

## Budget support to Ghana: A risk worth taking?

By providing aid as budget support donors have taken risks and made important contributions



**M**any see providing more development assistance by means of general budget support (GBS) as key to improving aid effectiveness (see box 1). GBS is seen as avoiding many of the costs and inefficiencies of the conventional project approach. It is easier to align budget support with the objectives of the aided governments, utilising their fiscal systems instead of building parallel ones, and providing a focal point for a policy dialogue directed at strategic, economy-wide issues. It can also result in better coordination among donors. But putting money into often weak fiscal systems involves risks. So far, evidence on whether the benefits have outweighed the risks has been selective rather than conclusive.

This Briefing Paper offers a case study, based on a recent evaluation of budget support for the Ghanaian Government by ODI and CDD-Ghana.<sup>1</sup> In 2003, a group of donors agreed with the Government to create a Multi-Donor Budget Support (MDBS) Programme,<sup>2</sup> in support of the newly-adopted Ghana Poverty Reduction Strategy (GPRS). The programme's objective was 'to harmonise [donors'] policies and procedures in order to minimise transactions costs' for the Government.

MDBS created a structure for dialogue between donors and Government, based on



**Houses of Parliament, Accra, Ghana. Multi-Donor Budget Support created a structure for dialogue between donors and governments.**

twice-yearly discussions. It established a disbursement schedule linked to the budget cycle and created a common set of benchmarks for judging progress, based on a Performance Assessment Framework (PAF). A significant feature of its design is the establishment of a two-tranche system of disbursement. This is based upon a 'base payment', paid at the beginning of each year against satisfactory macroeconomic management, and a 'performance payment' linked to the achievement of defined 'policy triggers', which measure progress in key policy and institutional reforms. A part of the performance payment was withheld for the first time in 2006.

Donors were encouraged by the peaceful transfer of power after the 2000 elections, continuing the democratisation of the preceding decade. They were encouraged too by improvements in the quality of macroeconomic management, resulting in an agreement with the International Monetary Fund (IMF), by legislation strengthening domestic financial management, and by adoption of the GPRS. At the same time, they were aware that they were taking a risk. Serious weaknesses remained in the quality of budget preparation

### Key points

- Budget support in Ghana has supported reforms in ways that other aid modalities would not have done.
- However, it has neither reduced risks nor maximised benefits.
- Re-design is needed, with a focus on its effectiveness as a tool for budget financing, rather than for policy leverage.

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#### Box 1: General budget support

Defined as a method of financing a developing country's budget through a transfer of unearmarked resources from a donor agency to the recipient Government's national treasury. This is contrasted with project approaches in which aid is tied to the creation of discrete development projects or provision of specific technical assistance services, often undertaken outside regular budgetary systems.

**Table 1: The scale of MDBS disbursements, 2003–06**

Country	2003	2004	2005	2006
Total MDBS disbursements (\$m)	278	311	282	309
As % total aid	39	32	27	n.a.
As % total government spending	13	10	9	n.a.

Source: Ministry of Finance and Economic Planning (MDBS); International Monetary Fund, 2006 (Government spending).

and execution, reducing the Government’s ability to utilise budget support effectively. Donors saw the need for continuing reforms to deal with the weaknesses of the civil service and its management of the public finances.

Was this a risk worth taking? This Briefing Paper

addresses this question, although a mere four years of experience allows only a provisional judgement. Readers are encouraged to access the evaluation report referenced in Endnote 1 for fuller analysis and supporting evidence that can only be summarised here.

### Immediate effects

In assessing the immediate effects of MDBS, a major feature is that budget support has been of limited importance in relation to total aid and the Government’s own budget. Moreover, its relative importance has diminished over time (Table 1). Thus, in 2005 MDBS inflows were equal to only a quarter of all aid receipts and under a tenth of total Government spending. This feature has limited what it is reasonable to expect MDBS to achieve. For example, its ability to raise the importance of the budget has been slight. Many line ministries can still deal directly with donors, by-passing the Ministry of Finance and Economic Planning (MoFEP), the Cabinet and Parliament.

One of MDBS’ strengths is that it has had good year-on-year predictability, mostly within a range of ±5% of planned disbursements, although within-year variability has been greater. MDBS has probably also been associated with reduced transactions costs, by comparison with project aid, although this is hard to demonstrate conclusively. It is unfortunate, therefore, that MDBS has not been a growing form of assistance. Its impact on overall predictability and transactions costs has consequently been modest.

The most significant immediate effects of MDBS have been in relation to policy dialogue and conditionality. It has been associated with important improvements in Government policy ownership and prioritisation, target setting and monitoring. On the other hand, the use of the PAF as both a monitoring framework and a mechanism for policy leverage has created contradictory incentives, with the Government seeking modest performance goals and MDBS donors pushing more ambitious targets. The result has been a high-cost and confrontational structure of dialogue, with attention focused on the detail of PAF indicators at the expense of discussion of strategic problems. Some donors have remained too ready to pursue their own Governments’ priorities at the expense of collective agreement.

The contribution of MDBS to aid harmonisation and alignment is also seen as modest. It has contributed enough to demonstrate a potential to achieve more in the future – but only if it becomes larger and the weaknesses just mentioned are addressed.

Some improvements have already been made, for example in giving the Government greater assurance about the reliability of promised disbursements, and there is a desire to go further.

## Outputs and outcomes

### The Macroeconomy

At the macroeconomic level, MDBS resources have helped the Ghanaian Government to reduce the fiscal deficit and cut the outstanding stock of debt while raising public spending. Domestic interest payments and debt have fallen as a consequence. Thus, MDBS resources have been important but macroeconomic questions have not featured much in the MDBS dialogue and it is unlikely that it influenced the choice of policies. Arguably, the quality of dialogue between MoFEP, the Bank of Ghana and the IMF has been sufficiently strong for this not to be necessary.

### The private and public sectors

The present administration came to power promising a ‘Golden Age’ for business. It has produced a Private Sector Development Strategy and stressed the importance of major improvements in basic infrastructure. Its control of inflation and reduced domestic borrowing have helped bring down interest rates and improved private businesses’ access to credit. While voicing some complaints, private sector representatives believe that the business environment is the best since independence.

MDBS donors have been supportive of the Government’s emphasis on a strong, competitive, private sector. Beyond that, MDBS is viewed as having been marginal in this area, although including targets and triggers relating to private sector development in the PAF has helped to sharpen the Government’s focus on specific, time-bound actions.

In the public sector, however, there has been a protracted deterioration in what was arguably the strongest civil service in sub-Saharan Africa at independence. Past efforts at reform had produced few results, so the Government created a Ministry of Public Sector Reform in 2005. This quickly produced a strategy and work programme with which the President publicly associated himself. Importantly, this strategy was generated within the Government, in contrast to earlier efforts which failed because they were largely donor-driven.

The MDBS encouraged the creation of the new Ministry and its PAF provisions were helpful in translating general objectives into specific actions. Beyond this, donors have been careful to avoid attempting to exert undue influence. This has created a dilemma because the Government is reluctant to grasp the nettle of the overall size of the public service. Because of concerns over policy ownership, it has not been possible to address this issue through MDBS, an illustration of its limitations.

### Management of public finances

To minimise the risks associated with the MDBS, strengthening Ghana’s public finance management

(PFM) systems has been a major feature of policy dialogue. Effective action has been seen as a prime determinant of whether the gamble is likely to pay off, converting increased budget resources into targeted, effective public spending. There has been an active programme of PFM reforms, with changes in procurement, internal and external audit, financial management systems, and payroll, cash and treasury management. The scope and number of reforms since 2003 has been exceptional and the existence of MDDBS has most likely contributed to the intensity of these efforts.

However, implementation has been slow and political commitment has appeared fluctuating and incomplete – attributable to the threat to sources of patronage which PFM reforms represent. Reform measures have had limited impact on actual performance (Figure 1). This comparison of the outcomes of successive IMF assessments of various aspects of PFM during 2001–06 shows that there was a clear improvement in only five criteria between 2001 and 2006, while there was no change or deterioration in seven. There may be some negative bias in these comparisons, but the fundamental message, that PFM reforms have yet to translate into concrete improvements, is substantiated by observations on the ground. Note from Figure 1 the particularly low rating, and lack of progress, on the credibility of the budget, arising from large deviations between budgeted and actual expenditures.

While MDDBS has helped to keep reform on the agenda, its structure has led to concentration on only one or two programmes, rather than a focus on PFM reforms as a whole. Moreover, the MDDBS programme has been powerless in the face of the slow speed of actual change. The focus on narrowly defined policy actions, with disbursements tied to these, has not helped to develop a more effective strategy. So the risks attached to budget support remain high.

**Provision of social services**

Supporting poverty reduction was a core motivation for taking risks through budget support. In particular, MDDBS contributors looked for improvements in the delivery of social services targeted to raise the well-being of the poor. The evidence on results so far is mixed:

- There have been major increases in budget allocations for health and education, raising their shares of discretionary expenditure.
- In education, there have been important country-wide improvements. The number of schools and teachers has increased and, due especially to the introduction of a scheme of capitation grants, enrolment of 6-11 year-old pupils jumped by nearly 20% between 2004/05 and 2005/06.
- These improvements were accompanied by narrowing disparities in primary enrolment rates between the most deprived districts and others, as well as between female and male enrolments.
- Progress in the scale and quality of health services has been slower. Efficiency has been hampered by the fragmentation of budgets, lack of control

over the wage bill and rising administrative costs. Policies have not resolved the problem of meeting user fees for the poor, either through exemptions or a successful National Health Insurance Scheme.

What of the influence of MDDBS? Its contribution to budget resources helped but was not decisive. The MDDBS dialogue appears to have been more influential, probably helping to give the social sector ministries greater budget priority. Without MDDBS, budgetary allocations would probably have been lower, although rising salaries for health and education workers have absorbed much of the increase. And while the MDDBS has supported educational improvements, the modest record on health services reveals the limitations of the MDDBS dialogue. Instead, donors have attempted, with limited success, to use sector-level mechanisms to address such issues as the salary/non-salary expenditure balance and the use of user fee exemptions.

**Governance and accountability**

Recent years have seen improvements in governance and democratic accountability because of a steady, well-established series of political reforms. Parliament and civil society exert greater influence. The position of the Auditor General has been strengthened. There is greater transparency of information and human rights are better respected.

Weaknesses remain, however. The style of government is still top-down and there has been little progress on some important reforms. Decentralisation has remained slow and the Government has yet to deliver promised legislation to improve public access to information. The public officers’ asset disclosure regime remains inadequate; conflict of interest guidelines have yet to be officially adopted. Political patronage remains endemic and perceptions of pub-

**Figure 1: Performance of Public Finance Management systems, 2001, 2004 and 2006**



Note: A = the highest rating, D = the worst. For each performance category the relative position of the 2001, 2004 and 2006 bars indicate the extent of improvement or regression. Sources: World Bank PEFA (2006) and joint IMF-World Bank HIPC evaluations (2001, 2004).



### Box 2: Dimensions of 'due process'

It is recommended that annual disbursements of MDDBS assistance should rest exclusively upon observance by the Government of the following principles:

- Continued respect for democracy and human rights.
- Maintenance of fiscal and monetary policies consistent with macro-economic stability and growth.
- Adherence to a clear poverty reduction strategy and allocation of resources in line with this.
- Respect for national budgetary and procurement legislation and the related systems to ensure that spending is in line with the approved budget and follows required procedures.
- Continuing reforms to improve the quality of these systems and raise value for money.
- Transparent measurement of the results of public spending and use of these to improve sectoral policies.
- Continuous strengthening of the quality of governance and public administration, and periodic public assessments to assess progress.

lic corruption remain high.

The MDDBS programme has been supportive in these areas but probably of marginal influence. It has encouraged the Government to stay on track and to deepen the reforms but key governance and accountability deficits persist, despite the MDDBS dialogue.

### Efficiency and effectiveness

The overall role of the MDDBS programme has been more one of facilitation than clear-cut causation of any single major outcome. MDDBS has provided monies which have helped the Government to reduce the public debt and raise allocations to poverty-reducing expenditures simultaneously. It has created structures for dialogue on cross-cutting and sectoral policies, helping to generate policy responses to specific concerns and to sustain reform processes. While there is no single area where the MDDBS dialogue is viewed as having been decisive, it has been supportive of the pro-poor developments in policy and public spending recorded earlier.

These are important achievements, unlikely to have been secured through other aid modalities. MDDBS augmentation of budget resources has helped the Government apply funds in response to needs, which earmarked resources could not have done. Similarly, the scope of the policy dialogue could not have been reproduced at sectoral levels because it covered important cross-cutting issues.

But there have been deficiencies. The original MDDBS goal of reducing Government transactions costs has been neglected. There has been over-emphasis on using it for policy leverage, rather than as a tool of budget financing. There has, for example, been limited attention to the core problem of bringing greater predictability and credibility to the budget, and an almost exclusive focus on external rather than domestic accountability.

The attempt to raise MDDBS policy leverage through performance payments conditional on policy triggers is also regrettable. There is little evidence of reforms

having been implemented faster or more effectively as a result. At the same time, dialogue has become unnecessarily confrontational and less effective for resolution of policy problems. Moreover, high-level Government officials complain about the large and not always productive claims it makes on their time.

### A risk worth taking?

So, was the risk worth taking? A definitive answer will only be possible when there is more experience to evaluate. Today's provisional answer is that, on balance, the MDDBS has done enough to justify itself but is flawed. It has not achieved a sufficient critical mass and it has strayed too far from its initial objective of reducing transactions costs. These flaws have prevented it from minimising the risks of injecting budget support into a still weak fiscal system. While it is seen as having kept reform on the agenda and as having a generally pro-poor influence, it has neither been able to minimise the risks by galvanising more effective PFM systems nor to maximise the payoff in terms of poverty-reduction.

Action is therefore recommended, along the following lines:

- The MDDBS programme needs to be re-conceived primarily as a method of budget financing, not as a tool for policy leverage.
- Annual disbursements should not be conditional but instead be dependent upon the maintenance of 'due processes' in public spending (see box 2).
- Reforms should be promoted by open dialogue with both domestic and external stakeholders.
- The PAF needs to be re-designed as a mechanism for enhancing internal, rather than external, accountability, by making reform targets and results public, and by giving wider access to policy debates.
- The original objective of minimising transaction costs needs to be brought back to centre-stage.

Parallel steps by the Ghanaian Government are also needed. It should:

- Develop a statement of aid policy setting out Government preferences for different forms of assistance and the future development of MDDBS vis à vis other modalities.
- Take actions to strengthen the public finances and raise the credibility of the budget, to reduce dangers of misuse of budgetary aid.
- Strengthen its capacity to put assistance to good use. This would require difficult decisions about the desirable size and remuneration of the public service.

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### Endnotes

1. Lawson, A., Boadi, G., Ghartey, Ato, Ghartey, Adom, Killick, T., Kizilbash, Z. and Williamson, T. (June 2007) Joint Evaluation of Multi-Donor Budget Support to Ghana: Final Report, Overseas Development Institute, London, and Centre for Democratic Development, Accra.

2. The donors involved were the African Development Bank, Canada, Denmark, the European Commission, Germany, the Netherlands, Switzerland, the UK and the World Bank. France subsequently joined.

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