought on the local market or staff salaries are not indexed. The Ministry of Finance will enforce the Bank of Ghana directives on abuse of foreign exchange transactions as well as the illegal use of indexation where no adjustments are made for local expenditure.

Public Sector Reform and Payroll Management

74. Government was confronted with challenges in the past on the implementation of public sector reforms initiatives. One area that was affected was human resource management. As part of the current reform agenda, the Office of the Head of the Civil Service (OHCS) and the Public Services Commission (PSC) have developed short-to-medium-term plans to build a professional public sector management practice, creating HR and performance management framework policies.

75. The Single Spine Pay Policy (SSPP), which was announced in 2008, came into force in June 2010 with retrospective effect from January 2010 aimed at ensuring equity, fairness, and transparency as well as enhancing performance and productivity in Public Service.

76. Since then, the size of the wage bill has been a major concern to Government. In the 2012 Budget, Government had to finance the arrears that had accumulated since the introduction of the Single Spine Pay Policy from 2010. The huge wage bill necessitated some remedial actions from Government which included the biometric registration as an intervention to clean
the payroll and reduce the wage bill. Other measures being implemented to contain the rising wage bill are:

**Payroll Management**

77. The Controller and Accountant-General’s Department completed the upgrade of the payroll system in 2013. This is expected to enhance efficiency by allowing more time for payroll update, improve performance by minimizing human intervention during payroll run, and reduce payroll processing time. Following the upgrade, the IPPD is currently being integrated into the GIFMIS. The successful integration of the IPPD into GIFMIS will facilitate automatic accounting for payroll data as well as strengthen budgetary control on payment of salaries and wages.

**Decentralization of the Payroll**

78. As with utilities, in 2014, government will enhance the payroll system with a view to determining staff strength and wage bill for each agency at any point in time. The next step from 2015 is to make each Ministry responsible for the compensation budget and disbursement for all Divisions, Departments and Agencies under their effective control.

**Electronic Salary Payment Vouchers (ESPV)**

79. The CAGD commenced the implementation of an Electronic Salary Payment Voucher System (ESPV) in the last quarter of 2013, to facilitate the review and certification of salary payment vouchers as part of measures of controlling the wage bill. Heads of MDAs and MMDAs are, therefore, required to certify on a monthly basis, staff on their nominal payroll before the Ministry of Finance issues a warrant for payment of their salaries. This is aimed at making Heads of Institutions responsible for managing their own wages and salaries budgets and reduce the phenomenon of “ghost names” on the payroll.

**Payroll audits**

80. Government has commissioned the Internal Audit Agency to audit the 2011 and 2012 payroll of selected institutions with the support of the CAGD. A pilot audit which involved a headcount of public sector staff at the largest teaching hospital in Ghana (Korle-Bu Teaching Hospital-KBTH) revealed instances of the payment of salaries to ineligible staff. About 1,113 names were found to be ineligible; 1,053 of these were paid through the mechanized payroll of the CAGD and 60 paid with IGFs of KBTH. These findings have strengthened Government’s resolve to extend the audit and head count exercise nationwide. The audit function of payroll management is to be strengthened with collaboration between the CAGD, Audit Service and the Internal Audit Agency.

**Weaning off Subvented Agencies from Government Payroll**

81. As a first step, government has identified twelve (12) Subvented Agencies which have the capacity to be on their own with regards to payment of their personal emoluments from their IGFs. To achieve this, Government has put in place a technical committee to assess the
identified agencies and determine the modalities for their eventual weaning off based on the recommendation from the National Forum on the sustainability of the Single Spine Pay Policy (SSPP) held at Ho on 6th and 7th August, 2013.

**Hiring controls**

82. The Government has noted with great concern the practice of backdating of appointments, promotions and reactivation dates of staff recruited into the public service. This is resulting in the payment of huge salary arrears which is fast becoming a major source of fiscal overrun.

83. To address this, the Ministry of Finance is collaborating with the Public Services Commission and Office of the Head of Civil Service to ensure that due process, including seeking financial clearance before undertaking recruitment and replacement, are observed. Sanctions will be imposed on heads of institutions that do not follow the due process.

84. In addition a circular has been issued to MDAs/MMDAs on the modalities of rationalizing new appointments, promotions and reactivation dates. It has been clearly stated that the effective date of recruitment of new staff into the public service should not precede the financial clearance date. Arrears payment in respect of recruitment, promotions and reactivation of staff should not exceed three months of the date of implementation. Arrears in excess of the three months would only be paid after it has been duly certified. In all cases, approval must be obtained from the Ministry of Finance for payment of arrears relating to previous financial years.

85. The payment of teacher trainee allowances have also been stopped to reduce the associated fiscal burden. This will be replaced with loan and other support schemes.

**Rationalisation of Government Employees**

86. Consistent with the Single Spine Pay Policy (SSPP) objective of enhancing the productivity of the public service, Government will undertake an exercise to rationalize public sector staff to ensure right-sizing of the public sector. This exercise may involve an option for voluntary retirement. A current situation analysis will be undertaken in 2014 the results of which will inform the form the rationalization will take. The actual rationalization of staff is expected to begin 2015.

**Debt Management**

87. Ghana’s total public debt stock, stood at US$23,845.5 million at the end of December 2013, an increase of about US$4,694.7 million (25 percent) from the December 2012 stock of US$19,150.8 million. External debt accounted for about US$11,341.9 million (47.5 percent) whilst domestic debt accounted for the remaining amount of US$12,503.5 million (52.4 percent). Based on revised growth numbers from the GSS, total public debt as a percentage of GDP stood at 52.8 percent as at end December 2013 against 49.3 percent in 2012.
88. An analysis of the debt portfolio as at end 2013 revealed the following risks inherent in the portfolio:

i. High exposure of the external debt to the US dollar as about 49 percent of the total external debt is held in US dollars and 26 percent held in SDR and settled in US dollars.

ii. High rollover and refinancing risks associated with the domestic debt portfolio. About 32 percent of the portfolio has maturities of less than 1 year with the implication that this percentage has to be refinanced within one year, exposing it to high interest rate risk.

89. To address these risks, the 2014 Medium Term Debt Strategy (MTDS) which has been formulated in line with the 2014 budget, proposed the following financing mix to meet Government’s debt management objective:

i. raise about US$1.0 billion from the international capital market to fund capital projects in the budget;

ii. reduce domestic short term issuances to about 30 percent from about 72 percent and increase domestic long term issuance to about 49 percent, through the issuance of 3-Year, 5-Year and 7-Year bonds.

90. The following are some of the objectives of the MTDS:

i. Liquidity management – Short-term borrowings will be primarily used for liquidity management purposes.

ii. Revenues from self-financing projects – The debt management policy is to ensure that commercial projects are designed with emphasis on revenue generation, with appropriate escrow and on-lending mechanisms to recover the loan investments.

iii. On-lending and escrow arrangements – Over the past years, State-owned Enterprises (SOEs), Special Purpose Vehicles (SPVs), and some MDA/MMDAs have benefitted from loans and Government guarantees to support commercial projects without incorporating the cost of debt service into the projects or financial statements for the entities. As a firm policy, an on-lending and escrow account initiative has been put in place to prevent these loans from aggravating the public debt situation.

iv. Financing capital expenditures – The capital expenditure component of the annual budget will be funded primarily from the long-term debt market.

v. Tapping External Capital (Bond) Markets – Borrowing from the external capital market is part of the debt management strategy with a borrowing programme for general capital budget support; financing of specific projects; re-financing existing debt; and provision of counterpart funding for the capital budget. The benefits of borrowing from the capital markets will include:
a. less reliance on the short-end of the market (e.g. Treasury Bills) to finance the budget and, thereby, extending the tenor of loans; and

b. diversifying the sources of long-term financing, thereby helping to improve the fiscal situation and minimizing any adverse impact on the availability of credit (i.e. crowding out) and rising domestic interest costs.

Ghana Infrastructure and Investment Fund (GIIF)

91. The Ghana Infrastructure Fund (GIF) is set up as a quasi-fiscal body that will help deal with the huge infrastructure deficit by focusing on the provision of funds for strategic infrastructure that will lead to job creation and economic growth.

92. The GIF will finance viable projects including those involved in special purpose vehicles (SPV) such as joint venture (JV) and public-private partnership (PPP) projects. It is envisaged that GIF will issue special bonds to finance specific commercial projects. The GIF will be empowered to set up on-lending, escrow and other mechanisms for the purposes of pursuing and ensuring the success of its investments.

93. The establishment of GIIF will lead to a review of Government’s exposure to risks from borrowing and issuing sovereign guarantees. It is our intention to minimize the use of sovereign guarantees that are currently treated, automatically, as public debt in our Debt Sustainability Analysis (DSA) band and not as contingent liabilities. Successful implementation of the GIF is expected to lead to reduction in the public debt stock and therefore the public debt to GDP ratio.

Anti-Corruption Measures

94. Article 35(8) of the 1992 Constitution which forms part of the Directive Principles of State Policy provides that: “the State shall take steps to eradicate corrupt practices and abuse of power”. This provision authorizes institutions to establish and promote effective practices aimed at the prevention of corruption. In the spirit of this constitutional provision Ghana has subsequently ratified the United Nations Convention against Corruption as well as the African Union Convention on Preventing and Combating Corruption.

95. Even though Ghana continues to make significant strides in the fight against corruption, there remain serious challenges to this fight. In this regard, H.E. President John Dramani Mahama in his State of the Nation Address (2014) indicated his commitment to continue the battle against corruption by announcing that the Government “will fight this battle on two fronts. Firstly to put in place the measures to prevent corruption, and secondly to pursue and punish corruption wherever it occurs”

96. On preventing corruption, government has prepared and presented several anti-corruption legislation and frameworks to Parliament for consideration. These include the National Anti-corruption Action Plan and Strategy, the Anti-Money Laundering (Amendment) Bill, 2013; the Conduct of Public Officers Bill, 2013; the Whistle Blowers (Amendment) Bill
and the Right to Information Bill. In addition, the Public Procurement Act, (Act 663) is being amended to enhance its ability to protect the public purse.

97. Noting that most fraud and corruption occurs in the award and execution of government funded contracts, government will publish “Guidelines on Preventing and Combating Fraud and Corruption in Government Contracts.” These guidelines shall be annexed to all public tender documents and associated contracts both at the national and decentralized levels and shall be the basis of any sanctions if fraud or corruption is detected in the award or execution of any public funded contracts. Additionally, a blacklist of offending vendors will be established and such individuals and institutions shall be debarred in accordance with relevant laws from all government funded contracts throughout the country.

98. As a way of regulating the behaviour of public office holders, Government has completed and launched the Code of Ethics for public office holder. This code is expected to provide guidance to officers in matters such as conflict of interest and abuse of office. An infraction with any provisions of the code will attract sanctions based on relevant institutional laws.

99. Furthermore, Government in 2014 showed its commitment towards the fight against corruption by increasing funding allocation for key governance institutions (CHRAJ, A-G Department, Police Service, EOCO and the Judiciary) engaged in the fight against corruption by an average of 12.5 percent using 2012 as the base year. This is to enhance their capacity to effectively execute their mandates to enforce all the relevant laws in the country. As a result of logistical improvement and express directives from the Presidency, the A-G’s Department, for example, has been able to successfully defend claims brought against the state by halting the payment of sums in excess of GH¢1billion. Government is committed to making more resources available to these institutions the medium term to enable them pursue to the logical conclusion all forms of corruption and fraud.

100. In order to ensure the enforcement and implementation of Audit findings, government is using the implementation of reports of the Audit Reports Implementation Committees (ARICs), a key performance criterion of Ministers and Chief Directors, in the annual performance reviews.

101. To ensure that there is transparency and anti-corruption in the management of public funds, the following measures would be implemented from the public financial management point of view:

i. the provision of adequate budget to strengthen anti-corruption agencies, notably CHRAJ;

ii. the provision of a percentage of proceeds of corruption when recovered, will be paid to anti-corruption agencies instrumental in exposing such acts, and this will further strengthen their resource base.
iii. the further development of GIFMIS to enhance our technological capacity to fight corruption arising from possible collusion and manipulation of databases and records.

Monetary Policy, Exchange Rate Policy, and Financial Sector Issues

102. Bank of Ghana will implement a foreign exchange reporting system. The Bank will also be implementing an online foreign exchange trade tracking system effective January 1, 2014. This system would eventually lead to an improvement of the operations of the foreign exchange market by enhancing transparency and price discovery among market participants. The system would track the interbank, corporate and retail transactions executed across the banking industry and lead to the computation of a daily reference foreign exchange rate for the cedi against the major trading currencies. The system would also offer real time transaction and sector demand and supply information. The Bank will also in collaboration with the Ministry of Trade work on enhancing the features of the GCNET platform with a view to tracking letters of credit (LCs) issued by banks by uniquely identifying an LC to prevent multiple sourcing of foreign exchange to pay for maturing LCs.

103. The banking industry continues to be well capitalized, liquid and profitable. The focus for policy in the medium to long term is continuous reviewing and strengthening of the regulatory and supervisory framework as well as the supporting infrastructures to secure safe and sound banking and financial system. In this regard the key policy initiatives border on re-drafting of the Banking Act; completion of the preparatory work for a deposit insurance system; upward adjustment of the minimum capital of banks and non-banks; and the drafting of a number of directives and regulations to give effect to the Banking Act. The re-drafting of the Banking Act is designed to achieve a number of objectives: consolidation of the parent and amendment acts; strengthen the framework for consolidated supervision and crisis resolution and address perceived gaps in the Act with respect to emerging exigencies in the banking sector, including deposit insurance. Higher capital requirements for fresh licenses have been set to provide newly established institutions with a stronger cushion for risk absorption; while recently recapitalized existing institutions are encouraged to grow their capital in line with their businesses.

104. Progress has been made with completion of the study on the feasibility of a deposit insurance system in Ghana. Work has also progressed on the drafting of the enabling act for the establishment of a deposit insurance scheme in Ghana by the close of 2014. On supervisory cooperation, the Bank of Ghana continued to participate actively in the activities of the College of Supervisors of the West African Monetary Zone (CSWAMZ), including information exchange meetings and joint examinations of Nigerian subsidiary banks with CBN officials. The Bank also continued to initiate moves to sign memorandums of understanding (MOUs) with counterpart regulators to strengthen information exchange and cross-border bank resolution.

105. The Bank of Ghana will continue to intensify its collaboration with central banks in the sub-region as well as counterpart domestic regulators with a view to strengthening cross-border and cross-sector supervision of bank and non-bank financial institutions.
106. The Bank of Ghana will continue with efforts it has taken to strengthen its oversight of the microfinance institutions. Minimum capital requirements have been raised and will be enforced, complemented by intensified onsite supervision. The Bank has also created a dedicated department for rural and microfinance supervision to ensure that adequate staff resources are devoted to ensure sanity in the sector. The Bank will also equip umbrella associations with logistics to help monitor microfinance institutions.

CONCLUSION

107. The economy is beginning to adjust to the fiscal and monetary measures with net positive change in nominal budget numbers as well as a reduced pace of depreciation of the cedi, although risks relating to continuing commodity price volatility and tightening global financial conditions still remain.

108. Given that these consolidation measures are promulgated within a multi-year framework, as is the experience of all countries undergoing major adjustment, their full effect will materialize over more than a single year. It is important to emphasize some of the measures that are currently being implemented are structural and they will take time to fully materialise.

109. We believe that the comprehensiveness of our home-grown fiscal consolidation measures are credible enough to meet the short-to-medium term objectives.

110. The measures and structural reforms outlined in this programme will be monitored in the context of mid-year reviews and annual budgets and adjustments made where necessary to ensure the achievement of the objectives of the programme.