



# **CDD-GHANA**

GHANA CENTER FOR DEMOCRATIC DEVELOPMENT

## **Joint Evaluation of Multi-Donor Budget Support to Ghana**

**Based on OECD-DAC methodology**

**Final Report**

## **Volume One: Evaluation Results and Recommendations on Future Design & Management of Ghana MDBS**

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**Report to the Government of Ghana  
and to the MDBS Partners**

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## **Disclaimer**

This report has been prepared by a joint team from the Overseas Development Institute, UK (ODI) and the Centre for Democratic Development, Accra (CDD), who were commissioned to undertake an independent evaluation of the impact of Multi Donor Budget Support (MDBS) in Ghana. It comprises the final draft of the Final Report, which has been amended in the light of comments received by the Government of Ghana, the MDBS partners and other relevant stakeholders.

The evaluation was undertaken over August 2006 to May 2007. The bulk of field work was undertaken over August and September 2006, with preliminary observations presented at a retreat of the key MDBS stakeholders in Akosombo during October. Following a further brief field visit in November, conclusions were finalised in early 2007, amended in the light of comments received and then formally presented at two workshops held in Accra in April 2007. This final draft incorporates comments received at those workshops as well as further work on gender issues undertaken in May 2007. The participatory nature of the evaluation has allowed the Government of Ghana and the MDBS partners to incorporate ideas from the evaluation process both into aspects of Government policy and into the evolving design of the MDBS arrangements. This report may thus be said to capture a historical snapshot of a process which has been consistently progressing and developing.

Many people have assisted the evaluation team by compiling and making data available, by giving access to documentation and by offering their opinions and interpretations. These people are too numerous to mention individually but we nevertheless express our heartfelt thanks to them. We would like to express our particular gratitude to the honourable Deputy Minister Dr. Akoto Osei and to Mrs. Effie Simpson-Ekuban, Head of the MDBS Technical Secretariat who have coordinated inputs from the Government-side and to Dr. Christian Rogg of DFID and his fellow members of the MDBS Evaluation Steering Group.

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## Abbreviations

AAP	HIPC Expenditure Tracking Assessment and Action Plan
ADMU	Aid and Debt Management Unit
AESOP	Annual Education Sector Operational Plans
AFD	Agence Française de Développement
AG	Auditor General
AGI	Association of Ghana Industries
APL	Adaptable Programme Loans
APR	Annual Progress Report
APRM	African Peer Review Mechanism
ART	Anti-Retroviral Treatment (also ARV)
ARV	As above
BDI	Budget Deviation Index
BECE	Basic Education Certificate of Examination
BOR	Bed Occupancy Rate
BPEMS	Budget & Public Expenditure Management System
CAGD	Controller & Accountant General's Department
CDD	Centre for Democratic Development, Accra
CDF	Comprehensive Development Framework
CEPA	Centre for Policy Analysis
CFAA	Country Financial Accountability Assessment
CGS	Capitation Grants Scheme
CHO	Community Health Officer
CHRAJ	Commission on Human Rights and Administrative Justice
CIDA	Canadian International Development Agency
CPAR	Country Procurement Assessment & Review
CSO	Civil Society Organisation
DAC	Development Assistance Commission
DACF	District Assembly Common Fund
DAIA	Deprived Area Incentive Allowance
DBS	Direct Budget Support
DFID	Department for International Development
DHIF	District Health Insurance Fund
DOVVSU	Domestic Violence and Victim Support Unit
DP	Development Partner
DVB	Domestic Violence Bill
EC	European Commission

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EMIS	Education Management Information System
EQ	Evaluation Question
ESAF	Extended Structural Adjustment Facility (IMF)
ESP	Education Strategic Plan
FC	Finance Committee
GAS	Ghana Audit Service
GBS	General Budget Support
GDP	Gross domestic product
GER	Gross Enrolment Ratio
GET Fund	Ghana Education Trust Fund
GHS	Ghana Health Service
GLSS	Ghana Living Standards Survey
GNI	Gross National Income
GoG	Government of Ghana
GPI	Gender Parity Index
GPRS	Ghana Poverty Reduction Strategy
H&A	Harmonisation & Alignment
HIPC	Highly Indebted Poor Countries (debt relief) initiative
IEA	Institute of Economic Affairs
IFI	International Finance Institution
IGF	Internally generated funds
IMF	International Monetary Fund
IPPD	Integrated Personnel and Payroll Database
ISSER	Institute for Statistical, Social and Economic Research
JICA	Japanese International Cooperation Agency
JSS	Junior Secondary School
MDA	Ministry, Department or Agency (Budget vote holding entities)
MDBS	Multi Donor Budget Support
MDG	Millennium Development Goals
MDRI	Multi-lateral Debt Relief Initiative
MoFA	Ministry of Food and Agriculture
MoFEP	Ministry of Finance & Economic Planning
MOH	Ministry of Health
MoPSR	Ministry of Public Sector Reform
MoU	Memorandum of Understanding
MOWAC	Ministry of Women and Children's Affairs
MTEF	Medium Term Expenditure Framework
MTPP	Medium Term Priority Programme
NCCE	National Commission for Civic Education

NDC	National Democratic Congress
NDPC	National Development Planning Commission
NEPAD	New Partnership for African Development
NHIF	National Health Insurance Fund
NHIS	National Health Insurance Scheme
NIRP	National Institutional Renewal Programme
NPP	New Patriotic Party
ODA	Official Development Assistance
OPD	Out-patients' Department
PAC	Public Accounts Committee
PAF	Performance Assessment Framework (for the MDBS)
PEF	Private Enterprise Foundation
PEFA	Public Expenditure & Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Finance Management
PRGF	Poverty Reduction and Growth Facility (IMF)
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit (World Bank)
PSD	Private Sector Development
PSIA	Poverty & Social Impact Assessment
PSR	Public Sector Reform
PUFMARP	Public Finance Management Reform Programme
PWDs	Persons with disability
S&MTAP	Short & Medium Term Action Plan (for PFM reform)
SFO	Serious Fraud Office
SIL	Specific Investment Loans
SSNIT	Social Security & National Insurance Trust
SWAp	Sector Wide Approach
TA	Technical Assistance
TI	Transparency International
TUC	Trades Union Congress
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund (formerly International Children's Emergency Fund)
USAID	United States Agency for International Development
WAJU	Women and Juvenile Unit of the Police



## **Executive Summary**

General Budget Support in Ghana has been provided since 2003 through a harmonised Multi-Donor Budget Support arrangement. The evaluation team assessed what impact this process has had, utilising the enhanced evaluation framework for budget support, developed under the OECD-DAC's seven country evaluation of budget support.

### **The design of the MDBS in Ghana**

The objectives of the Ghana MDBS have been broadly consistent with those underlying the evaluation framework, with two significant points of difference. Firstly, the use of budget support was not designed as part of a wider strategy to restructure aid provision away from more traditional modalities. Secondly, there has been little attention to shifting resources on-budget and to promoting reliance on national structures of democratic accountability. These differences were reflected in the design of the MDBS:

- In terms of funds, the MDBS has comprised budget support transfers of the order of US \$300 million per year. These represented in 2003, 39% of total ODA and 13% of total spending, declining to 27% and 9% respectively by 2005.
- Dialogue and conditionality represented key inputs in the MDBS design. A special feature has been the use of a performance payment as an incentive for increased attention to reforms. This has represented some 20-30% of MDBS disbursements.
- The use of a common Framework Memorandum, a harmonised PAF and a disbursement schedule linked to the budget cycle have been important inputs to ensure harmonisation and alignment of the MDBS.
- Technical Assistance and capacity building have taken place in parallel to the MDBS under project-specific arrangements. The initial proposal to develop a pooled Technical Assistance Fund for the MDBS was not taken up by the Government.

### **The immediate effects of the MDBS**

GBS should directly affect the size and share of external funding subject to the national budget, the scope and structure of policy dialogue and the overall harmonisation and alignment of external assistance. The following MDBS effects were identified in these areas:

- Programme aid flows (including HIPC) were 12 % of total aid flows in 1999, reached a peak of 58% in 2002 and declined to 35% in 2005. Over 2003 – 2005 - most of the lifetime of the MDBS, there is a decline in programme aid financing, both in real terms and as a relative proportion of total aid flows.
- In the absence of a sustainable shift in the proportion of external resources on-budget, Ghana has not experienced the positive effects of increasing the importance of the budget and its mechanisms of accountability.
- Over 2003 -2006, annual MDBS disbursements have been within +/- 10 % of pledged disbursements and in three of these years within +/- 5 % of pledges. The MDBS has therefore scored well on predictability in relation to other modalities.

- There was also evidence of lower levels of transaction costs for the MDBS in relation to other modalities, even if transaction costs were still seen to be higher than necessary and amenable to further reductions.
- The most significant immediate effects of MDBS have been in relation to policy dialogue and conditionality. Here, important improvements have been identified in terms of ownership and responsibility for the policy process, as well as in the quality of prioritisation, target setting and monitoring. New government wide structures for policy dialogue have been created through the sector working groups' framework.
- On the other hand, the use of the PAF both as a monitoring framework and as a conditionality mechanism has created contradictory incentives in which GoG has sought to establish modest performance targets (so as to secure predictable levels of budget support) while MDBS partners have pushed for more ambitious targets. It has created a relatively confrontational structure of dialogue, in which there has been much attention to the detail of assessment processes, often at the expense of open discussion over strategic problems and their potential solutions.
- The contribution of the MDBS towards the harmonisation and alignment of the aid process has been modest but it has demonstrated the major contribution that it might make in the future. It must firstly assume a larger scale overall and management arrangements must be adjusted so as to reduce the high transaction costs generated by the current processes of negotiating and assessing the PAF.

### **The outputs and outcomes of the MDBS**

- At the macroeconomic level, there is evidence that MDBS resources have been used prudently. They have facilitated a reduction in the fiscal deficit, simultaneous with a recovery in public spending and reductions in domestic interest payments and in the domestic debt stock. However, relative to macro aggregates and total aid flows, MDBS flows have been of modest and diminishing importance.
- On the contribution of MDBS towards improving public policy processes, the evidence points to a positive but modest role in facilitating and encouraging improvements to policy on private sector development and on public sector reform.
- While voicing some complaints, private sector representatives are clear that the business environment is probably the best that it has been since independence. The MDBS *per se* has been a marginal influence, although the inclusion of PSD targets and triggers in the PAF may have helped to sharpen the focus on specific, time-bound actions.
- The MDBS arrangements may have influenced the decision to create the MoPSR (which, in fact, was a trigger provision), and its PAF provisions probably assisted in translating general PSR objectives into specific, monitorable actions.

### ***The composition of public spending and the quality of PFM systems***

Increases in discretionary spending are perceived as one of the main potential benefits of budget support, while the strengthening of Ghana's PFM systems has been a principal focal point of the MDBS dialogue. The evaluation assessed performance as follows:



- Over 2004 to 2006, the share of discretionary spending exceeded 60 % of total spending, as compared with a trend level of some 58 % over the previous five years. An increased share of wages and salaries has been a feature of this but the trend increase is also discernible in non-wage discretionary spending.
- The MDBS period has seen significant increases in the real level of spending on identified poverty-reducing areas and in their relative share in total spending. In real terms, actual spending doubled between 2002 and 2005, increasing from 28 % to 35 % of expenditure over the same period. The growth of discretionary resources has facilitated this but the monitoring of poverty reducing expenditures has been a more significant source of MDBS influence.
- There has been an active programme of PFM reforms which has introduced changes across a number of areas, notably procurement, internal and external audit, financial management systems, payroll and cash and treasury management.
- The overall scope and number of reform actions which have been implemented over 2003 to 2006 is exceptional and suggests a Government commitment to an effective PFM system. On the other hand, reform implementation has been slow and there are signs that political commitment is fluctuating and incomplete.
- Despite the considerable body of reform measures, these have had limited impact to date on the actual performance of the PFM system. This may be seen from a comparison of the 2006 PEFA, with the 2001 and 2004 HIPC AAPs. The problem of large deviations between budgets and actual expenditures has also persisted.

The lack of progress is partly attributable to underlying weaknesses in the civil service and partly to the long gestation period which PFM institutional and systems reforms necessarily have. However, there are also indications of mistakes in reform choices and in their sequencing – notably in the almost exclusive emphasis on long-term systems development and the limited attention given to improving budget formulation procedures.

GoG and DP representatives attested to the important role of the MDBS dialogue. These have helped to sustain commitment to reform. However, the structure of MDBS dialogue – notably the focus on narrowly defined policy triggers and the tying of conditional resources to these triggers – did not promote the sort of open discussion of problems which might have resolved the sequencing issues and helped to develop a more balanced strategy.

### ***Effects upon the volume and pro-poor focus of public service delivery***

During the MDBS period, health and education have received significant increases in budget allocations, growing substantially in real terms and attracting increased shares of discretionary expenditure. A major driver of increased budgets has been the rise in wages and salaries won by health and education workers. However, the direct financing of the MDBS has been a facilitating factor and the emphasis accorded to social sector spending within MDBS dialogue also appears to have been influential.

- Access to education services in Ghana has improved significantly. There has been a 5% growth in the number of public schools and an 8% growth in the number of

teachers between 1999/00 and 2004/05. Total enrolment of 6-11 year pupils, in private and public schools, jumped by nearly 20 % over 2004/05 to 2005/06.

- The introduction of the Capitation Grants Scheme, alongside the abolition of school levies, was a major contributor to this result. Although it was rooted in earlier government initiatives, the CGS was a PRSC measure, whose implementation has been followed closely in the MDBS dialogue.
- Expansion of education provision has been accompanied by a significant narrowing of the disparity in primary GERs between the 40 most deprived districts and other districts. The gap between female and male primary GERs has also closed, moving the Gender Parity index from 0.9 to 0.95 over 1999/00 to 2005/06.
- Increases in the level of health funding have yet to translate into commensurate improvements in the scale and quality of health services provided, despite active dialogue and close monitoring at sector and MDBS levels. Allocative efficiency has been hampered by the fragmentation of sector budgets, the lack of control over the wage bill and the rising administrative costs of health service provision.
- There has been a long-running failure to find a sustainable and satisfactory resolution of the problem of meeting health user fees for the poor, either from an improvement in the operation of the exemption scheme or from successful introduction of the National Health Insurance Scheme. This must be seen as a failure in the process of policy dialogue.

### ***The MDBS contribution to Governance and Democratic Accountability***

- Since 2001, policy making and budget processes have shifted from a nearly exclusive focus on the Executive Branch and Ministry of Finance to greater involvement of Parliament and non-state actors. There remain problems of under-resourcing of Parliamentary Committees and time constraints on the budget debate but there is no doubt of the growing role of Parliament and its Committees.
- Participation of the non-state sector and of civil society and independent research and advocacy organizations in the budget process has also been growing over the period of the MDBS. MoFEP has created entry points for private sector and civil society bodies to provide input into the budget and policy process and these opportunities have been actively taken up.
- Governmental transparency has grown and the exchange of government information with non-state actors has increased; respect for human rights has continued to improve. There has been improved access to justice (partly due to increased funding to CHRAJ and to the Legal Aid Board) and increasing attention to prison reforms.
- In relation to women's rights, the creation of the Ministry of Women and Children's Affairs (MOWAC) in 2001 is notable, since when there has been a deepening of MOWAC involvement in work related to the welfare of women and children. There has also been progress in reorganizing the Women and Juvenile Unit of the Police as the Domestic Violence and Victim Support Unit (DOVVSU).

- However, decentralization reforms have stalled on all fronts (administrative, political and fiscal). GoG has failed to deliver on its 2001 promise to enact legislation promoting public access to information. Political patronage remains endemic and perceptions of public corruption remain high.
- The improvements in governance and democratic accountability during the MDBS period have followed a steady, well-established path of ongoing political reforms. They have been driven by government efforts to strengthen governance, although the MDBS dialogue has encouraged the government to stay on track and to deepen such reforms. On the other hand, key governance and democratic accountability deficits persist despite MDBS dialogue.

### **Efficiency and effectiveness of the MDBS**

The overall role of the MDBS has been more one of facilitation of a number of positive effects rather than clear-cut causation of any single major output or outcome. However, three important things can be said with a reasonable degree of certainty:

- The MDBS has provided just under 10 % of total government spending over 2003 - 2006. In the absence of this financing, it would not have been possible simultaneously to reduce the stock of domestic debt and to raise both in absolute and relative terms the level of allocations to poverty-reducing expenditures.
- The MDBS dialogue has been clearly influential, creating operational structures for dialogue over cross-cutting and sectoral policies where previously they did not exist, helping to generate relevant policy responses to specific government concerns and helping also to sustain government commitment to reform.
- There is no single area where the MDBS dialogue can be said to have been a decisive influence but there have been a number of important developments in policy and public spending, which have been facilitated by the MDBS:
  - The macro-economic picture has strengthened.
  - The environment for the private sector has improved.
  - Implementation of reforms to procurement procedures and to PFM systems have proceeded steadily, if not dramatically.
  - The relative roles of Parliament and of CSOs within the budgetary process have been strengthened.
  - Improvements have also been made in broader aspects of governance.
  - There has been an increase both in the real resources and in the relative shares allocated to 'poverty-reducing' spending areas; and,
  - In the education sector at least, this has translated into improvements in access and equity.

These are important achievements. This set of benefits could not plausibly have been provided through other aid modalities, which cannot provide resources in such a fungible form as budget support can. Nor could the scope of the MDBS policy dialogue have been reproduced even through a series of sectoral arrangements because it has covered important cross-cutting issues as well as sectoral questions.

Taking all of these considerations together, we would judge that the Ghana MDBS has represented an efficient and effective use of aid resources.

On the other hand, there have been significant weaknesses in the scope and nature of policy dialogue, which derived from the specific design chosen for the MDBS arrangement. In the absence of these design faults, we contend that more substantial benefits would have been achieved with the same amount of resources.

### **Should the scale of MDBS disbursements have been higher?**

Was the size and scope of the MDBS appropriate to the development opportunities available over 2003 – 2006? Here, a distinction needs to be drawn between expanding MDBS to increase overall flows of external assistance and an expansion of the MDBS relative to other modalities. Regarding the former, the weaknesses in the GoG planning and implementation systems which existed in 2003 and the fact that many of these have persisted would constitute grounds for caution in expanding the overall level of external assistance to GoG. Nevertheless, there are areas of public spending (such as the Capitation Grant Scheme) where benefits have been generated and where there appears to be absorptive capacity.

There is a stronger argument for an increase in the scale of MDBS relative to other external assistance modalities. We have found some evidence that the MDBS funds were both more predictable and lower in transaction costs than other modalities. There would thus have been a good case for switching funding for recurrent spending from project or common basket fund modalities to the MDBS.

### **The impact of the MDBS on poverty reduction**

The most recent published data on poverty levels and profiles derive from the 1998/ 99 GLSS. Until data from the 2005/ 06 GLSS are processed and analysed, it will not be possible to say anything robust about the impact of the MDBS on poverty. The evaluation therefore assessed the likelihood of a favourable impact on poverty trends in the future.

Important developments in policy and public spending have occurred, which have been in part facilitated by the MDBS, and which seem favourable to poverty reduction. However, for such developments to impact systematically and effectively on poverty, a number of institutional weaknesses would need to be overcome:

- The ability of current processes of sector policy formulation, budget preparation and execution to convert allocations into actions would need to be strengthened. Strategies are often poorly conceived, the budget structure does not permit the use of programmes as a focus for budget allocation and service management, and budget execution continues to deviate sharply from planned budgets.
- With regard to empowerment, the evaluation considered the role of gender programmes in bringing greater budgetary and policy priority to women. In terms of procedures, such issues are now given explicit attention in budget guidelines and in terms of policy priority, there are examples of gender-focused adjustments to policy in agriculture, education, health and police. On the other hand, the reasons for exclusion of women and other vulnerable groups from publicly financed services are some way sort of being comprehensively addressed.

The evaluation concluded that although there is evidence of the MDBS having a positive influence on pro-poor policies and spending, the institutional environment displays too many weaknesses to be confident about the final impact on poverty.

### ***Recommendations for the improved design of the MDBS***

The MDBS has done enough to demonstrate that it can be an efficient and effective modality but it has been managed in a way which did not maximise its value as a tool of policy dialogue and as a predictable and efficient aid modality. The evaluation recommends an adjustment of the design with six objectives in mind:

- To re-conceive the MDBS as a method of budget financing and not a tool of policy leverage.
- To focus greater attention on the results of enhanced budget spending, as the basis for judging progress over the medium term.
- To redesign the MDBS as a mechanism for enhancing internal accountability, relegating external accountability to a supportive role.
- To change the methods used by the MDBS to promote effective institutional and policy reforms, employing an approach based upon open and unconditional dialogue rather than conditional disbursements.
- As a consequence, to condition annual disbursements upon the maintenance of the due processes of public spending rather than the completion of reforms.
- Finally, to reinforce the original objective of minimising transaction costs.

The achievement of these objectives will require changes to three core elements of the MDBS design: a) the framework of conditionality; b) the PAF and the accompanying systems of monitoring performance; c) the assessment tools and review structures for the MDBS.

The single most important change is to move away from the current structure of conditionality for disbursements, divided between a base payment and a performance payment. There is no evidence that this is generating effective incentives for the faster implementation of reforms but it is undermining the quality of dialogue, generating unnecessarily high transaction costs and diverting attention from more fundamental issues. It should be replaced with a framework which would have three elements:

- Definition and annual monitoring of 'due process' requirements, as the basis for judging continued annual eligibility for budget support;
- Definition and annual monitoring of the results of public spending, as the basis for a medium term decision over the continuation or scaling-up of budget support; and
- Setting of annual targets for key policy and reform initiatives as a framework for assessing progress and organising open dialogue on reform options and strategies.

The successful implementation of these changes will require parallel steps by Government:

- To put in place a clear and definitive aid policy;
- To strengthen the budget formulation process, notably to reduce the fragmentation between salaries and other items; and
- To strengthen the absorptive capacity of Government, starting with the design and implementation of a capacity building programme for MoFEP and NDPC and with concerted efforts to address issues of pay and remuneration across the civil service.

The need for these measures is well acknowledged by Government and significant changes are planned over the course of 2007, several of which were presaged in the Budget Speech of November 2006. To assist these processes, Annex 5 provides guidance on the possible content of an aid policy.

Ideas on the re-design of the MDBS management arrangements were discussed at the Akosombo retreat of October 2006 and again at the evaluation dissemination workshops of April 2007. Significant aspects of these recommendations have been taken up, although at the time of finalisation of the evaluation, the reflection and debate necessary to reach final decisions on these matters was still ongoing.

# Joint Evaluation of Multi Donor Budget Support in Ghana

## Final Report

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# 1 Introduction and Conceptual Framework

1. This report has been prepared by a joint team from the Overseas Development Institute, UK (ODI) and the Centre for Democratic Development, Accra (CDD), commissioned to undertake an independent evaluation of the impact of Multi Donor Budget Support (MDBS) in Ghana. It presents our conclusions and our recommendations for the future design and management of the MDBS. It has benefited from an extensive set of comments on the original draft report provided by the Government of Ghana, the MDBS partners and other stakeholders. Significant amendments have been made in the light of these comments – in particular to the length and structure of the report and in the level of detail with which recommendations have been developed. Nevertheless, it remains an independent report, presenting the conclusions and recommendations of the authors.

## 1.1 Objectives of the MDBS Evaluation

2. General Budget Support in Ghana has been provided since 2003 through a harmonised Multi-Donor Budget Support arrangement. The evaluation team have assessed what impact this process has had, utilising the enhanced evaluation framework for budget support, developed under the OECD-DAC's seven country evaluation of budget support. The purpose of the evaluation has been **to assess to what extent, and under what circumstances, General Budget Support (GBS) in Ghana has been relevant, efficient and effective in achieving sustainable impacts on poverty reduction and growth.**

3. The evaluation has a forward-looking perspective and has considered not only what has happened but also how, why, and in what context, the Ghana MDBS has attained its objectives. In this way, it has identified lessons which may provide the basis for recommendations on future practice. These could inform :

- The design and implementation of future GBS operations – in Ghana and elsewhere.
- Changes in GBS policies, approaches and methods within the Government of Ghana and within the development agencies involved in the Ghana MDBS;
- An improved understanding of when and where GBS is the appropriate and relevant instrument of support to poverty reduction and growth processes.

## 1.2 Approach and Methodology

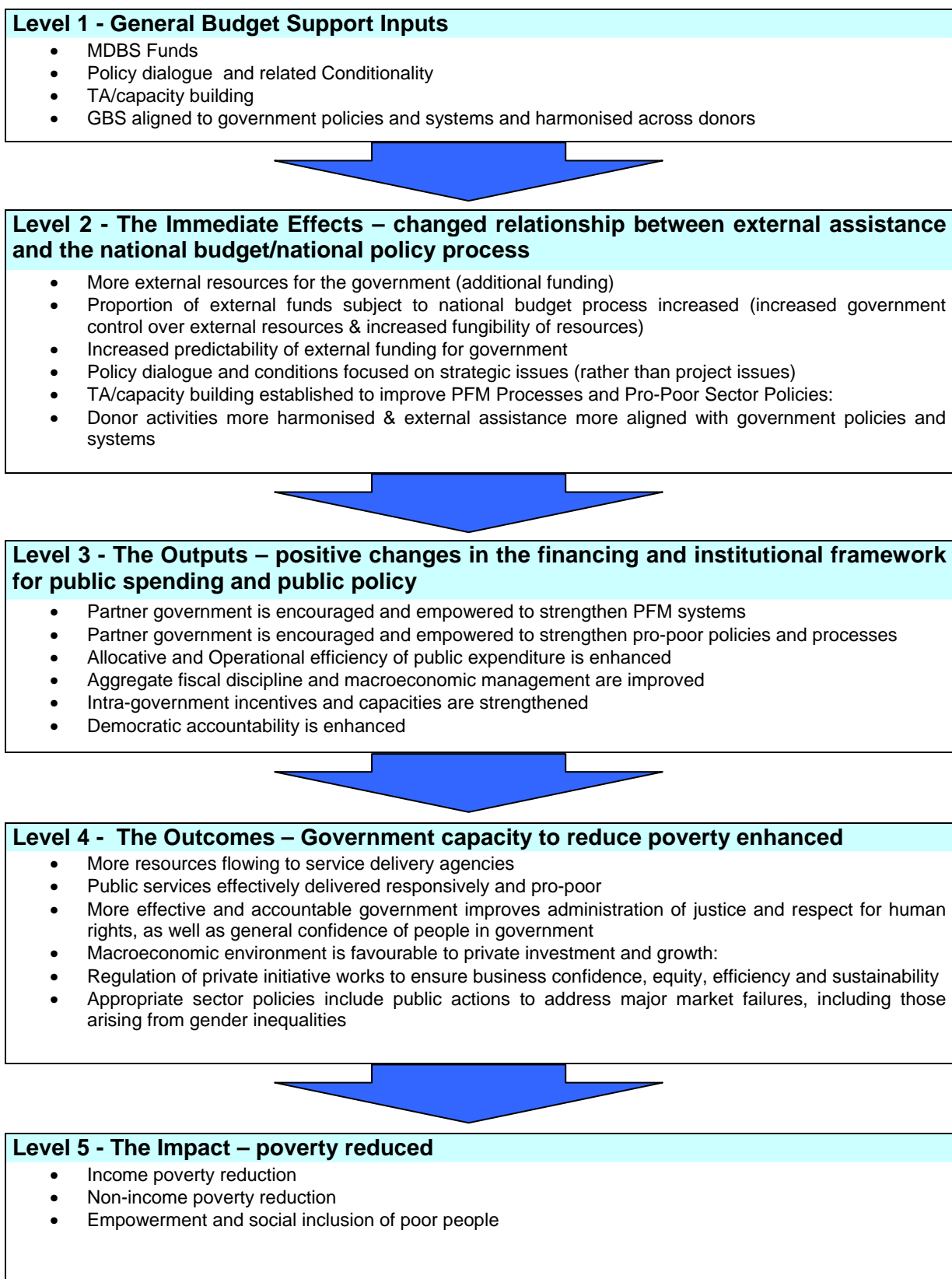
4. The methodology is based on the General Budget Support Evaluation Framework (Booth and Lawson, 2004) developed under the auspices of the OECD Development Assistance Committee's (OECD-DAC) evaluation network. This was enhanced during the subsequent DAC evaluation of General Budget Support in 7 countries (IDD and Associates 2006). The Ghana MDBS evaluation team has made further, minor modifications, whilst ensuring comparability with the seven country evaluation. A departure from the earlier evaluation is that the examination of gender issues has been integrated within the evaluation framework, recognising their importance at the output and outcome levels in achieving a balanced impact on poverty reduction.

5. The Evaluation Framework applies the standard evaluation criteria of the DAC – relevance, effectiveness, efficiency, impacts and sustainability. Further details of the methodology – including notably the approach to the 'triangulation' of sources of evidence –



can be found in Booth and Lawson (2004) and in IDD & Associates, *Notes on Approach and Methodology* (2006).

**Figure 1.1: Summary of Evaluation Framework**



6. The Evaluation Framework considers MDBS as a package of inputs not just limited to the provision of on-budget funding itself. These inputs are made up of MDBS funds paid into the national budget, policy dialogue linked to the budget funds (including any related conditionality), technical assistance or capacity building linked to the MDBS, and efforts to align MDBS support with national policies and systems and/or to harmonise MDBS management systems across the MDBS partners.

7. The Evaluation Framework is based on a logical framework which sets out a hypothesised sequence of effects of budget support and allows them to be systematically tested. There are five main levels to the framework, as illustrated in Figure 1.1:

- Level 1:**     The GBS inputs
- Level 2:**     The Immediate effects (on the relationship between external assistance, the national budget and national policy processes)
- Level 3:**     The Outputs (consequent changes in the financing and institutional structure for public spending and public policy)
- Level 4:**     The Outcomes (interactions between the public sector and the wider economy and society, specifically with regard to the proximate determinants of poverty reduction.)
- Level 5:**     The Impacts (in terms of the empowerment of the poor and the improvement of their real incomes.)

8. The original evaluation framework identified General Budget Support as having two main streams of effects:

- i)       Flow-of-funds effects deriving from the GBS funds themselves; and
- ii)      Policy and/or institutional effects resulting from the interplay of GBS funds with the non-financial GBS inputs, including both
  - a. 'Endogenous effects' deriving from changed incentives within the Government decision-making process, and
  - b. 'Exogenous effects' deriving from the influence of MDBS partners, due to new types of donor-Government dialogue and MDBS disbursement conditions.

9. Policy and institutional effects can be sub-divided between endogenous effects which arise merely from increased use of the national budget process (as opposed to the use of aid modalities which are more off-budget) and 'exogenous effects', resulting directly from the new processes of policy dialogue with DPs and the budget support disbursement conditionalities. With regard to these 'exogenous effects', it is important to appreciate that the evaluation framework does not assume a major role for donor-led dialogue and conditionality – essentially because of the substantial body of evidence on the limited impact of Structural Adjustment conditionality in the 1980s and 1990s. The positive institutional effects of budget support are seen to derive primarily from 'endogenous effects', from restoring importance to the national budget and to the related processes of accountability. The relative significance of these effects derives from the quality, transparency and comprehensiveness of the budget process at the outset, from the extent to which there is a genuine shift from "off-budget" to "on- budget" decision-making and the extent to which the Executive responds to democratic pressures – from Cabinet, Parliament and Civil Society.

10. As one proceeds down the framework towards the impact level, the hypotheses being tested are less directly related to the provision of MDBS *per se* and more to the reactions of the relevant stakeholders to the change in the decision-making framework for public policy-making and resource allocation. In positing that certain outcomes or impacts will 'result' from MDBS, the Evaluation Framework makes a number of assumptions about the nature of the response to changed incentives. These are specified in detail in the original evaluation framework (Booth & Lawson, 2004; p.45, Figure 3). We have re-stated these assumptions in the introduction to each chapter and we have re-examined their validity in the context of Ghana.

### 1.2.1 Evaluation Questions

**Table 1.1: Key Evaluation Questions**

<b>Level 0 to 1 – From the Conditions for MDBS to Appropriate Inputs</b>
<ul style="list-style-type: none"> <li>EQ1: Were the initial conditions in 2003 favourable to the success of MDBS?</li> <li>EQ2: Are the Inputs of MDBS, envisaged in the Evaluation Framework, in place?</li> </ul>
<b>Levels 1 to 2 – From Inputs to Immediate Effects</b>
<ul style="list-style-type: none"> <li>EQ3: Has MDBS contributed to an increased size and share of external funding subject to the Government of Ghana's budget process, and an improved predictability of aid flows overall?</li> <li>EQ4: Has MDBS contributed towards policy dialogue, conditionality, technical assistance and capacity building being more focused on key public policy and public expenditure issues?</li> <li>EQ5: Has MDBS contributed to greater harmonisation and alignment of the aid process?</li> </ul>
<b>Levels 2 to 4- From Immediate Effects to Outputs and Outcomes</b>
<ul style="list-style-type: none"> <li>EQ6: How significant has been the contribution of MDBS to macroeconomic performance?</li> <li>EQ7: How significant has been the contribution of MDBS to improving public policy processes and policies?</li> <li>EQ8: How significant has been the contribution of MDBS to improving PFM systems and the composition of public spending?</li> <li>EQ9: Has the MDBS contributed to expanded and more pro-poor service delivery?</li> <li>EQ10: How significant has been the contribution of MDBS to Governance and Democratic Accountability?</li> </ul>
<b>Level 4 to 5 – From Outcomes to Impact</b>
<ul style="list-style-type: none"> <li>EQ11: How far has MDBS strengthened government policies in ways which are likely to have an impact on poverty?</li> </ul>
<b>Overall Assessment: Relevance, Efficiency and Effectiveness</b>
<ul style="list-style-type: none"> <li>EQ12: Was budget support relevant to the starting conditions of 2003 and did the evolving MDBS design provide an appropriate response to the specific conditions of Ghana?</li> <li>EQ13: Is the MDBS and the resulting process of institutional development sustainable?</li> <li>EQ14: Has MDBS been an efficient and effective use of aid resources?</li> </ul>

11. In applying the logical framework approach, we have asked a series of key evaluation questions which are set out in Table 1.1. These are based upon those utilised in the seven country OECD-DAC study, although modifications have been introduced to follow more strictly the levels of the evaluation framework. In addressing the evaluation questions, we have examined performance against a series of judgement criteria, assessing the strengths of effects associated with MDBS and the efficiency with which those effects are achieved.

We have highlighted the principal causes and effects observed, and have investigated the counterfactuals – repeatedly asking the question “Would the effects have happened anyway, or could they have been achieved with a different mix of aid instruments?”

### **1.2.2 The subject of the Evaluation: what is ‘budget support’ in Ghana?**

12. The focus of the evaluation is upon the Multi-Donor Budget Support (MDBS) process in Ghana over 2003 to 2006. In addition to budget support grants from the European Commission and seven bi-lateral agencies<sup>1</sup>, this includes provision of loan financed budget support through World Bank PRSC operations and through equivalent arrangements from the African Development Bank. The evaluation focuses on the effect of these funds, of the associated processes of policy dialogue, the associated TA and capacity building inputs and the related actions to harmonise and align the MDBS arrangements. However, there are two important respects in which the evaluation has needed to go wider than the MDBS.

13. In the first place, MDBS resources have been provided alongside debt relief from the HIPC initiative and, more recently, from the MDRI (Multi-lateral Debt Relief Initiative). Although the disbursement conditions of HIPC and MDRI are significantly different to those of the MDBS, they also represent a form of budget support in that they generate unearmarked, recurrent resources for the general budget (resulting from the decline in debt servicing requirements). In assessing the ‘flow of funds’ effects of budget support on the composition of aid flows and the structure of public spending, it is in practice impossible to distinguish between the effects of MDBS and the effects of HIPC and MDRI. Our assessment of this question in chapter 3 therefore focuses on Programme Aid as a whole.

14. Secondly, the ‘membership’ of the MDBS extends further than the Government of Ghana and the MDBS contributors. Five additional agencies – the IMF, JICA, UNDP, UNICEF and USAID – participate as observers in MDBS meetings with the GoG both at sectoral working group level and at the central level (with MoFEP). The inputs of these ‘observers’ is impossible to separate, so in looking at the impact of the structures of dialogue established for the MDBS, the scope is also slightly wider than the ‘core’ MDBS Partners.

## **1.3 Report Structure**

15. The report follows the structure of the key evaluation questions. Chapter 2 examines the context for MDBS in Ghana and describes the package of MDBS inputs and how they have evolved. Chapter 3 assesses the immediate effects of MDBS and Chapter 4 assesses the Outputs and Outcomes of MDBS. Chapter 5 evaluates the potential impact of MDBS on poverty reduction. Chapters 4 and 5 consider both the evidence to date and the potential for future positive outcomes and impacts, analysing in particular the presence or otherwise of the conditions necessary for significant positive effects in these areas. Chapter 6 draws conclusions on the relevance, efficiency and sustainability of MDBS in Ghana. The report closes with a summary overview in Chapter 7 and a set of recommendations on how the design and operation of MDBS might be improved in future.

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<sup>1</sup> CIDA, DANIDA, DFID, KfW, France (AFD), the Netherlands and Switzerland (SECO).

## 2 Context and Evolution of MDBS in Ghana

16. This chapter focuses on the first two evaluation questions. These are preliminary to the main evaluation but at the same time essential to permit a balanced assessment of the impact of MDBS thus far. The first relates to the nature of the baseline conditions in Ghana at the time when the MDBS started. How favourable to the success of budget support were the initial starting conditions in 2003? We address this question by looking at the quality of democratic governance, the direction and consistency of macroeconomic management, the design and implementation of the poverty reduction strategy and the quality of public finance management. (Annex 1 provides a summary of key statistics for Ghana in order to complement this analysis.)

17. The second question relates to the inputs provided through the MDBS arrangement. Here we focus on Level One of the framework: are the budget support inputs envisaged in the evaluation framework actually in place? To the extent that they are, then it is reasonable to judge subsequent effects against the chain of causality outlined in the evaluation framework. In so far as the level or nature of GBS inputs in Ghana has been significantly different, then it is necessary to adjust our expectations about the types of causal effects which might reasonably result from the MDBS. By considering baseline conditions and MDBS inputs together, we also assemble the necessary information to address (in Chapter 6) the question of relevance: was MDBS a suitable aid modality for Ghana in 2003 and was its design appropriate to the context?

### 2.1 The Context for Budget Support in Ghana

***EQ1: Were the starting conditions in 2003 favourable to the success of the MDBS?***

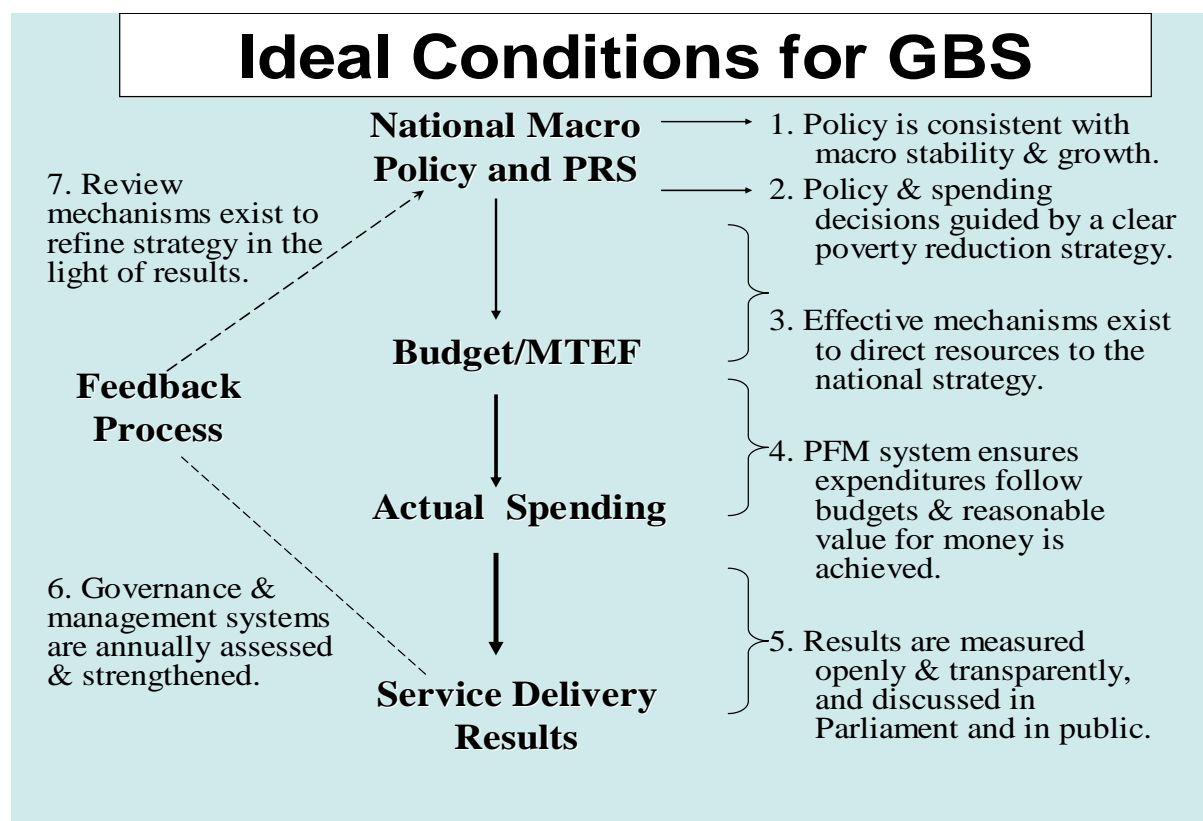
#### 2.1.1 Overview

18. General Budget Support provides unearmarked resources to the national treasury for the purposes of public spending directed at poverty reduction. The extent to which GBS can be effective in achieving this purpose will depend on the quality of the national policy and budget cycle at the outset of the GBS operation and on the extent to which its quality can be improved either by GBS itself or by underlying processes of reform, to which GBS may or may not contribute.

19. Figure 2.1 illustrates the 'ideal' conditions for maximum impact. Prominent within these is the existence of transparent mechanisms for measuring results, assessing them against policy targets and adjusting strategy accordingly. This recognises that, in reality, no policy is ever perfect and improvements must therefore depend on the existence of effective learning mechanisms. How close to this ideal was the situation in Ghana in 2003?

20. We begin to answer this question by looking first at the quality of democratic governance. A strong democratic framework provides the mechanism for periodic review of the performance of the Executive – by the Judiciary and the constitutional 'watchdogs', by the Legislature and by the general public. Within a strong democratic framework, it is much more likely that misguided or unfair policies and spending decisions will be brought to light, questioned and changed.

**Figure 2.1: The ideal conditions for GBS within the national policy and budget cycle**



## 2.1.2 Democratic Governance

21. On the political front, Ghana has made steady progress since the early 1990's by joining other African countries in liberalizing its policies and political institutions. The process of political liberalization began with a formal democratic transition, including the promulgation of a liberal democratic constitution in 1992 and return to constitutional rule with an elected administration on January 7, 1993.

22. The period from the implementation of constitutional rule in 1993 up to 2003 saw three multi party elections. These were characterized by some degree of ethnic mobilization and by some abuse of incumbency. Additionally, the 1992 presidential polls produced a stalemate and led to an opposition boycott of the ensuing parliamentary polls. Nonetheless, there has been significant progress. General elections in Ghana's 4th Republic were increasingly competitive and clean and the 2004 election continued this trend. Since 1996, a strong opposition has emerged in the legislature (67 out of 200 minority seats in 1996; 96 out of 200 seats in 2000; 102 out of 230 seats in 2004) and, most significantly, there was power alternation in the 2000 polls. Thanks to competitive multi-party elections, there is reasonable uncertainty over the outcomes of national polls. Indeed, the main opposition (and former ruling) party, the National Democratic Congress (NDC), has offered vigorous parliamentary and extra parliamentary opposition to the ruling New Patriotic Party (NPP), a sign of a functional democracy.

23. Moreover, Parliament has been increasingly involved in law making, policy deliberations, scrutiny of international loans and agreements, and executive oversight, notably approval of nominees for presidential appointments including: Ghana's Electoral Commission (EC), the Commission on Human Rights and Administrative Justice (CHRAJ), the Judiciary, as well as other agencies of horizontal accountability which have gained

increasing independence. Civil-military relations have been democratized and the military made subject to control by elected civilian authorities. A vibrant independent media and an active civil society had emerged by the late 1990s and has been further strengthened since then. One simple illustration of this is the strength and degree of organisation of popular protest against domestic violence, which led to the presentation of a Bill on Domestic Violence in 1999 and its eventual passing into law in 2007 after a protracted process of consultation. The Bill is by no means perfect and its passing into law has been considerably delayed but there are few Sub-Saharan African countries where civil society would be sufficiently strong to get a result of this kind.

24. Thus, it seems reasonable to say that in 2003, the Government of Ghana, the political class and the public at large appeared to be strongly committed to good governance and democracy. This was reflected in Ghana's embrace of the African Peer Review Mechanism (APRM) of the New Partnership for African Development (NEPAD) and her pioneering role in acceding to and undergoing a fairly transparent and thorough self-assessment of her record in economic, corporate, democratic and political governance.

25. Clearly, Ghana continued to suffer from many deficits in the realm of democracy and governance. In particular, one could point to weaknesses in the culture of the rule of law, and in respect for human rights and constitutionalism; the fact that access to justice remained poor for nearly all Ghanaians except for the well-educated, middle class and urban-based. In addition, political patronage<sup>2</sup> and public corruption remained persistent; there was weak parliamentary oversight; regional inequalities and north-south inequalities remained, a gender gap persisted and parts of the country were facing endemic conflict, notably in the economically depressed northern (Dagbon) regions.

26. Nevertheless, both in historical perspective – relative to the Ghanaian context of the 1970s, 1980s and even the 1990s, and in comparison with many other Sub-Saharan African countries, the quality of democratic governance at the outset of MDBS would have to be considered relatively good. A crucial benchmark of progress in this respect was the peaceful alternation of power in 2000 without a challenge to the legitimacy of results by the outgoing government. Booth et al (2004) suggest that 'a strong "democracy dividend" favouring more rational economic policies, emerged from the alternation of power'. Thanks to the goodwill and popular legitimacy which the NPP initially enjoyed, the government was able to raise the price of water and electricity substantially in 2001 and to double the price of petroleum products in 2003. Afrobarometer 2 survey data showed a doubling of the proportion of the adult population, "willing to endure hardships now" (an indication of patience with economic reforms) from 36 % in 1999 to 72 % in 2002.

### **2.1.3 Macroeconomic Management**

27. Ghana has had a chequered post-Independence history of macroeconomic management. President Nkrumah placed low priority on this and he was mirrored by several of his successors. By the beginning of the 1980s mismanagement had become extreme. There was triple-digit inflation, the budget was entirely out of control, there were acute

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<sup>2</sup> For example, when first elected, the NPP pledged to reduce the number of ministers and deputy ministers, yet in 2003 their numbers were higher than under the NDC government. Similarly, it made a campaign pledge to abolish presidential powers of appointment over District Chief Executives, which it had not fulfilled at that time.

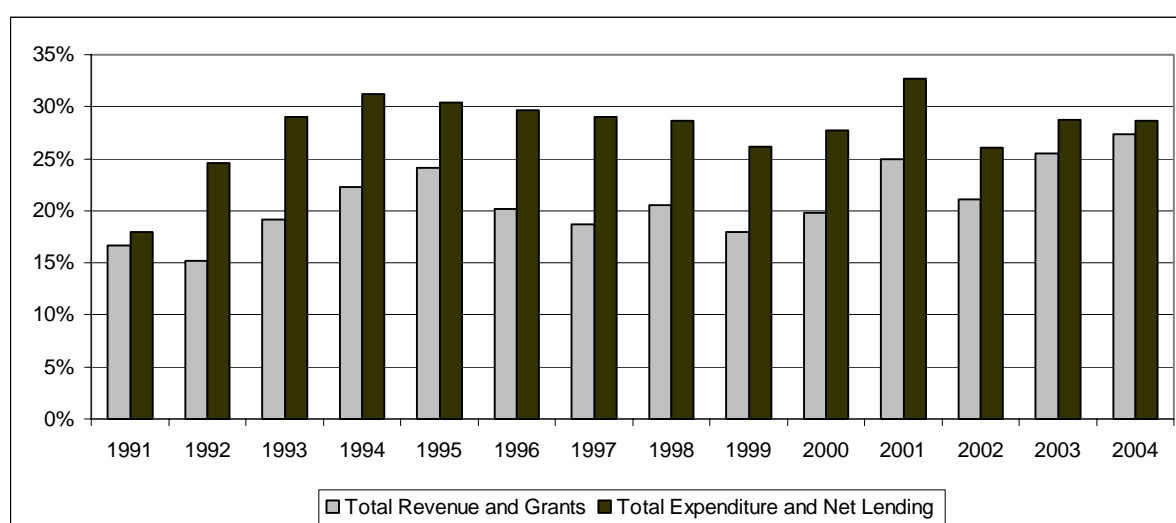


shortages, the cedi was hugely over-valued, recorded output was imploding, poverty was rising and many Ghanaians were being forced into extreme survival strategies.

28. President Rawlings' 'second coming' in 1982 resulted in a major effort to reverse this deterioration. The exchange rate was brought into line with market realities, fiscal discipline was improved, inflation was reduced and other liberalising reforms were undertaken. With important qualifications, the 'Washington consensus' held sway. The assistance of the IMF, World Bank and bilateral aid donors was enlisted. Investment improved and the economy began to grow again, albeit at a modest pace.

29. However, there was always some question about the commitment of President Rawlings to the reform process and, as his term of office extended into the 1990s, some reform fatigue set in. One of the weaknesses of his administrations' macroeconomic efforts was that they did not manage to bring inflation into the harmless single-digit range. As a result, the exchange rate never stabilised and investor uncertainty remained high, augmented by doubts about Rawlings' attitudes towards markets and the private sector. Macro management was marked by a strong electoral cycle, with large expansionary surges in state spending around the elections of 1992, 1996 and 2000. Relations with the IMF and other donors were not always smooth and by 2000 were in crisis, with the government having effectively lied to the Fund about the true economic situation.

**Figure 2.2: Expenditures and revenues, 1991-2004 (% GDP current prices)**



Source: IMF, Article IV Reports, various years.

30. The incoming Kufour-NPP government thus inherited a difficult situation, with 1999-2000 having been marked by a huge burst of state spending and large-scale monetary expansion. In addition, serious fiscal and quasi-fiscal slippages prevented the completion of the IMF's final review of the Poverty Reduction and Growth Facility (PRGF). The new government was initially slow in responding to this situation but in late 2002 and early 2003, it redoubled reform efforts by undertaking measures to improve the fiscal situation – most notably the hiking of utility and petroleum prices towards market-determined levels.

31. The Ghanaian economy appeared to have turned the corner in 2001 with real GDP growth taking an upward turn from the declining trend seen since 1998. There was an upsurge in growth in 2001 due to a recovery in agricultural production aided by improved macroeconomic management. This also led to a reduction in inflation, interest rates and to

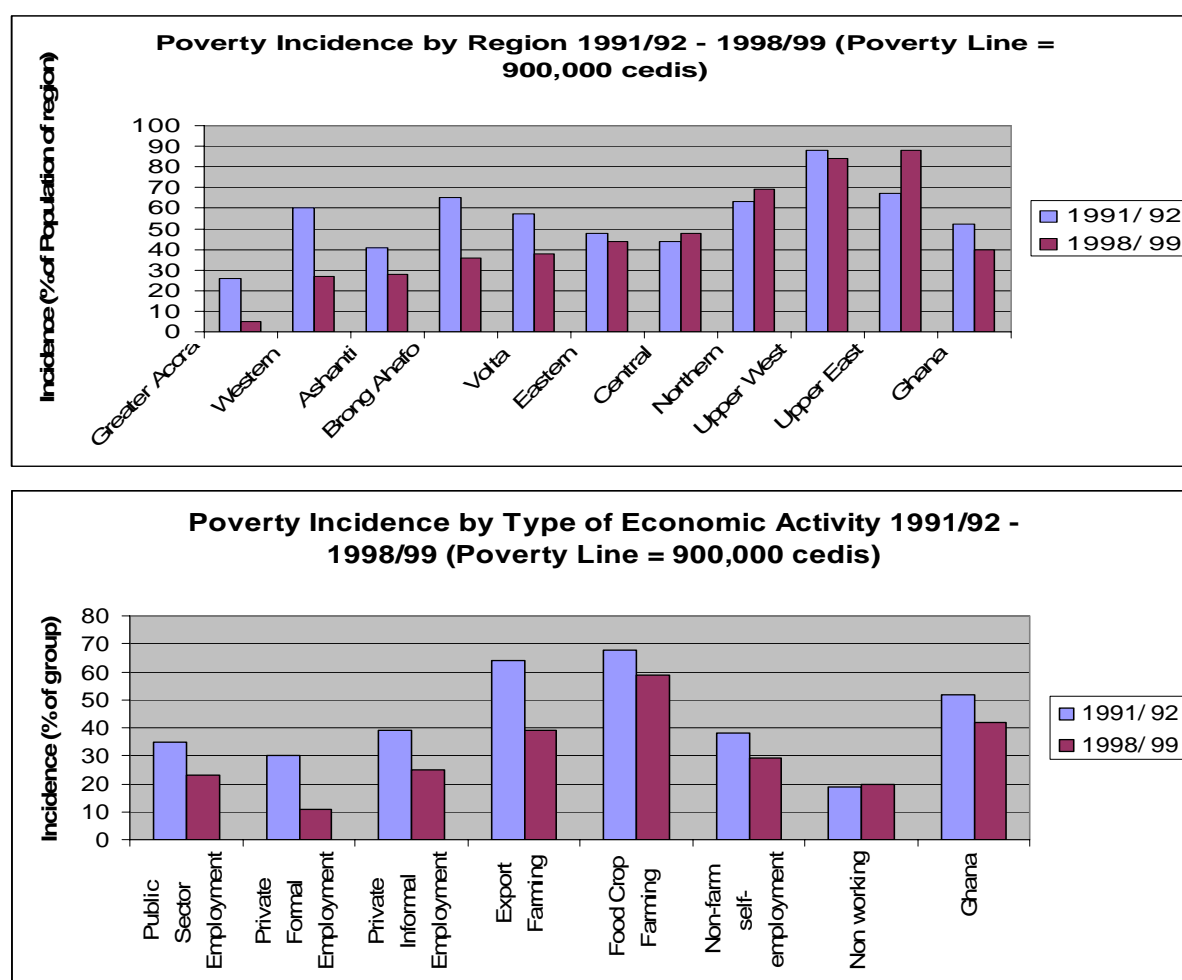


some stability in the foreign exchange rate of the cedi. Including grants, the overall fiscal deficit declined to 4.5 percent of GDP in 2003, down from 6.8 percent in 2002. Domestic debt, which rose from one per cent of GDP in 1990 to 21 percent in 1995, reached 29.6 percent in 2002. The cut in net domestic financing of the budget in 2003 permitted a sharp reduction of domestic debt relative to GDP to an estimated 19.6 per cent by end 2003.

32. On the strengths of the reforms undertaken, the IMF approved a second PRGF arrangement on May 12, 2003. This, together with the approval by Parliament in February 2003 of the Ghana Poverty Reduction Strategy, permitted accession to HIPC debt relief<sup>3</sup>. These two decisions were crucial in permitting the start-up of the MDBS, although economic mismanagement was still sufficiently recent for it to be considered a continuing source of risk, explicitly identified in the programme documentation of most of the MDBS partners.

## 2.1.4 Poverty and the Poverty Reduction Strategy

Figures 2.3 & 2.4: Poverty Incidence by Region and by Type of Economic Activity



Source: Ghana Statistical Service, *Poverty Trends in the 1990s*, October 2000, Accra.

<sup>3</sup> Ghana reached HIPC completion point in July 2004, accessing US\$2.2 billion of irrevocable debt relief in net present value.

33. Economic growth in the 1990s was patchy but it was sufficient to permit a reduction in the incidence of poverty over the course of the decade. Between the GLSS survey of 1991/92 and that of 1998/99, the national incidence of poverty (based on a poverty line of 900,000 cedis) is estimated to have declined from 51.7% of the population to 39.5%. Extreme poverty (based on a poverty line of 700,000 cedis) is also estimated to have declined from 36.5 % in 1991/92 to 26.8 % in 1998/99. Yet, this still left over a quarter of the population unable to meet their basic nutritional needs, even if they devoted their entire household budget to food. Ghana remained a poor country at the outset of the millennium with Gross National Income estimated at only \$290 per capita in 2001.

34. Moreover, the decline in the incidence of poverty over the 1990s was not evenly distributed, with poverty reduction concentrated in Accra and in the Forest localities. As the two charts above demonstrate, despite the improvements of the 1990s, poverty in Ghana in 2003 remained a disproportionately rural phenomenon, prevalent in the northern, savannah regions and especially amongst the producers of food crops, who are predominantly women. The PSIA on Vulnerability and Exclusion of 2003 confirmed the links between gender and poverty and the fact that rural women farmers were the poorest in society.

### **Ghana's Poverty Reduction Strategy**

35. Ghana issued its first Poverty Reduction Strategy (GPRS 1) in 2003 to cover the period 2003 – 2005. Its preparation had been started in 1999 with a series of participatory and consultative processes. Its approval was delayed as a result of the change of Government but following a number of amendments and additions to the draft, it was approved by Cabinet in late 2002 and by Parliament in February 2003. It established five areas of intervention, described as 'pillars', namely: infrastructure development, agricultural development, enhanced social services delivery, strengthening of governance institutions and private sector development. Within each of these areas, Medium Term Priority Programmes (MTPPs) were defined which were intended to receive priority in budgetary allocations<sup>4</sup>. One aspect of this prioritisation was an emphasis on increased relative allocations of public resources towards the poorer regions – Upper West, Upper East, Northern and Central.

36. GPRS 1 enjoyed substantial support from Development Partners, providing a key element in the requirements for accession to HIPC completion point and for initiation of the MDBS. In common with many poverty reduction strategies, the GPRS 1 was wide-ranging in scope and somewhat unspecific in its definition of priorities. As such, it is probably best described as a statement of policy objectives rather than a precise strategy to guide public spending. As a consequence, its implementation needed to rely on pre-existing structures for defining and executing operational strategies. For macroeconomic policy, such a high level treatment was appropriate because effective decision-making structures did indeed exist. In relation to service delivery objectives, implementation of GPRS 1 relied at the sectoral level, on robust processes of strategy and programme definition and budget formulation and, at the level of the central agencies, on the ability of the NDPC and MoFEP to drive the process of prioritisation and to ensure a system of budget execution consistent with the approved budget and the MTEF. In practice, in 2003 there were significant doubts over the effectiveness of these systems and processes – a point to which we will return.

37. With GPRS 1, a process was introduced to track expenditures on GPRS priority areas, so as to generate an annual statement within the GPRS Annual Progress Report (APR). The system was not based on the tracking of expenditures against specific poverty reducing

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<sup>4</sup> For GPRS 2, more substantial work was undertaken in the costing of MTPPs, based upon a scaling back and re-prioritisation of GPRS1.

programmes but rather on an estimation of the relative proportions of spending within particular budget entities (MDAs) which were likely to be poverty reducing. Given the fragmentation of funding sources and the structure of the budget and the chart of accounts, this was a pragmatic way to proceed and has permitted reports on poverty reducing spending to be produced in the successive GPRS APRs for 2003, 2004 and 2005.

38. Similarly, a GPRS Monitoring & Evaluation system was established to track progress against a set of 60 GPRS Core Indicators. These included a mix of impact indicators (such as infant mortality, HIV prevalence rates, and real per capita agricultural production), service delivery indicators (such as gross and net enrolment rates and immunization rates), output indicators (numbers of boreholes, classrooms constructed) and process indicators ('dissemination of Parliamentary debates on poverty'). This somewhat unusual mix of indicators of different types and levels made the interpretation of performance results relatively difficult. It was in part a response to gaps in data availability and in part a response to the different information requests of the many stakeholders involved in the GPRS process. At the very least, it did constitute an institutionalised annual mechanism for measuring progress in the implementation of a national poverty reduction strategy, which included fora for structured inputs from civil society, Development Partners and Parliamentarians. Such a mechanism had not previously existed in Ghana.

39. Notwithstanding the conceptual weaknesses of the GPRS 1, it comprised an important building-block in the framework of national policy and budget making. Without it, initiation of the MDBS would not have been possible in 2003. Yet given its evident weaknesses, the quality of the learning mechanisms within the GPRS process emerge as a crucial determinant of the likely impact of MDBS in supporting implementation of effective poverty-reducing policies. Without a functional mechanism for annual performance review and refinement of policies, one could not easily envisage steady progress towards the 'ideal conditions' for GBS illustrated in Figure 2.1. With such a mechanism, the initial weaknesses in different aspects of the policy and budgeting cycle could be gradually addressed. Our evaluation considers in Chapter 5 the effectiveness of these learning mechanisms and the extent to which the MDBS dialogue may have affected them – positively or negatively.

### **2.1.5 Public Finance Management**

40. It is the system of public finance management which creates the link between planned poverty-reducing actions and actual public expenditures. As Figure 2.1 above shows clearly, the impact of public spending (and hence of budget support as a component of public spending) depends crucially on a PFM system in which budgets reflect the Poverty Reduction Strategy and the corresponding sector policies, expenditures follow budgets, and expenditure management and procurement systems generate reasonable value for money in public spending.

41. In 2003, the Ghanaian PFM system fell substantially short of this ideal. In 2001, the IMF had conducted a HIPC Expenditure Tracking Assessment and Action Plan, in which the PFM system was judged to fulfil only one out of 15 benchmarks. The assessment pointed in particular to the chronic lack of consistency between approved budgets and budget expenditure out-turns. As part of the annual World Bank-led external reviews of Public Finance Management, detailed analyses of deviations were made. The results, for 2002 and 2003 (Table 2.1), showed that while there was a significant reduction in deviations at the aggregate level, at the ministerial and item levels deviations continued to be well in excess of the norms recommended under the HIPC-AAP process.

**Table 2.1: Ghana Average Budget Deviation Index, 2002-4**

( in absolute percentage)

	2002	2003	2004
	BDI 1/	BDI	BDI
<b>Total domestically financed discretionary expenditure</b>	<b>32</b>	<b>6</b>	<b>2</b>
<b>Major MDAs 2 /</b>	<b>22</b>	<b>20</b>	<b>18</b>
<b>All MDAs (Items 1-4) 3/</b>	<b>31</b>	<b>25</b>	<b>29</b>
1. Personnel Emoluments	15	20	14
2. Administration	39	38	29
3. Services	27	14	27
4. Investment	42	27	44

Source: Tables 5 & 6 of the Statistical Annex

1/ The Budget Deviation Index (BDI) is the average variance of the actual out-turn against the budget

2/ Includes all MDAs whose domestic discretionary expenditure represents 0.5 percent or above of total in 2004, and excludes contingency.

3/ Includes all MDAs (Table 7) but excludes contingency.

Source: World Bank (2004)

42. The CFAA of 2002 suggested that some improvements were being achieved but pointed to major weaknesses in reporting and expenditure control. It also identified procurement as a high risk area, and a full CPAR was carried out in March 2003. It concluded that the legal framework was loose and outdated; that weak public service capacity had led to poor tendering practices and contract management; that the private sector could not provide the competitive supply needed to get value for money; and that procurement was often discretionary and non-transparent.

43. In 2003, the Government tabled a draft procurement law, which was considered to meet international requirements for a more rules based system. The CPAR also endorsed an action plan and capacity building programme for implementing the law. During 2003, an Internal Audit law and a new Finance Administration law were also tabled. In addition, as part of the requirements for the initiation of the PRSC and MDBS, a short and medium term action plan for the reform of PFM systems was defined. It was essentially as a consequence of these actions that agreement was reached to proceed with budget support, despite the identified weaknesses in PFM systems.

44. The MDBS partners recognised the risk that this entailed and stressed the importance of efficient and timely implementation of the action plan. For example, the DFID MDBS project memorandum of 2003 noted that: *“failure to move on this action plan will seriously prejudice future budget support disbursements from all sources.”*

**Summing Up:**

**EQ.1: How favourable were the initial conditions for the success of the MDBS?**

*At the outset of the MDBS, there remained serious weaknesses in the quality of strategy formulation, budget preparation and execution which placed question marks over the ability of the Government of Ghana to utilise budget support effectively to enhance poverty reduction efforts. The MDBS partners were aware of these limitations and had identified them as significant risks within the programme design. However, there were four factors suggesting an improvement in the overall environment for budget support, which provided the essential justification for proceeding:*

- *The peaceful alternation of power following the December 2000 elections pointed to a steady continuation of the improvements in democratic governance witnessed since 1992. This gave confidence in the presence of a democratic challenge to the Executive.*
- *There were important improvements in the quality of macroeconomic management over 2001 and 2002, which allowed the Government to conclude a PRGF arrangement with the IMF and gave confidence in the Government's commitment to fiscal stability and sound macroeconomic management.*
- *Following a long process of consultation and development, the GPRS 1 was finally approved by Parliament in February 2003, thus establishing a mechanism for setting targets for poverty reduction measures and for reviewing their progress on an annual basis.*
- *Three new acts were tabled during 2003 covering Finance, Procurement and Internal Audit. These together with the short and medium term action plan for PFM reform provided both an illustration of the GoG commitment to improved PFM and a mechanism for tracking progress.*

*Nevertheless, it was clear that the success of MDBS in achieving its end goal of accelerating progress towards poverty reduction and growth would depend upon steady improvements in the design and implementation of poverty reducing measures and in related PFM processes.*

## **2.2 The Evolution of Aid and Multi Donor Budget Support in Ghana**

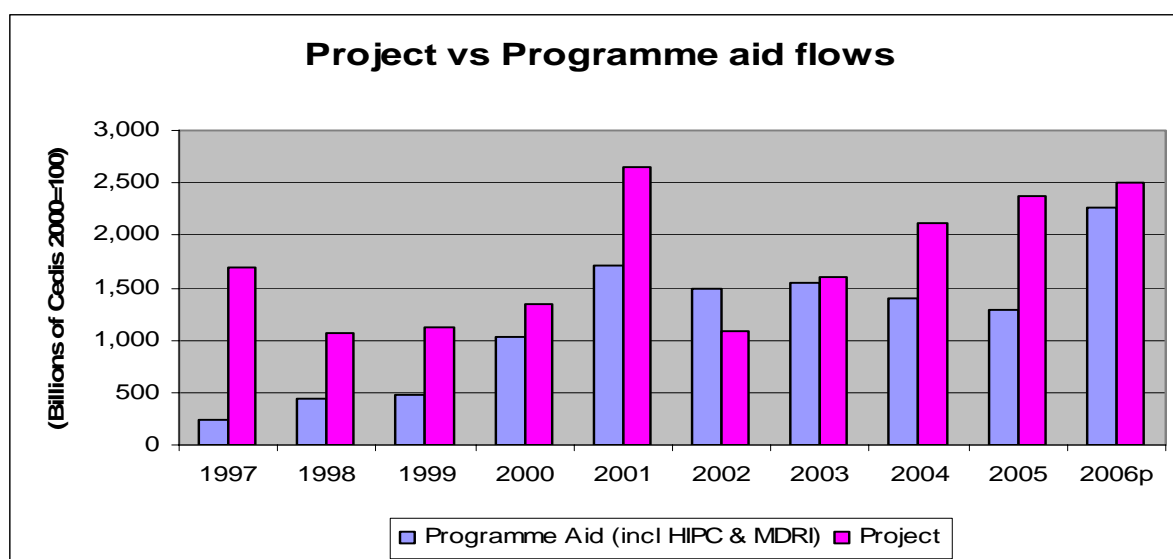
### **2.2.1 Evolution of Aid Relations in Ghana**

45. Over the 1990s, there was a somewhat unstable relationship with the IMF, with successive ESAF/ PRGF facilities being repeatedly declared off and on-track. This had significant knock-on effects on the volume and volatility of flows of programme aid, provided in the form of structural adjustment support arrangements by the World Bank, the African Development Bank, and the European Commission and, in the latter years by DFID. Nevertheless, it would not be correct to describe the period of the 1990s as a period of poor aid relations. Flows of project assistance remained consistently high and in many of the aid innovations of the period, Ghana could be considered a pioneer. It was one of the first countries to pilot the Comprehensive Development Framework for development assistance and was also one of the first countries to develop a SWAp programme (in the health sector), with an associated common basket funding arrangement.

46. Both the CDF and the SWAp initiatives represented attempts to grapple with the costs of traditional project-based development assistance – in terms of the transactions costs from

the use of multiple donor systems, the loss of ownership over development decisions, and the undermining of domestic management systems through the use of parallel mechanisms. By the late 1990s, Ghana appeared to manifest all of the classic problems of a country with a high aid dependency<sup>5</sup>, and the preparatory documentation for the three SWAp in Ghana presented much evidence of these problems. The CDF pilot is considered to have had little direct impact on these issues, although perhaps lending support to the momentum of pre-existing initiatives, such as the health SWAp<sup>6</sup>. The Health SWAp is credited with having reduced the transaction costs of aid to the sector and having helped to create a more coherent framework for sector policy and planning but there remained serious concerns over the efficiency of GoG and aid-financed spending in health. Moreover, even the partial success of the Health SWAp proved difficult to reproduce in other sectors.

**Figure 2.5: Flows of Official Development Assistance 1997 – 2006**



Source: ADMU, MOFEP, 1999-2007<sup>7</sup>

47. Despite these continuing problems with traditional aid systems, the period after the elections of 2000 has witnessed a massive surge in ODA flows. 2001 saw unprecedented levels of ODA disbursements - largely accounted for by the deferment of existing commitments pending the completion of a peaceful election and establishment of a new government. 2002 saw a fall from this peak, in part a result of the delays in reaching agreement on a new PRGF arrangement and in part a simple reflection of the time required for the design and initiation of new projects. From 2002 onwards, the OECD-DAC record steady increases in ODA flows to Ghana (in real terms). OECD-DAC data are based on financial commitments by development agencies and are generally substantially in excess of ODA receipts as recorded in-country. However, data on GoG receipts collected by MoFEP's

<sup>5</sup> We refer to the sort of problems documented in World Bank (1998), *Assessing Aid: What works, what doesn't and why?*, as well as in Harold (1995) and in the substantial literature on SWAp.

<sup>6</sup> World Bank, Operations Evaluation Department, (December 2002) '*Evaluation of Comprehensive Development Framework: Ghana Case Study*'.

<sup>7</sup> The ADMU data does not distinguish between project assistance and common basket funding, recording these as a single category, but the bulk of disbursements under the project category are traditional projects.

Aid & Debt Management Unit provide confirmation of these trends<sup>8</sup>, suggesting that ODA receipts by GoG reached in excess of US \$ 1 billion in 2005, 9 per cent of GDP.

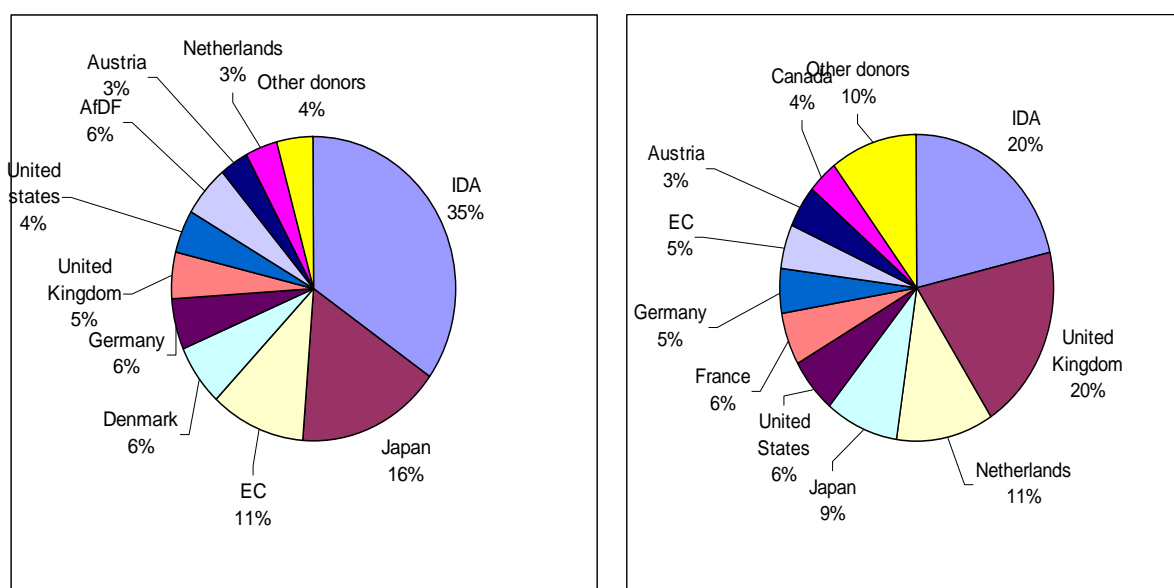
**Table 2.2: Contribution of Programme Aid to ODA flows 1999 - 2005**

	1999	2000	2001	2002	2003	2004	2005
<b>ODA Receipts by GoG as % GDP</b>	6	9	15	8	9	10	9
<b>Programme Aid as % share of total ODA</b>	30	44	39	58	49	40	35

Source: ADMU, MoFEP

48. Increased levels of disbursement of programme aid constituted a significant proportion of these total flows – including, from 2002 onwards, HIPC debt relief and, from 2003, MDBS disbursements. In 2003, MDBS and HIPC disbursements together comprised nearly 50 per cent of total ODA received by GoG but since then their importance has declined both in relative terms and, since 2004, in absolute terms.

**Figure 2.6 : ODA Sources 1996 and 2004 (% of reported disbursements)**



Source: OECD-DAC database.

<sup>8</sup> ADMU have advised that a part of this apparent increase is accounted for by improved recording of spending on aid projects. This may overstate the relative increase in ODA flows but with the trend increase also supported by OECD-DAC data, whose coverage has been stable, there is no doubt over the trend and the broad area of magnitude.

49. Figure 2.6 shows the main sources of ODA in 1996 and 2004. The most striking feature is the extent of diversification. In 1996, the two biggest donors – the World Bank and Japan – accounted for over 50 per cent of all flows; in 2004, the two biggest (World Bank and DFID) comprised only 40 per cent. By 2004, the number of agencies providing 5% or more of total flows had increased from six to eight and the share of the ‘other donors’ category had risen from 4 % to 10 %. Thus, over the last ten years, the number of agencies providing significant levels of development assistance has risen, creating more options for the Ghanaian Government and the potential for efficiency-enhancing competition.

## **2.2.2 The Introduction and Evolution of MDBS**

50. The introduction of the MDBS was essentially the result of an initiative by a small number of development partners, comprising the Netherlands, the EC, DFID and the World Bank, with positive experiences of the provision of budget support in other countries. The GoG responded positively to this initiative and so too did five other DPs (African Development Bank, Canada, Denmark, Germany and Switzerland) who quickly joined the core group of MDBS providers, so that the Framework Memorandum signed in June 2003 had nine signatories. From the outset, the arrangement was designed in an inclusive manner so as to facilitate the entry of new partners. Thus, the Agence Française de Développement (AFD) was initially an observer and became a signatory of the Framework Memorandum and provider of budget support from 2005. Similarly, the IMF, JICA, USAID, UNDP and UNICEF had observer status, virtually from the outset of the arrangement.

51. The primary objective of the MDBS was the creation of a harmonised mechanism for the disbursement of budget support to assist the implementation of the GPRS. It created a common structure for dialogue between the MDBS partners and Government based on a programme of twice-yearly discussions, including a formal annual progress assessment. It established a disbursement schedule explicitly linked to the budget cycle and created a common set of benchmarks for judging progress, based on a Performance Assessment Framework (PAF) matrix. In the first year of implementation, the World Bank disbursed against a separate PRSC matrix of policy triggers and targets but from 2004 disbursements have been based on a single harmonised PAF matrix<sup>9</sup>.

52. An important innovation in the Ghana MDBS has been the establishment of a two tranche system of disbursement. This is based upon a ‘base payment’, disbursed in the first quarter of the fiscal year against satisfactory outcome of the annual PRGF review in the previous year and a ‘performance payment’ linked to the achievement of 10-14 explicitly defined ‘policy triggers’. A 50/50 split between these tranches was envisaged, although the performance tranche was designed to be disbursed in full or in part, depending on the number of trigger conditions fulfilled. It was explicitly agreed in the Framework Memorandum that the ‘triggers for performance-based disbursement should be realistic, within the power of the GoG to achieve and limited in number’.

53. The choice of performance triggers has been made through an annual process of negotiation between GoG and the MDBS partners. In 2003, the MDBS triggers covered PFM and governance issues only. In 2004, when the MDBS and PRSC PAFs were merged, the scope of the triggers was widened to cover policy actions related to growth, income and employment as well as service delivery, mirroring the structure of the GPRS1 pillars. These

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<sup>9</sup> 2006 was the transition year towards a prior fiscal year assessment of disbursement conditions and also necessitated a separate PRSC matrix for the World Bank – see Chapter 3 for more details.



triggers comprised a sub-set of a bigger group of policy targets<sup>10</sup>, derived from the pre-existing PRSC matrix and from the GPRS 1 commitments.

54. 2005 was the first year in which there was an input from the GoG into the initial proposals for targets and triggers, although again these remained close to those already defined in the PRSC. By 2006, a functional structure of sector working groups was in place, comprising mainly sector MDA and sector DP representatives; these groups developed first proposals on the 2007-2009 PAF, which were screened by MoFEP before being agreed between MoFEP and the MDBS partners. A similar framework is to be used in the future, although some strengthening of civil society participation in sector groups is envisaged as well as a more active input from MoFEP representatives. Table 2.3 shows the evolving structure of the MDBS triggers and targets.

55. An important innovation introduced in 2006 was the shift from a process in which the annual assessment of performance against the PAF determined disbursements within that same financial year, to one in which assessment in year  $t$  of triggers achieved in year  $t-1$  would determine disbursements for year  $t+1$ . The purpose of this innovation is to maximise the predictability of MDBS flows by making decisions on planned disbursements shortly before the issuance of budget ceilings for the subsequent year. (See figure 2.7).

**Figure 2.7: Ghana MDBS Disbursement Calendar from 2007**

Q. 2	Q. 3	Q. 4	Jan-Feb	Mar-April	May-Jun	Jul-Aug	Sept-Oct	Nov-Dec	Q.1	Q.2	Q.3
	t - 1		Year t							t + 1	
Performance Year											
			MDBS Annual Assessment & Disbursement Decision								
						Preparation of Annual Budget & MTEF					
									MDBS Disbursement		

<sup>10</sup> For the MDBS/ PRSC PAF, policy 'targets' comprise a broad set of actions seen as important for the achievement of the GPRS. Policy 'triggers' are a sub-set of these targets, used to determine the level of disbursement of the PRSC as a whole and of the MDBS performance payment.

**Table 2.3: Summary of the Evolution of the MDBS PAF**

AREAS OF FOCUS		No. of Triggers and Targets for the Period									
		2003		2004		2005		2006		2007	
		Triggers	Targets	Triggers	Targets	Triggers	Targets	Triggers	Targets	Triggers	Targets
<b>1</b>	<b>Promoting Growth, Income and Employment</b>										
1.1	Increasing scope for financing development (Private sector credit and budget allocation)	Not Present		-			1	-	3	-	3 - 5
1.2	Improving the environment for business (Energy and competitiveness)	Not Present		3	4	2	3	3	8	-	3 - 5
1.3	Improving performance of Rural Sector	-		-	1	-	2	1	3	-	3 - 5
	<b>Sub-Total</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>5</b>	<b>2</b>	<b>6</b>	<b>4</b>	<b>14</b>	<b>tbd</b>	<b>9 - 15</b>
<b>2</b>	<b>Improving Service Delivery for Human Dev't</b>										
2.1	Education	Not Present		1	5	2	6	2	8	-	3 - 5
2.2	Health	Not Present		2	6	2	5	2	6	-	3 - 5
2.3	Reduced spread of HIV/AIDS epidemic in most deprived regions	Not Present		-	1	-	1	-	2	-	
2.4	Special programs to support the vulnerable and the excluded	Not Present				-	1	-	3		
2.5	Water and sanitation	Not Present				-	3	-	3	-	3 - 5
2.6	Social Protection	Not Present							3		2 - 3
	<b>Sub Total</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>12</b>	<b>4</b>	<b>16</b>	<b>4</b>	<b>25</b>	<b>tbd</b>	<b>11 - 18</b>
<b>3</b>	<b>Improving Governance and Public Sector Management</b>										
3.1	Building a democratic governance for public sector management (including Decentralisation)	3	9	-	3	-	5	2	8		3 - 5
3.2	Improving Performance of the Public Sector	3	4	1	2	2	-	-	5		3 - 5
3.3	Strengthening Public Finance Management	6	14	3	14	3	8	3	8		3 - 5
3.4	Strengthening the capacity to monitor and evaluate the GPRS policy agenda	-	4	-	5	1	3	1	5		2 - 3
3.5	Attorney General's Department								2		
	<b>Sub Total</b>	<b>12</b>	<b>31</b>	<b>4</b>	<b>24</b>	<b>6</b>	<b>16</b>	<b>6</b>	<b>28</b>	<b>tbd</b>	<b>11 - 18</b>
	<b>GRAND TOTAL</b>	<b>12</b>	<b>31</b>	<b>10</b>	<b>41</b>	<b>12</b>	<b>38</b>	<b>14</b>	<b>67</b>	<b>tbd</b>	<b>31 - 51</b>

## 2.3 MDBS inputs

**EQ2: Are the Inputs of MDBS, envisaged in the Evaluation Framework, in place?**

56. Are the budget support inputs envisaged in the evaluation framework actually in place? We assess this from an examination of overall objectives and from an assessment of the presence (or absence) of each of the 'inputs' postulated in the evaluation framework.

### 2.3.1 Objectives and Intent of MDBS

#### **Box 2.1: The 4 Objectives of GBS implicit in the Evaluation Framework**

The Evaluation Framework for General Budget Support assumes that GBS is provided with four essential objectives:

- First and foremost, to provide additional budgetary resources to finance fiscal actions aimed at reducing poverty and promoting growth. These might include reductions in public debt or outstanding arrears but would more generally be expected to comprise increases in public spending on poverty reducing activities.
- Secondly, to facilitate the strengthening of institutional capacity for designing and executing poverty-reducing actions (including the elaboration of sector policies and the delivery of pro-poor services). This might occur:
  - either as a simple result of the increased importance given to the national budget and the related democratic processes of accountability;
  - or from reforms promoted by policy dialogue related to governance, PFM and procurement issues
  - or from technical assistance support to actions in these areas.
- To reduce transaction costs and other types of aid-related economic distortions arising out of the use of traditional approaches to aid provision. These reductions should arise:
  - both from the careful design of the GBS management and disbursement arrangements, which should maximise harmonisation and alignment;
  - and, perhaps more importantly, from a relative shift in the pattern of provision of external assistance to the public sector towards budget support and away from inherently less aligned modalities, such as traditional projects.
- Finally, to promote the accelerated implementation of policy reforms and service delivery actions aimed at reducing poverty. This might occur either as a direct effect of the policy dialogue surrounding budget support or as an indirect effect of an increasingly transparent public process for declaring targets and measuring results.

57. One of the curious features of the MDBS arrangement – and one which is surprisingly shared by many GBS arrangements - is that there is no formal presentation of programme objectives. Neither the Framework Memorandum nor its technical annex include a section heading entitled “objectives”. Nor does it include a Logical Framework in which the project purpose and goals are explicitly identified. The Framework Memorandum describes the MDBS as the ‘common basis of support to the implementation of GPRS through the GoG’s budget’ and states that ‘the objectives of MDBS are to harmonise DP’s policies and procedures in order to minimise transaction costs for GoG.’ Emphasis is also placed on increasing the predictability of donor flows.

58. All of these are important objectives which are fully consistent with the evaluation framework. Similarly, one may infer from the focus of the PAF that institutional development – particularly in relation to PFM, public sector reform and decentralisation – and the acceleration of policy reforms linked to the GPRS have also been important objectives.

59. However, there are two significant points of difference from the structure of objectives and the related chain of causality presented in the evaluation framework. These emerge both from an examination of the MDBS documentation and from discussions with MDBS partners in relation to their objectives and motivations:

- Firstly, it is clear that the objectives of increased harmonisation and minimisation of transaction costs were to be pursued within the framework of the MDBS itself - that is by designing review and disbursement processes in such a way as to maximise harmonisation and alignment. **There was no suggestion that the use of budget support was part of a wider strategy to restructure aid provision away from more traditional modalities.**
- Secondly, in so far as the MDBS was expected to promote institutional and policy actions to facilitate more effective implementation of the GPRS, the main mechanism expected to achieve this was the structure of policy dialogue and conditionality. **There was little attention to the internal dynamic of the budget and to the potential benefits of shifting resources on-budget and promoting reliance on national procedures and structures of democratic accountability.**

## 2.3.2 Level and Nature of MDBS Funding

Table 2.4: MDBS Disbursements 2003 – 2006 (US \$ millions)

	2003	2004	2005	2006
Total MDBS Disbursement (US\$ millions)	278	311	282	309
of which				
Base payment	262	225	225	237
Performance Payment	16	87	57	72
MDBS disbursement as % Total ODA	39.4%	32.4%	27.0%	n.a.
MDBS disbursement as % Total Expenditure	12.7%	10.3%	8.9%	n.a.

Source: GoG Budget books & ADMU data as corrected by MDBS partners in March 2007

60. The MDBS has provided disbursements of an average of just under \$ 300 million per year over 2003 to 2006. This has been divided between a base payment of approximately \$220 million and a performance payment of approximately \$80 million<sup>11</sup>. As table 2.4 shows this has constituted a declining proportion of both total ODA receipts and total expenditure and net lending by Government. This substantiates our finding above that the MDBS arrangement did not include among its objectives an intention to provide increasing proportions of total ODA flows through budget support. Rather it would seem that the design

<sup>11</sup> The PRSC does not in fact operate on the basis of a 'base' and a 'performance' payment. We have counted PRSC disbursements within the 'base' payment because the underlying philosophy of the PRSC arrangement has been to ensure predictable budget funding and it has always disbursed in full.

of the Ghana MDBS placed relatively more weight on policy dialogue and conditionality as an input and relatively less on pure 'flow of funds' effects.

### **2.3.3 Policy Dialogue and Conditionality**

61. As noted in section 2.1, the conditions for the initiation of budget support in 2003 were not generally considered favourable by the MDBS partners. The rationale for budget support rested strongly on the improved record of economic management witnessed in 2002 and 2003 and on the expressed commitment of GoG to the implementation of the GPRS and to the introduction of reforms to PFM systems and to the public sector more generally. The creation of an effective framework for agreeing and monitoring performance targets within the reform programme therefore came to assume a high level of importance within the Ghana MDBS arrangement.

62. Arrangements for policy dialogue were structured so as to achieve four key objectives<sup>12</sup>:

- i. To create a framework for Government to be able to identify a priority programme of reforms within the broad structure of the GPRS and to define annually measurable indicators of progress. (a GoG owned PAF matrix)
- ii. To utilise this framework alongside the PRGF review process and the regular reporting processes of Government (GPRS annual progress report, quarterly budget expenditure reports, GAS annual audit report) to assess GoG compliance with the core undertakings within the MDBS, namely the maintenance of an appropriate macro-economic framework, the implementation of the GPRS and the associated programme of reforms and the execution of expenditures in line with GPRS priorities.
- iii. To create incentives for accelerated implementation of reforms by agreeing demanding policy triggers and by linking disbursement of the performance payment closely to their achievement.
- iv. To provide opportunities for the sharing of different strategies and approaches to the achievement of policy objectives and to organise and review analytical work (such as the annual external review of PFM and the various PSIA studies) on specific policy and institutional issues.

63. Objectives i), ii) and iv) would generally be present in any budget support operation. A more particular feature of the Ghana MDBS is the emphasis placed on the performance payment, as an explicit mechanism for generating added incentives for the efficient implementation of reforms. In most countries, the European Commission use a performance payment (or "variable tranche") linked to the extent of achievement of quantified targets for service delivery and for PFM improvements but the use of a performance payment linked to policy triggers is more unusual. In interviews with the MDBS partners, most emphasised their continued belief in the usefulness of this mechanism, although some expressed doubts over its effectiveness and its potential for unintended effects. (The Netherlands have actually reduced their performance payment from 50 % to 20 %.) The World Bank presented a different view, which stressed the importance of the PRSC/ MDBS as a source of predictable budget funding. Within such a conception, there was certainly a need to monitor compliance with core commitments but the literal interpretation of policy triggers (and the consequent downward adjustment of disbursements for non-fulfilment) was seen as counter-productive.

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<sup>12</sup> These four objectives are not stated in any single place in the manner we have presented them here but the first three are reflected in the Framework Memorandum and the fourth is clearly manifested in the PRSC documentation.

64. These different views have co-existed amongst the MDBS partners since its initiation and have led to different approaches to the interpretation of the policy triggers for the performance payment. In 2003, 2004 and 2005, the performance payment was disbursed in full, despite concerns that certain triggers had not been fully met. In part this was justified because the MDBS was in its early stages and there was a need to allow for a learning period. When in 2006, there was a trigger which was not fully fulfilled – relating to the rolling-out of the BPEMS system, most of the MDBS partners were of the view that it was important to apply conditions more literally both to safeguard domestic support for the MDBS amongst DP constituencies and to send a clear signal to GoG on the importance of these reforms. Consequently, some \$14 million of the performance payment was withheld.

### **2.3.4 Harmonisation and Alignment Inputs of MDBS**

65. As we noted in 2.3.1, the harmonisation of the MDBS management procedures across the MDBS partners was a central objective from the outset, manifested in the fact that the Ghana MDBS began as a harmonised arrangement based on a single Framework Memorandum. Similarly, the shift to a common PAF for the PRSC and MDBS occurred after only one year.

66. With regard to the alignment of the MDBS to Government systems and processes, the very use of the national budget and all of the related accounting and procurement procedures makes the MDBS inherently more ‘aligned’ than any other modality in Ghana. Similarly, the use of existing GoG reporting arrangements – such as the GPRS APR and the GAS annual audit report – also helps to reinforce the use of Government systems and to avoid duplication.

67. The use of a specially negotiated PAF matrix which is specific to the MDBS does to a certain extent run counter to the alignment objective. Moreover, there is no doubt of the significant transaction costs which the negotiation process entails. However, both GoG and DP stakeholders are agreed that the GPRS monitoring structure is not sufficiently detailed and focused to act as an effective framework for monitoring of key reform actions. The need for the PAF as an additional parallel structure is therefore accepted.

68. A final and important point to bear in mind regarding the H & A inputs of the MDBS is that these were focused on the MDBS itself. It was never an objective of the MDBS to achieve greater harmonisation and alignment of overall external assistance, either by changing the relative balance of aid modalities or by specific actions, for example, to improve recording of aid expenditure or to promote the use of national procedures.

### **2.3.5 MDBS Technical Assistance and Capacity Building**

69. In its initial conception, it was envisaged that the MDBS would include a pooled Technical Assistance Fund to finance a ‘flexible and responsive TA’<sup>13</sup>, of a type not available in public institutions or ongoing projects. Initial proposals for the Fund were developed by the MDBS partners but these were never taken up by MoFEP. From discussions with the evaluation team, it appears that there were a number of reasons for this. Firstly, the MDBS TA fund was to be financed from the MDBS itself and would have comprised 5 % of its value: Government preferred to receive these resources as budget support rather than TA. Secondly, there was a feeling of dissatisfaction with the high levels of TA which had been employed under the PUFMARP and NIRP initiatives in the late 1990s and early 2000s and a consequent desire to try a different sort of ‘model’ for reform design and management,

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<sup>13</sup> MDBS Technical Annex to Framework Memorandum, 2003.

based on a higher level of reliance on normal civil servants. As a consequence, the MDBS TA Fund was never established.

70. There are several complementary TA projects which have provided support to PFM strengthening – notably to the implementation of the BPEMS system (WB), to the strengthening of the Ghana Audit Service (EC), to procurement (DFID), to the implementation of the MTEF (CIDA), to debt management (USAID) and to revenue generation (GTZ). There has also been TA support to public sector reform, to decentralisation and to sector reform processes (especially in Private Sector Development), which are monitored through the MDBS PAF. These are generally seen as useful and have contributed to outcomes which are also important to the MDBS process. However, these TA projects are managed separately from the MDBS structures, the majority of them under contractual arrangements which preceded the MDBS. They would almost certainly exist in the absence of the MDBS. Hence, our judgement is that it is not appropriate to consider these TA projects as ‘MDBS inputs’, even though the MDBS dialogue has informed their implementation and has itself drawn upon information generated by these TA projects.

**Summing Up:**

***EQ2: Are the MDBS inputs envisaged in the evaluation framework in place?***

The objectives of the Ghana MDBS are consistent with those underlying the evaluation framework. The Framework Memorandum describes the MDBS as the ‘common basis of support to the implementation of GPRS through the GoG’s budget’ and states that ‘the objectives of MDBS are to harmonise DP’s policies and procedures in order to minimise transaction costs for GoG.’ Emphasis is also placed on increasing the predictability of donor flows, on institutional development and on the acceleration of GPRS policy reforms.

There are two significant points of difference from the structure of objectives presented in the evaluation framework:

- i. Increased harmonisation and minimisation of transaction costs are pursued within the framework of the MDBS itself. There is no suggestion that the use of budget support is part of a wider strategy to restructure aid provision away from more traditional modalities.
- ii. The main mechanism to promote institutional and policy reform is the structure of policy dialogue and conditionality. There is little attention to the *internal* dynamic of the budget and to the potential benefits of shifting resources on-budget.

These differences are reflected in the balance of emphasis on different MDBS inputs:

- In terms of funds, the MDBS has comprised transfers of the order of US \$300 million per year – a significantly lower scale of GBS funding (relative to macro aggregates) than in Mozambique, Tanzania, or Uganda.
- Dialogue and conditionality represent key inputs in the MDBS design. A special feature has been the use of a performance payment as an incentive for increased attention to reforms. This has represented some 20-30% of MDBS disbursements.
- The use of a common Framework Memorandum, a harmonised PAF and a disbursement schedule linked to the budget cycle have been important inputs to ensure harmonisation and alignment of the MDBS.
- Technical Assistance and capacity building have taken place in parallel to the MDBS under complementary project arrangements. The initial proposal to develop a pooled Technical Assistance Fund for the MDBS was not taken up by GoG.

### 3 The Immediate Effects of MDBS

71. This section is concerned with Level 2 of the Evaluation Framework, the immediate effects of MDBS inputs. The evaluation framework posits that the combination of GBS inputs should directly result in:

- Increases in the amount, share and predictability of external funding captured in the budget, and subject to Government decision-making;
- Changes in the nature of policy dialogue, such that it becomes more manifestly Government-led, increasingly structured around the core decision-making processes of the national budget and focused on issues of national policy and strategy;
- Consequent adjustments in the pattern of technical assistance and capacity building so that they are more focused on core policy processes and institutions and less on project-specific issues; and
- Improved aid harmonisation and alignment, including reductions in transaction costs.

#### 3.1 The Immediate Effects of MDBS on External Resources in the Government's Budget

***EQ3: Has MDBS contributed to an increased size and share of external funding subject to the Government of Ghana's budget process, and to an improved predictability of aid flows?***

##### 3.1.1 Hypothesis and Assumptions

72. The provision of MDBS funding should have a direct effect on overall aid flows in the Government of Ghana's Budget. The evaluation framework sets out two hypotheses, which need to be tested:

- The introduction of MDBS results in an increase in the size and share of external funding subject to the Government of Ghana's Budget process.
- The scheduling and delivery of MDBS results in an improvement of the overall predictability of aid flows.

73. The main assumptions underlying this are 1) that donors as a whole do not take off-setting action by increasing other forms of aid not subject to Government's budget decision-making processes, and 2) that MDBS is indeed more predictable than other forms of aid.

##### 3.1.2 Magnitude and Composition of Aid flows

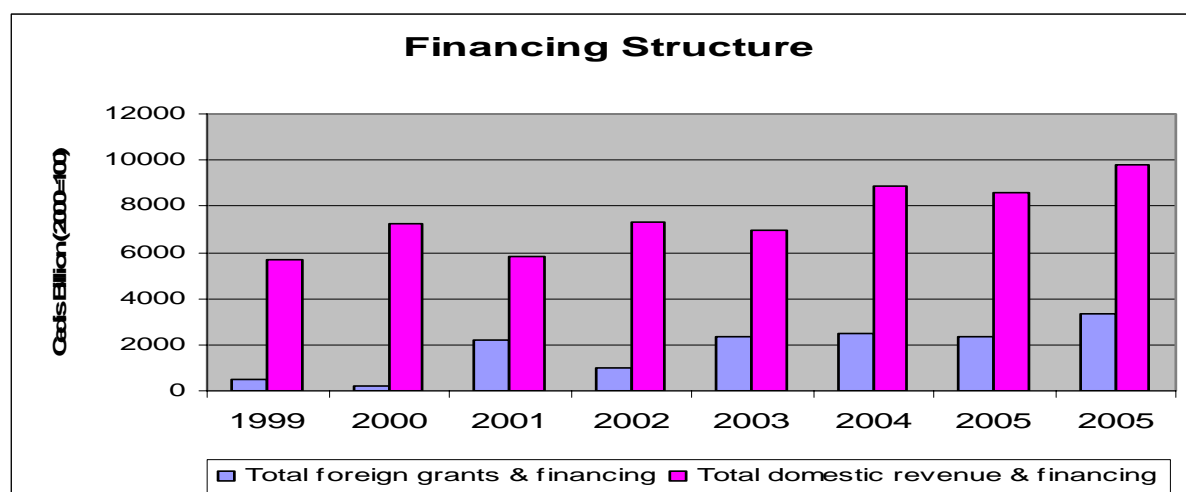
74. Before turning to look at the specific influence of the MDBS, it is worth considering the overall influence of aid inflows on the macro-economic situation. As discussed in section 2.2 and illustrated in Figure 3.1 below, receipts have been substantial, averaging over US\$ 500m in 1999-2003 (with a temporary fall in 2002) and rising to over \$1,000m by 2005. This latter figure was equivalent to a tenth of GDP and a third of government spending. It therefore cannot fail to be of considerable macroeconomic importance.

75. The standard approach to assessing the macro impact of an increase in aid proceeds by measuring the extent to which it is 'absorbed' via increases in net imports and is 'spent' via increases in the budget deficit. An application of this to Ghana by IMF staff members, studying the period 1996-2003, concluded that the aid increase observed in that period had been neither absorbed nor spent (Roache, 2005). We have up-dated this analysis, comparing 1999-2001 with 2003-05, during which aid inflows increased by nearly two-thirds. This analysis is set out in Annex 4. Its conclusion is the same as that of the IMF study - that over this period the aid increase was neither absorbed through the balance of payments nor



spent through the budget. In effect, ODA flows facilitated the rebuilding of the country's international reserves and contributed to the government's policy of reducing its domestic debt obligations (which declined from 23.7% of GDP in end-2002 to 10.8% at end-2005).

**Figure 3.1: Budget Financing from Domestic and External Grant & Concessional Sources 1999-2005**



Source: MOFEP Budget documents 1999-2006.

76. No adverse judgement is implied, in that there was a strong case to be made at the beginning of the decade for a re-building of reserves and (especially) for reductions in the domestic public debt. Indeed, the GPRS1 presented the reduction of domestic debt as a key element of the strategy to facilitate private sector growth and promote poverty reduction. But, looking forward, there is a limit to the extent that continuation of the same policy stance could be justified. Issues of the absorptive capacity of the economy and the GoG - and the concerns about possible adverse Dutch Disease effects - will become increasingly pressing. What this analysis shows is that absorptive capacity has not really been tested yet.

**Table 3.1 – MDBS flows as a proportion of key macroeconomic variables**

	2003	2004	2005
<b>MDBS disbursements (\$m)</b>	278	311	282
<b>MDBS disbursements as % of:</b>			
Total aid	39.4	32.4	27.0
GDP	3.5	3.5	2.7
gross investment	15.3	12.3	9.3
Imports	8.1	7.2	5.4
domestic revenue	16.8	14.7	11.3

Sources: Disbursement data presented to 2006 Consultative Group meeting; IMF, 2006, various tables. (PRSC and MDBS grant disbursements counted together).

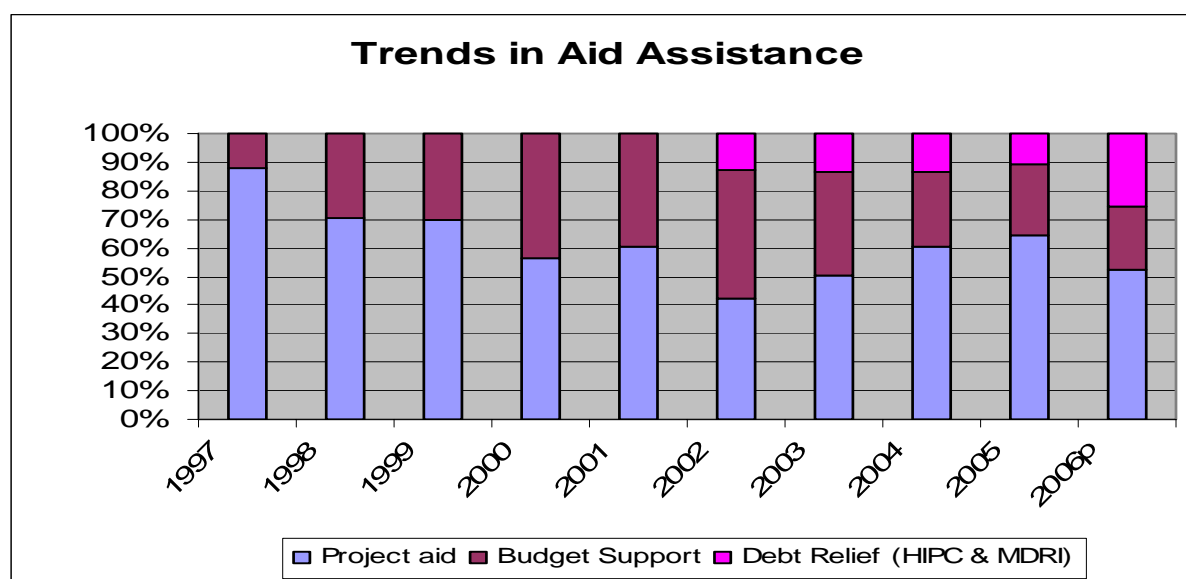
77. The above has related to aid as a whole. What now of the influence of the MDBS? As regards the size of the budget support flows, we have already noted in Chapter 2 that increasing the relative proportion of external assistance passing through the budget was never an explicit objective of the Ghana MDBS. As can be seen from Table 3.1, MDBS

flows, while not negligible, are of second-order significance from a macro perspective. Moreover, they have been diminishing in relative size since the inception of MDBS, contrary to what might have been expected. Two key influences here have been the robust increases in domestic revenues and the changing composition of aid over 2003 – 2005 in favour of project support.

78. Figure 3.2 below illustrates these same trends. For the purposes of analysing the ‘flow of funds’ effects of budget support, it is useful to consider the MDBS together with other programme aid flows, such as HIPC and, from 2006, MDRI savings which accrue to the Treasury account. Although the conditions for disbursement of these arrangements are different to those of the MDBS, they also contribute to the increased levels of discretionary resources available to allocate through the budget and thus have the same financing effects.

79. Programme aid flows (including HIPC) were 12 % of total aid flows in 1999, reached a peak of 58% in 2002 and declined to 35% in 2005. Thus, over 2003 – 2005 - most of the lifetime of the MDBS, there is a decline in programme aid financing, both in real terms and (more markedly) as a relative proportion of total aid flows. In 2006, substantiated by MDRI flows, programme aid expanded again to comprise 47 % of total external assistance.

**Figure 3.2 : The composition of Development Assistance 1997 – 2006**



Source: MOFEP Budget documents 1999-2007.

### 3.1.3 The reliability and predictability of aid flows

80. One of the important features of budget support is that it holds the potential to reduce the notorious unpredictability of aid flows and the problems arising from this for fiscal planning and macroeconomic management. By lowering transactions costs in this way, budget support can have a value to recipient governments over and above the actual volume of the assistance. To what extent has this factor been in operation in Ghana?

81. To a considerable extent, it appears. Looking at the year-on-year record, it appears that MDBS has both avoided large fluctuations in total amounts and has had a good record in delivering the amounts of support agreed beforehand. Data supplied by the Aid & Debt Management Unit of MoFEP shows that the year-by-year deviations of actual disbursements from forecasted amounts have been as follows - a remarkable record:

**Table 3.2 Year-by-Year deviations of MDBS disbursements from original pledges<sup>14</sup>**

<b>Year</b>	<b>Actual MDBS disbursement (US \$ millions)</b>	<b>% Deviation from original Disbursement Pledge</b>
<b>2003</b>	278	- 3.1 %
<b>2004</b>	311	+ 5.0 %
<b>2005</b>	282	- 1.2 %
<b>2006</b>	299	- 7.5 %

Source: ADMU, MoFEP

82. The record has not been so good in 2006 because the GoG has been judged by the MDBS partners to have been in breach of one of the agreed trigger conditions (relating to improvements in expenditure management), with the EC assessing that a second trigger condition has also been breached. As a result, disbursements in 2006 have been some \$14 million below pledges. (The full details of disbursements and pledges for each MDBS partner are shown in Annex 3.) Even this, however, is a large improvement on the position prior to the introduction of the MDBS arrangements. In 2002, the year before MDBS was introduced, less than half of planned budget support was actually disbursed (Walters, 2005:2).

83. Why has the MDBS outcome been so favourable? Walters identifies a number of factors:

- A shift within the MDBS arrangements to “the selection of conditionality based on government’s GPRS and sector plans...”, i.e. fewer externally-imposed conditions.
- Improved information-sharing among donors.
- Improved GoG concentration on key cross-cutting reforms as a result of the MDBS mechanisms of policy dialogue.
- The two-tranche system, whereby a substantial part of the promised budget support is virtually guaranteed, with only the performance payment potentially at risk from non-compliance with trigger conditions.

84. Moreover, the predictability factor should further improve. From 2007 MDBS moves to a ‘year-plus-one’ basis<sup>15</sup>, so that any withholding of assistance as a result of non-compliance with conditions will only take effect in the financial year after that in which the breach occurs. This should allow the Minister of Finance to plan his budget with near-absolute confidence about the amount to be received during that year. This is a highly commendable improvement in the MDBS arrangements.

<sup>14</sup> These data are distorted by the continuous depreciation of the US dollar over the period. In the protocol followed by the ADMU, pledges in original currency (Euros, £, etc) are converted to US \$ at the time of the pledge and actual disbursements are converted to US \$ equivalents at the time of disbursement, some 6-12 months later.

<sup>15</sup> See Section 2.2 and Figure 2.8 for an explanation of this change and how it will operate.

85. Inevitably, within-year predictability is lower. The quarterly data of ADMU show large deviations between agreed schedules and actual disbursements, as shown below. Even discounting the exceptionally large 2003 deviations, when the scheme was still settling in, for the two subsequent years the quarter-by-quarter deviations are large and must have made the task of day-to-day cash-flow management substantially more difficult. Overall, however, the demonstrated high level of year-on-year predictability is much valued on the GoG side and this tends to give the MDBS arrangements a value greater than might be inferred simply from looking at the amounts involved.

**Table 3.3 Within-year deviations of MDBS Disbursements from agreed schedules**

	2003	2004	2005
Mean quarterly deviations from agreed schedule (\$m, ignoring signs)	121	66	58
Mean deviations as percent of mean scheduled quarterly amounts	173%	87%	82%

Source: ADMU, MoFEP

**Summing Up:**

***EQ3: Has MDBS contributed to an increased size and share of external funding subject to the Government of Ghana's budget process, and to an improved predictability of aid flows?***

- Programme aid flows (including HIPC) were 12 % of total aid flows in 1999, reached a peak of 58% in 2002 and declined to 35% in 2005. Thus, over 2003 – 2005 - most of the lifetime of the MDBS, there is a decline in programme aid financing, both in real terms and (more markedly) as a relative proportion of total aid flows.
- In 2006, substantiated by MDRI flows, programme aid expanded again to comprise 47 % of total external assistance.
- Relative to macroeconomic aggregates, the significance of the MDBS is modest. Moreover, even in absolute terms its value has been declining since 2004.
- Over 2003 -2006, annual MDBS disbursements have been within +/- 10 % of pledged disbursements and in three of these years within +/- 5 % of pledges. The MDBS has therefore scored well on predictability in relation to other modalities. Had MDBS operations been of a higher scale, they would have contributed to increased predictability of aid flows as a whole.
- The recent decision to change the timing of decisions on disbursement levels should bring still higher levels of predictability – allowing the GoG to be virtually assured of the precise value of disbursements some 9-12 months in advance.

## 3.2 Immediate Effects on Policy Dialogue, Technical Assistance & Capacity Building

***EQ4: Has MDBS contributed towards policy dialogue, conditionality, technical assistance and capacity building being more focused on key public policy and public expenditure issues?***

### 3.2.1 Hypothesis and Assumptions

We now move to the immediate effects of policy dialogue, technical assistance and capacity building, where the following immediate effects are envisaged:

- Changes in the nature of policy dialogue, such that it becomes more manifestly Government-led, increasingly structured around the core decision-making processes of the national budget and focused on issues of national policy and strategy;
- Consequent adjustments in the pattern of technical assistance and capacity building so that they are more focused on core policy processes and institutions and less on project-specific issues.

### 3.2.2 The nature of dialogue and conditionality in Ghana

#### **How has the degree of ownership by the Government of Ghana changed?**

86. It is clear that the MDBS arrangements have fostered a greater degree of policy ownership on the part of the GoG. Government officials acknowledge that this has induced them to pay more attention to setting priorities and to improving intra-government coordination. To a greater degree than was previously the case, the GoG sets the agenda for the MDBS policy reviews and negotiations with donors. To a major extent and subject to qualifications below, the content of the policy matrix upon which MDBS negotiations and monitoring are based is initiated by the government. In this sense, there is less conditionality, or it is less externally-defined, with consequential improvements in the likelihood of implementation.

87. A second, important contribution of the MDBS process has been the creation of a structured process of dialogue between sector ministries, departments and agencies and the Ministry of Finance & Economic Planning at the centre of government. The process relies on a network of fifteen sectoral and thematic working groups, whose membership comprises representatives of sector MDAs, MoFEP, Development Partners and Civil Society Organisations. These working groups make proposals for the policy targets and triggers by which to judge their performance in implementing the GPRS and key sectoral policy priorities. A selection of these targets is in turn incorporated within the MDBS Performance Assessment Framework. Several Government officials observed that the process of documenting and monitoring policy targets and the involvement of external stakeholders within this process had brought a greater level of seriousness to the design and implementation of reforms.

88. However, the framework of dialogue continues to display a number of important weaknesses. The degree of functionality and the pattern of membership of the working groups is uneven and all rely too much on the contributions of DP representatives. There are also some concerns – at the sector level - about the quality of information flows between the

sector working groups and MoFEP. While it is understood that final decisions on the PAF targets and triggers need to rest with MoFEP, some sector working group members complained that there was insufficient consultation over some of these decisions.

89. A positive feature is that both GoG and the MDBS partners appear to be well aware of these weaknesses and are working steadily to make improvements. Moreover, compared to the situation in 2002, when processes of sector dialogue and policy formulation were restricted almost exclusively to health and education (where SWAs were being pursued), the current situation is a clear improvement, which may be directly attributed to the MDBS process. Especially notable is the fact that the structure of MDBS dialogue has been deliberately conceived as a 'whole of government' approach with MoFEP playing its due role as the orchestrator and arbiter at the centre of the process.

90. It is certainly the case that the shift of ownership over policy dialogue has been towards the central government, and most notably towards MoFEP. We would argue that this is a natural consequence of a GBS process which places renewed emphasis on national budget processes: so long as decision-making follows democratic norms of transparency and due process, this should be a positive development. The essence of an effective policy and budget-making process is the existence at the centre of a strong and well-informed 'challenge function', which can force spending ministries to justify their demands for resources and to account for their performance. In a modern democratic government, this 'challenge function' is normally provided by the Ministry of Finance, the Cabinet and Parliament with its various select committees. In highly aid dependent economies, this challenge function has been eroded by the decline in importance of the national budget and the parallel rise of predominantly off-budget sources of funding through donor projects and common basket funds. The shift to the use of general budget support is quite explicitly intended to reverse this process and strengthen the centre of government.

### **Is Civil Society adequately represented in the process of dialogue?**

91. We recognise, nevertheless, that there is a potential danger of excessive centralisation of policy ownership within the Executive, to the potential detriment of the wider Ghanaian public. The current government has been freely-elected and with a decisive popular mandate but Ghana's political culture has long been top-down, with government decisions largely taken behind closed doors. This culture remains strong in the Kufour administration (Booth et al, 2005), so that it is not clear to what extent the thrust of the MDBS policy matrix could reasonably be claimed to be consensual. Indeed, it was complained to us that there was less participation and consultation in the preparation of GPRS 2 than was the case with its predecessor - even though the consultative element of GPRS I was itself quite limited and formalistic, and had little influence on the eventual outcome (Killick and Abugre, 2001).

92. In our consultations, a number of CSOs expressed their dissatisfaction over the nature of civil society input into the MDBS policy dialogue. They praised the fact that a structure of sector working groups had been created, providing new channels for CSO input into GoG policies and reform processes. However, it seems that only a few of these working groups have a formal CSO representation. Moreover, even in the better represented groups, consultation processes and information flows have not always been well handled. For example, within the Governance working group, CSOs were asked, in 2006, to comment alongside other stakeholders on the initial selection of targets proposed by the sector working group. However, these CSOs were never advised of how their comments were utilised and were never sent copies of the final agreed PAF. These CSOs also advised that when the MDBS annual review was undertaken, there was no systematic circulation of information to the public either of progress reports or of the final results of consultations.

**Has the nature of dialogue maximised the new opportunities emerging ?**

93. Notwithstanding these concerns, the shift of ownership from donors to government has been important, providing a basis for further improvements in Ghanaian policy processes. The new structure of sector working groups and the MoFEP-MDBS partners' core group also provides a new and much needed framework for reform monitoring and management. At the same time, the team were struck by the sub-optimal nature of present arrangements. Underlying this is the donor decision to withhold a proportion of the budget support scheduled for 2006 on the grounds of non-compliance with a trigger condition and the protracted negotiations over the 2006 -2008 PAF, which concluded only in September 2006, having started in May.

94. The team heard substantial and near-universal complaints on the GoG side about this process. One of the most frequent was that, in practice, the discussions were almost all about points of detail and about the precise determination of trigger provisions and not much about larger issues of policy. If accurate, such complaints suggest that the MDBS arrangements do not, in fact, add much policy value. A related complaint from the GoG side was that, although it was invited to provide an initial proposal on the content of the 2007 PAF, some MDBS partners were reluctant to accept the government's priorities and sought to insist on their own priorities - quite contrary to the ownership-based 'partnership' model.

95. We are struck by the potentially dysfunctional results of centring MDBS dialogue processes on the trigger indicators in the annual policy matrix. One weakness here is that it sets up a structure of incentives that tends to maximise disagreement rather than work towards consensus. Invited (quite rightly) to offer a first draft of the matrix, the incentive for the GoG is to tend towards unambitious goals and targets, so as to be confident of achieving commitments and to ensure uninterrupted inflows of budget support. MDBS partners, on the other hand, have an incentive to try to maximise the 'bangs for their bucks' by trying to insist on much more demanding performance criteria. This gives rise, as was expressed to the team on a number of occasions, to a perception on the GoG side that donors are trying to set the government up for failure, by pushing for unrealistic targets. Partners' preoccupation with matters of detail was a further line of criticism. Ministers and senior officials find themselves spending much time dealing with what they see as minor points of detail, undermining one of the objectives of budget support - to reduce transactions costs.

96. A final complaint - one that was not confined to the GoG side - was about the limited willingness of donors to reach collective decisions and act together. The insistence of the EC on adding outcome indicators to the policy matrix and on withholding an additional part of its assistance because of its view, not shared by other MDBS members, that a second trigger condition had been failed has already been mentioned. Additionally, there were a number of complaints about individual donor representatives pursuing their own national priorities outside the framework of an agreed collective MDBS position. This was seen as contrary to the spirit of an MDBS arrangement and reducing the credibility of the exercise.

97. While the partnership DBS model is supposed to reflect greater government ownership and, therefore, reduced use of policy conditionalities, there appeared to be ambiguity on the donor side about the appropriateness of conditionality. Indeed, the PAF trigger provisions were commonly referred to as 'conditions' and, while it can be presented that these are derived from GPRS 2, we have already noted that, in practice, some donors sought to insist on their own priorities. Several donor officials expressed the view that it should be an explicit objective of the MDBS to force the pace of reform through the use of tight disbursement conditions.

98. These deficiencies should be kept in context. 2006 was, after all, the first year in which some assistance was withheld because of perceived non-compliance. By and large, the use of conditional disbursements has resulted in excessive transactions costs, and an undermining of the quality of dialogue rather than any serious destabilisation of aid flows. Nevertheless, it seems clear that the MDBS institutional arrangements do not maximise its policy value-added.

### **3.2.3 The re-orientation of technical assistance and capacity building**

99. The role for technical assistance and capacity building initiatives linked to the MDBS appears to have been limited. As we noted in section 2.3, a formal MDBS technical assistance fund was proposed in 2003. However, the Government never expressed any demand for this fund and the concept was quietly dropped during 2005. There are a number of individual TA projects linked to institutional and policy initiatives captured in the MDBS PAF but these are modest in their nature and are all run on a bi-lateral basis between GoG and the respective funding agencies. In general, the GoG have not sought to link discussions on policy priorities within the MDBS with discussions on the allocation of TA. Similarly, no concerted effort was made to seek larger, pooled funding for the TA and capacity building needs thrown up by the MDBS process, outside of the already existing arrangement for pooled TA support to Private Sector Development.

100. Our enquiries as to the reasons for this point to a deep-seated dissatisfaction within Government with the concept of donor-financed technical assistance:

- Past TA initiatives are seen as having been excessively donor-led. This is particularly true with regard to the various World Bank and DFID TA projects financed within the framework of the PUFMARF.
- Most past TA projects are considered to have been excessively expensive and largely ineffective.
- There is now a widespread recognition of the deeply divisive impact of the practice of using TA projects as a way of financing selective salary supplementation for Government staff. This was a common practice right through the 1990s and still continues in a number of sectors. Yet, it has often meant that those receiving top-ups have been ostracised by their colleagues and have found it exceedingly difficult to re-integrate into the 'normal' civil service at the closure of the financing TA project. The need for an effective, civil service wide solution to the problem of public sector salaries and incentives has now been well accepted and there is less anxiety to chase short-term solutions through TA projects.

101. The public sector reform process is not yet in a position to implement a viable salaries and incentives policy. Yet, there appears to be a greater confidence within the Government in its ability to find its own solutions to its capacity problems. This renewed confidence is itself a part of the solution. In this respect, the team were quite struck with the growing capacity of MoFEP. It seems that, by comparison with the situation a few years ago, the standing and capabilities of the ministry are improving. It is finding it easier to recruit and retain staff - not, we were told, because of improved terms and conditions but because the ministry was seen as an important and active institution. While this is necessarily a rather intangible and subjective consideration, we believe that the contribution of the MDBS to the improved standing of MoFEP may be one of the more important ways in which the MDBS has contributed to the quality of policy making and economic management in Ghana.



**Summing Up:**

***EQ4: Has MDBS contributed towards policy dialogue, conditionality, technical assistance and capacity building being more focused on key public policy and public expenditure issues?***

- MDBS has exerted a positive influence on the quality and the focus of dialogue:
  - Important improvements have been identified both in terms of ownership and responsibility for the policy process;
  - New government wide structures for policy dialogue have been created through the sector working groups' framework. These have filled what appears to have been a policy vacuum and have created functional structures for dialogue between MDAs and MoFEP and for inputs from DPs and CSOs.
- The Sector Working Group structure still requires further strengthening and refinement – notably in the balance of inputs between DP stakeholders and GoG and CSO stakeholders. Information flows also need to improve. But there is an awareness of these problems and the quality of operation of these groups has improved steadily over the life-time of the MDBS.
- On the other hand, the use of the PAF both as a monitoring framework and as a mechanism to provide incentives for more effective implementation of reforms has proven problematic. It has created contradictory incentives in which GoG has sought to establish modest performance targets (so as to secure predictable levels of budget support) while MDBS partners have pushed for more ambitious targets.
- It has also created a relatively confrontational structure of dialogue, in which there is much attention to the detail of assessment processes, often at the expense of open discussion over strategic problems and their potential solutions.
- **Changes in the MDBS' institutional arrangements would appear to be needed if its policy value-added is to be maximised.**
- There are a number of individual project-based TA projects supporting aspects of the MDBS reform agenda but these are managed on a bi-lateral basis, separately from the MDBS process.
- There has been little formal attention paid by the GoG to using technical assistance and capacity building in a concerted manner to address the institutional and policy challenges identified in the MDBS process.
- This seems largely the result of a deep-seated dissatisfaction with the way in which technical assistance projects have worked in the past.
- One of the chief qualitative ways in which MDBS has contributed has been through its positive impact on the status and influence of the MoFEP.

### **3.3 Immediate Effects of MDBS on Harmonisation and Alignment**

***EQ5: Has MDBS contributed towards greater harmonisation and alignment of the aid process?***

#### **3.3.1 Hypothesis and Assumptions**

102. The evaluation question we address here is whether Multi Donor Budget Support has contributed to greater harmonisation and alignment (H&A) of the aid process. The concern is whether the specific H&A inputs of the MDBS have resulted in Development Partners as a whole improving aid alignment and harmonisation around national goals and targets. There are three elements to this:

- Firstly, to what extent has the design and management of the MDBS succeeded in aligning it to Government policies and management systems and in promoting harmonised provision of budget support;
- To what extent can this be seen to have had a positive impact in reducing transaction costs – a key focus of budget support arrangements; and
- How far has this had positive knock-on effects on the degree of harmonisation and alignment of overall aid flows to Ghana .

103. Underlying these effects are the assumptions that all donors – both MDBS partners and others, are willing and able to harmonise with each other and align with national goals and system, and that national plans and monitoring processes are sufficiently robust to be a basis for dialogue and conditionality.

### **3.3.2 Harmonisation and Alignment of the MDBS itself**

104. We have already noted in chapter 2 how the MDBS inputs were explicitly designed to emphasise the harmonised delivery of budget support. Despite the significant differences in approach between the different MDBS partners, they have succeeded in maintaining a common overall framework and a unified system of performance assessment. There is thus a high degree of harmonisation - a significant achievement given that there are 10 MDBS providers and 5 observer agencies.

105. With regard to alignment, the MDBS provides budget support for the implementation of the GPRS and utilises the Government's own budget, treasury management, procurement, accounting, expenditure reporting and auditing mechanisms to do this. As such, it can be said to be more aligned to Government policies and systems than any other aid modality in Ghana. However, this is not where the story ends.

106. If Government's own mechanisms for policy definition, programming and monitoring were considered fully adequate, then the annual assessment of the MDBS would simply rely on the GPRS, the MTEF and the Budget as programming tools and the GPRS Annual Progress Report and the budget expenditure reports as monitoring tools. In practice, this is not the case: these mechanisms are used but only in conjunction with the PAF matrix. Moreover there is no doubt that the primary focus of discussions is on the agreement of the content of the matrix and the monitoring of the targets and, more particularly, the triggers within it. How should this be interpreted in terms of harmonisation and alignment?

107. Firstly, it seems clear to all parties that the use of the PAF matrix is necessary. Neither GPRS1 nor GPRS2 have been sufficiently specific as a framework for action planning and monitoring to provide the basis for assessing progress in reform implementation. Similarly, although the MTEF, the national budget and the budget expenditure reports are consulted as part of the MDBS monitoring process – particularly to track spending against expenditure areas deemed to be poverty reducing – the lack of a programmatic presentation and the absence of output and outcome indicators related to programmes render these documents relatively uninformative. In short, the underlying assumption that 'national plans and monitoring processes are sufficiently robust to be a basis for dialogue and conditionality' has been shown not to hold true and has necessitated the creation of a new structure – the PAF.

108. All stakeholders agree that the PAF matrix has proven a useful, and much needed, tool for prioritising reform efforts and identifying feasible targets for measuring progress. In the same way, both GoG and MDBS stakeholders consider the structure of sector and core MDBS groups to be playing a useful function, for which effective structures did not previously exist (with the possible exception of health and education). The evaluation team broadly concur with these views: indeed we noted in section 3.2 that the PAF and its related dialogue structures have helped to promote greater Government ownership of and responsibility for the policy agenda. They have done this by filling the policy management vacuum which previously existed and by doing so in a way which, for the most part, has given GoG the leading role.

109. Yet there must remain concerns over whether this is the right way to fill the 'policy management vacuum' we have described. The PAF has been a useful response in the short term but has it created a structure which the Government would want to sustain in the future, in the absence of budget support? We suspect not. Rather than keeping a 'three-pronged' management structure with the PAF working alongside the GRPS and the Budget/ MTEF process, it seems far more likely that the GoG would seek to strengthen either or both of the other systems.

110. Moreover, the intertwining of the *internal* policy design and management function of the PAF with its *external* monitoring and fiduciary risk control function has given the MDBS partners a role, which we would judge to be more intrusive than is appropriate. One of the objectives of budget support is to restore to Government the ownership (and therefore responsibility) over public spending decisions and policies. If Government uses budget support to finance misguided spending plans, then it must be prepared to be held to account by Parliament and the electorate for the results. This is in the long term the only mechanism that will create effective institutions of government. But where policies and spending plans are jointly designed by donors and government, then responsibility is shared – and this can only blur lines of accountability. To put it a different way, the provision of budget support is akin to the purchase of a company share: it implies a sharing of financial responsibilities but not a sharing of management responsibilities, which must rest squarely with the Chief Executive, i.e. the Government of Ghana.

111. On balance, we are convinced that the short term gains that have been secured through the PAF (as a mechanism of expediency) have so far outweighed the risks presented by the creation of a new, and somewhat donor-heavy, structure. However, in order for the MDBS to be more aligned and thus to have a greater chance of strengthening domestic institutions, an 'exit strategy' from the PAF needs to be developed. At the very least, this would imply according a stronger role within the MDBS annual assessment process to the GPRS Annual Progress Report and to the MTEF and budget processes. It would also imply some deliberate limitation of DPs' roles within sector working groups and a greater emphasis on the roles of GoG and CSO stakeholders. We return to these suggestions at more length in Chapter 7.

### 3.3.3 Effects on Transaction Costs

112. The minimisation of transaction costs to government is one of the stated objectives of the MDBS and one of the main advantages commonly attributed to the budget support modality. Within a highly aligned and harmonised budget support arrangement, one would expect to find evidence of reduced transaction costs. How has the MDBS fared in this respect?

113. Transaction costs, although much discussed in the aid literature, are notoriously difficult to define and to measure. In economics, it is a concept most used in the field of “new institutional economics”, where it refers to those costs which need to be incurred in order for a transaction to take place but which themselves add no value to the transaction. (Williamson 1998)<sup>16</sup>. By analogy, in terms of development assistance it refers to those costs which must be incurred by governments and donors in order to secure and enforce an agreement for the provision of development assistance but which themselves add no value to that development assistance. Thus, the concept refers to the costs of preparing, negotiating, monitoring and enforcing agreements for the delivery of ODA, while offsetting the benefits to the value of ODA which might arise from these processes. (Brown et al, 2000). For example, the analytical work undertaken in preparing a budget support operation might assist the Government in formulating a better budget, thus enhancing the benefits of the operation.

114. The World Bank (June, 2005) in its report, *Poverty Reduction Support Credits: A Stocktaking*, examines, as a proxy for transaction costs, the relative costs of design and supervision per dollar of resources committed for PRSCs and for Specific Investment Loans (SILs) and Adaptable Programme Loans (APLs). For Ghana, the study finds that for every dollar spent designing and supervising the PRSC, \$242 has been committed, as compared with only \$33 for SILs/ APLs<sup>17</sup>. This gives strong evidence of the pattern of distribution of transaction costs to donor agencies. It says nothing about transaction costs to government but, to the extent that these may be assumed to follow the same pattern of distribution, it suggests that budget support is a significantly more cost-effective modality in Ghana.

115. In our interviews, MoFEP staff endorsed this position and stated categorically that, in relation to the value of disbursements, they believed transaction costs to government to be significantly lower for the MDBS than for projects and common basket funds. Taking these pieces of evidence together suggests that if the MDBS had been of a sufficient scale, then it would be reasonable to expect a net reduction in transaction costs.

116. There is a separate and important question over whether the magnitude of transaction cost savings which MDBS has permitted (by comparison to an equivalent disbursement by other modalities) is as great as should be expected. The processes of assessing disbursements for 2006 and re-negotiating the new PAF have been very time-consuming for the Deputy Minister and staff of MoFEP and the MDBS partners' core group. All parties acknowledge that this is an unacceptable situation and recognise that there is an urgent need to streamline negotiation and assessment procedures.

### 3.3.4 Effects on Harmonisation and Alignment of overall aid flows

117. A Harmonisation Action Group, made up of the GoG and DP's representatives and chaired by MoFEP is in place. During 2005, the group developed a Ghana Harmonisation and Aid Effectiveness Action Plan in response to the Paris Declaration. The plan was

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<sup>16</sup> In traditional neo-classical economics which assumes perfect markets and perfect information, there are no transaction costs. But in the real world costs must be incurred in order for willing buyers and sellers to identify each other (search costs) and in order to ensure that goods and services are provided and paid for in line with agreements (contract enforcement costs). Different societies adopt different types of institutional arrangements to minimise these transaction costs and in general those societies with more effective institutions are perceived to develop faster. See Williamson, O. (1998), “Transaction Cost Economics: How it works, where it is headed”, *De Economist* 146, 23-58.

<sup>17</sup> The figure is clearly sensitive to the overall value of the PRSC operation but the averages for all PRSC countries are \$143 for PRSCs and \$36 for SILs/ APLs. (World Bank, June 2005; pp.18 -19.)

subsequently endorsed by the November Consultative Group Meeting and – together with the recently signed Ghana Joint Assistance Strategy (G-JAS) effectively sets the framework for H&A actions within Ghana. It seems likely that these plans would have emerged even in the absence of the MDBS, but arguably there have been ideas generated within the MDBS which have acted as source of inspiration to the wider H&A plan and the G-JAS.

118. GoG and DP commentators pointed to the usefulness of the MDBS policy dialogue structures as a way of disseminating knowledge of the Government's policies and priorities amongst the DPs as a whole. They also suggested that these structures had helped to strengthen the coordination of DPs' programmes and to maximise their complementarities. The sector dialogue process is also said to offer opportunities to DPs to streamline and consolidate sector policy dialogue, planning and assessment and to align development projects to sectoral priorities.

119. It has been difficult for the evaluation team to judge the significance of these effects. We have no doubt that commentators are sincere in expressing their sense of their importance. We are also struck by the significant investments of time and human resources which have been made by the five MDBS observers in order to participate in the policy dialogue, despite the fact that none of these agencies are likely to provide budget support to Ghana over the short to medium term. Clearly, they perceive other benefits from their participation, of the type we have listed above. For example, USAID commentators stressed that the open sharing of information with observer partners helps to minimise duplication and contradictions among DPs and to enrich dialogue with the GoG.

120. On the other hand, the recent PEFA study of 2006 scored a C for the 'quality of financial information provided by donors for budgeting and reporting' and a D for the 'proportion of aid that is managed by use of national procedures.' These are low scores against two significant outcome indicators of harmonisation and alignment processes. There are two ways of interpreting this – either the H&A efforts are too recent to have generated positive outcomes, or there is not as yet sufficient will amongst DPs to change behaviour in significant ways. Either way, we must conclude that whatever positive effects the MDBS might have had on the H&A process, these were not sufficiently powerful or long-lasting to have generated noticeable *overall* improvements in key H&A indicators.

**Summing Up:**

***EQ5: Has MDBS contributed towards greater harmonisation and alignment of the aid process?***

The contribution of the MDBS towards the harmonisation and alignment of the aid process has been modest in terms of end results. However, the MDBS has demonstrated the major contribution that it might make in the future. It must firstly assume a larger scale overall so as to induce a relative shift in favour of budget support. Secondly, management arrangements must be adjusted so as to reduce the high transaction costs generated by the current processes of negotiating and assessing the PAF. Thirdly the degree of reliance on the PAF needs to be reduced so as to put more emphasis upon the GPRS and the Budget.

- MDBS inputs were designed to maximise the harmonised delivery of budget support. Despite significant differences in approach, DPs have succeeded in maintaining a common overall framework and a unified system of assessment.
- MDBS directly supports the implementation of the GPRS and utilises the Government's own budget, treasury management, procurement, accounting, expenditure reporting and auditing mechanisms. As such, it can be said to be more aligned than any other aid modality in Ghana.
- The short term gains that have been secured through the PAF seem so far to have outweighed the risks presented by the creation of a new, and somewhat donor-heavy, structure. However, in order for the MDBS to be more aligned, an 'exit strategy' from the PAF needs to develop.
- The World Bank have found that for every dollar spent designing and supervising the PRSC, \$242 has been committed, as compared with only \$33 for SILs/ APLs.
- MoFEP staff stated that, in relation to the value of disbursements, they believed transaction costs to government to be significantly lower for the MDBS than for projects and common basket funds.
- On the other hand, the processes of assessing disbursements for 2006 and re-negotiating the new PAF have been very burdensome. All parties acknowledge that this is an unacceptable situation and recognise the need to streamline procedures.

## 4 The Outputs and Outcomes of MDBS

### 4.1 Introduction

121. This chapter covers the translation of the immediate effects of MDBS at level 2 of the evaluation framework into outputs (Level 3), and outcomes (level 4). The Framework postulates that the immediate effect of budget support will change the relationship between external assistance and the national budget and national policy process. At the Output level, this will in turn facilitate positive changes in the financing and institutional framework for public spending and public policy, which will have the outcome of enhancing the Government's capacity to implement actions to reduce poverty. Although the sequence of causal effects may be more easily understood by separating outputs and outcomes, for the purposes of evaluation it is useful to consider them together.

122. At these levels, the evaluation framework postulates that MDBS should facilitate, or help to accelerate, improvements in the following areas:

- (a) Reinforcement of fiscal discipline and overall macroeconomic performance;
- (b) Improved policy making and acceleration of reform processes in support of the GPRS;
- (c) Strengthening of Public Finance Management systems and improvements in the efficiency and effectiveness of public expenditures;
- (d) Increased efficiency and effectiveness of service delivery and enhanced access of the poor, and specifically of women, to those services;
- (e) Enhanced effectiveness and accountability of democratic institutions and improved conditions for democratisation.

### 4.2 The Effects of MDBS on Macroeconomic Performance

***EQ6: How significant has been the contribution of MDBS to macroeconomic performance?***

#### 4.2.1 Hypotheses and Assumptions

123. This section covers the translation of the immediate effects of MDBS inputs into improved fiscal discipline and a growth-friendly macro environment. The two main causal hypotheses to be tested are that MDBS contributes to a macroeconomic environment favourable to private investment and growth:

- Through improved fiscal discipline which has been facilitated by an increase in the proportion of external funds subject to the national budget and an increase in the predictability of those funds;
- Through more appropriate private sector and regulatory policies and improved macroeconomic management, stimulated by improved policy making and policy dialogue/conditionality focused on key public policy and public expenditure issues.

#### 4.2.2 Relevant Facts – Macroeconomic Performance 2001-2006

124. The incoming Kufour-NPP government of 2001 inherited a difficult situation, with 1999-2000 having been marked by a huge burst of state spending and large-scale monetary expansion. By general consent, after some initial difficulties, it has sustained

effective macroeconomic policies, as illustrated by the fact that the government has remained on track with a succession of IMF programmes continuously since 2002. As a result, at the overall level, the budget has been brought under better control, the domestic public debt has been much reduced (at a faster rate even than was included in the IMF programme), inflation has been brought down further (and is likely to move into the single-digit range in 2007).

125. There was no excessive rise in state spending in the election year of 2004, in marked contrast to earlier elections. Tax revenues were raised, absolutely and relative to GDP (from 16.3% in 2000 to 20.7% in 2005). External indebtedness has been reduced (thanks substantially to HIPC debt relief) and international reserves re-built. Nominal interest rates have been substantially reduced and the share of domestic credit available for the private sector has increased. In response, investment and growth have accelerated, with the GDP expanding at nearly 6% in the most recent years. (See Annex 1 for fuller details.) The IMF judges the immediate macroeconomic prospects to be satisfactory, although there are some concerns about the expansionary nature of the 2007 budget.

126. One area in which less has perhaps been achieved than is often claimed is in the area of credit and interest rates. Much is made of the success in bringing rates down but the trend in real terms is much less clear. Table 4.1 below shows that the prime interest rate was indeed nearly halved between 2001 and 2005. However, when these nominal rates are adjusted for the rate of inflation, the resulting 'real' values show no clear trend. The real cost of borrowing may have changed little despite the success in bringing down inflation, a fact which probably reflects the continuing shallow and non-competitive nature of much of the financial system. Relatedly, while it is true that the private sector has been receiving a greater share of total domestic credit, the improvement is only recent, with a large jump during 2005 and a substantial decline in 2002-04.<sup>18</sup>

**Table 4.1: Nominal and real interest rates, 2000-05**

	<b>Interest rate*</b> <b>(1)</b>	<b>Inflation (CPI)*</b> <b>(2)</b>	<b>'Real' rate</b> <b>(1) - (2)</b>
<b>2000</b>	38.0	40.5	-2.5
<b>2001</b>	27.0	21.3	+ 5.7
<b>2002</b>	24.8	15.2	+ 9.6
<b>2003</b>	18.1	23.6	- 5.5
<b>2004</b>	16.4	11.8	+ 4.6
<b>2005</b>	11.5	14.8	- 3.3

*Note:* \* Year-end values. 2005 figure is provisional. The rate shown is the yield on 91-day T-Bills.  
*Source:* IMF, 2006.

127. Notwithstanding these caveats, the overall macroeconomic record of the present administration in recent years has been good and perhaps deserving of more credit than has been given it by the MDBS donors. Relative to the late 1990s – the period of pre-MDBS programme aid, the change has been impressive.

<sup>18</sup> The IMF, 2006 Table 1, shows credit to the private sector as a percentage of broad money supply as follows: 2002: 18.3%; 2003: 16.4%; 2004: 10.0%; 2005: 22.2% (prelim).



### 4.2.3 Assessment of the macroeconomic impact of the MDBS

128. We assessed, in Section 3.1, the immediate 'flow of funds' effects of the MDBS. We noted that relative to macro aggregates and total aid flows, MDBS assistance has been of modest and diminishing importance. Simply on the basis of its quantitative contribution, then, we would not expect MDBS to have exerted any large macroeconomic influence.

**Table 4.2: Programme Aid & MDBS contributions to fiscal adjustments 2001-2005 (Percentages of GDP)**

	2001	2002	2003	2004	2005
<b>Domestic Revenue</b>	18.2%	18.4%	20.8%	23.8%	23.9%
<b>Total Expenditure and net lending</b>	32.2%	26.7%	28.2%	32.6%	31.8%
<b>Deficit (excluding grants)</b>	<b>-14.1%</b>	<b>-8.3%</b>	<b>-7.4%</b>	<b>-8.8%</b>	<b>-7.9%</b>
<b>Net additional Financing requirement</b>	<b>-3.0%</b>	<b>-4.5%</b>	<b>-4.2%</b>	<b>-2.4%</b>	<b>-3.8%</b>
<i>of which</i> Amortization	-3.0%	-4.5%	-3.9%	-2.4%	-2.2%
Domestic debt repayment	0.0%	0.0%	-0.3%	0.0%	-1.6%
<b>Financing:</b>	<b>17.2%</b>	<b>13.9%</b>	<b>12.8%</b>	<b>11.8%</b>	<b>11.3%</b>
<i>of which</i> <b>MDBS/ PRSC 1/</b>	<b>5.6%</b>	<b>1.5%</b>	<b>3.6%</b>	<b>3.4%</b>	<b>2.8%</b>
HIPC	0.0%	1.0%	1.2%	1.3%	1.0%
Project grants	4.1%	1.0%	1.6%	2.7%	3.0%
Project loans	5.2%	2.5%	3.1%	3.1%	3.2%
Domestic Borrowing	2.3%	4.9%	0.0%	0.5%	0.0%
Other	0.0%	3.0%	3.4%	0.8%	1.4%

1/ Includes Programme Aid disbursements over 2001 - 2002.

Source: GoG Budget books and annual accounts

129. Table 4.2 gives a sense of the quantitative contribution of MDBS to fiscal adjustments. By grouping all financing elements together (rather than following the more classic presentation of grants 'above the line' and loans 'below the line'), we may see that MDBS has comprised less than a third of the additional budget financing required in addition to domestic revenues. In 2005, both project grants and project loans were of greater significance. As a source of fully flexible funding, MDBS together with HIPC funds and domestic revenues would be of greater utility than project financing but in no year did MDBS reach the significance which programme aid had attained in 2001.

130. In Chapter 3, we also noted that the MDBS has demonstrated a high level of year-on-year predictability. This is much valued on the GoG side, which tends to give the MDBS arrangements a value greater than might be inferred simply from looking at the amounts involved. Predictable budget funding facilitates cash management and can help to avoid access to Central Bank overdrafts and Treasury Bill issues to meet short-term cash flow shortfalls. We have not been able to assess from the data available to us, whether the predictability of MDBS has permitted reductions in cash flow financing of this sort. However, the modest volumes of MDBS would limit their significance. We noted in Section 3.1 that its within-year record of predictability is less impressive, which would make it more difficult to achieve these positive effects.

131. In principle, MDBS could exert a positive influence on policies through an improvement in the quality of policy dialogue. In practice, macroeconomic questions have

not had a prominent role in the MDBS dialogue and arguably the quality of analysis and dialogue taking place between MoFEP, the Bank of Ghana and the IMF is already sufficiently strong for this not to be necessary. We also noted in Chapter 3 that there have been some deficiencies in this aspect of the MDBS arrangements. So far, these deficiencies have manifested themselves in avoidable transactions costs rather than destabilisation of aid flows but they do appear to have limited the extent to which the MDBS dialogue has broached truly strategic issues. Certainly, we found no evidence of the choice of macroeconomic policies having been influenced by the MDBS dialogue.

132. Additional leverage could result through MDBS DPs' relationships with the IMF. These have been excellent and MDBS has added to the financial leverage associated with Fund programmes. But reputational considerations are probably of greater importance to the government than possible interruptions to financial support. We believe that the GoG would have remained just as committed to sound macro management if there had been no link between MDBS and IMF programmes. Nor did we find any evidence that MDBS donors had materially influenced the content of the Fund programme.

**Summing Up:**

***EQ6: How significant has been the contribution of MDBS to macroeconomic performance?***

- At the macroeconomic level, there is evidence that MDBS resources have been used prudently. Specifically, they have facilitated a reduction in the fiscal deficit, simultaneous with a recovery in public spending and reductions in domestic interest payments and in the domestic debt stock
- However, relative to macro aggregates and total aid flows, the volume of MDBS assistance has been of modest and diminishing importance. Over 2003 – 2005, it comprised less than a third of the additional budget financing required over and above domestic revenues.
- The MDBS has demonstrated a high level of year-on-year predictability. This may have facilitated cash management, helping to avoid access to Central Bank overdrafts and Treasury Bill issues to meet short-term cash shortfalls. We have not been able to assess from the data available whether there have been significant effects of this sort but, given the low overall volumes of MDBS, it seems unlikely.
- MDBS could exert a positive influence on policies through an improvement in the quality of policy dialogue. In practice, macroeconomic questions have not had a prominent role in the MDBS dialogue. Arguably the quality of dialogue between MoFEP, the Bank of Ghana and the IMF is already sufficiently strong for this not to be necessary.
- MDBS has added to the financial leverage associated with Fund programmes. But reputational considerations are probably of greater importance to the Government than possible interruptions to financial support. We believe that the GoG would have remained just as committed to sound macro management if there had been no link between MDBS and IMF programmes. Nor did we find any evidence that MDBS donors had materially influenced the content of the Fund programme.

Overall, the influence of the MDBS upon macroeconomic performance appears to have been positive but of second-order significance.

### 4.3 The Effects of MDBS on Policies and Policy Processes

***EQ7: How significant has been the contribution of MDBS to improving public policy processes?***

#### 4.3.1 The MDBS and private sector development

##### ***Recent trends in the business environment***

133. The present administration came to power in 2001 promising a 'Golden Age' for business and there is no doubt that it has genuinely sought to promote a better environment for the work and growth of the private sector. In this, of course, it has the support of the DPs. The development of the private sector is one of the three pillars of GPRS II, which both signifies the importance attached to this by the GoG and identifies an avenue through which the interest of DPs can be given concrete form.

134. Among the early moves by the government to give concrete expression to its pro-private sector stance was the creation of a separate Ministry for Private Sector Development, a move that was widely welcomed within the business community. This ministry subsequently produced a medium-term Private Sector Development Strategy, 2004-08 (hereafter PSD Strategy) and created a joint public-private Oversight Committee to oversee its implementation. In parallel, the Ministry of Trade and Industry produced an important statement of Ghana's trade policy (2004). Both documents strongly emphasise the importance of market competitiveness and the strategy paper sets out a large number of areas of action for improving the operation of markets, strengthening the contribution of the financial system, improving contract enforcement, improving the economy's structural and policy environment and improving the delivery of public sector services.

135. In addition, the government has placed stress on the importance of major improvements in basic infrastructure. Its actions in bringing down inflation and diminishing GoG reliance of domestic borrowing have helped to bring down nominal interest rates and have reduced the tendency within the financial sector to 'crowd out' the credit needs of private businesses in favour of the state. In fact, the 2007 Budget Statement records that as of September 2006 over four-fifths of total domestic credit went to the private sector - a major shift from earlier times when the public sector claimed the biggest share. Both formally and informally, contacts between government and the business community have been improved. While voicing a variety of complaints, private sector representatives are clear that the present-day business environment is probably the best that it has been since independence.

136. However, the private sector remains beset by a range of problems, of which the unreliability of power supplies, the shallow nature of the financial system, and high transport and other distribution costs deserve special mention. The crisis in energy supplies is crucial for enterprises reliant on power inputs and there are also difficult issues concerning cross-subsidisation in energy pricing. There is also some ambiguity in views on the government's policy stance. There is little questioning that that the government wants to be helpful to business. At the same time, its instincts are seen as interventionist and its commitment to market solutions uncertain. Its style is viewed as non-consultative. The GoG's approach to infrastructural development is seen as unbalanced in favour of road-building and too political in its locational decisions.

137. One statistic is perhaps symptomatic of a more general situation. The World Bank (2006:33) records that the average time required for new business registrations fell from

129 days in 2002 to 81 days in 2005. At the same time the Bank notes that the time of 81 days remains one of the longest in Africa, let alone the rest of the developing world. So the story is one of real progress - but of a long way further to go.

138. One of the areas of present concern relates to the recent decision to merge the Ministry of Private Sector Development into the Ministry of Trade and Industry and what consequences that might have for the vigour with which the PSD strategy might be pursued. Our understanding is that the merger decision was in response to a recommendation in the NEPAD APR report that the number of ministries should be reduced, rather than a being based on a judgement about the best ways of promoting private sector, trade and industry policies. Concern was expressed to us that the merger might symbolise some decline in the priority given by the GoG to private sector issues. While we doubt that such was the intention and these are still early days in which to form a judgement, there does seem a real body of concern that the unintended result of the merger might be some *de facto* reduction in attention to pursuing the PSD strategy. At a minimum, the inevitable disruption and changes of personnel have resulted in a temporary hiatus.

139. One of the points made to us is that the two ministries were of differing natures and hence were not best suited for merger. Trade and Industry was viewed as a straightforward line ministry, oriented to detailed negotiations and competing for resources with other MDAs, while the Ministry for Private Sector Development was more policy-oriented, dealing more with cross-cutting issues and with a substantial task of coordinating the work of other MDAs. Apart from the tensions that might arise in trying to combine these roles within one ministry, there is the fact that its Minister has to cover a very wide range of topics, whereas the former Minister for Private Sector Development - also a Cabinet member - could focus more specifically on a narrower (but still extensive) portfolio.

### ***The influence of the MDBS***

140. What, now, of the role of the MDBS? It goes without saying that the MDBS partners favour the government's emphasis on producing a strong, competitive, market-oriented private sector and have throughout been supportive of this policy thrust. Beyond that, it is probably fair to say that the MDBS *per se* has been somewhat marginal in this area. Precisely because it has been pushing at an open door, there has been little need for MDBS donors to seek to exert any major pressure. Individual interested donors helped with the preparation of both the PSD strategy and trade policy. The MDBS was also instrumental in creating a joint Private Sector Group to take forward its interests in this area. What can be said - and what applies much more widely to other subject areas as well - is that the inclusion of targets and triggers in the PAF relating to PSD has helped to sharpen the GoG's own focus on the need for specific, time-bound actions, even though the provisions in the PAF have been originated by the GoG and, for the most part, have not been the subject of much controversy. Overall, then, the MDBS is viewed as supportive and helpful.

## **4.3.2 The MDBS and public service reform**

### ***Background and present situation***

141. There is little need in this report to labour the background to present efforts at public service reform. The situation can be summarised by quotations from publications of the Ministry of Public Service Reform (MoPSR):

- ◆ The civil service “is responsible for implementing Government policy but is demonstrably weak and ineffective” (MoPSR 2006b:2)
- ◆ Past attempts at public service reform “have achieved little” (MoPSR 2006a:2)
- ◆ “for more than a decade...very little capacity has been built” [in the civil service] (MoPSR 2006a:2)

142. While they are remarkably frank in their assessment of the situation, there would be general agreement with the validity of these statements. From having the reputation of possessing arguably the strongest public service in Sub-Saharan Africa at the time of independence, there has been a long-term deterioration to the point where the need for action is generally agreed.

143. Soon after coming to office, the present administration announced its intention to grasp this nettle. The Office of the Senior Minister produced a ‘Working Document’ for discussion and it was subsequently decided to create a dedicated Ministry to take the reform agenda forward. This commenced work during 2005 and quickly produced a strategy and work programme (MoPSR, 2006a).

144. One of the most important aspects of its work is that, although specialist expertise has been provided by interested donors, the strategy and work programme have been generated from within the Ministry and they are in no sense donor-driven. Moreover, the President has publicly associated himself with the strategy. This is in contrast to earlier efforts, whose failings had much to do with the fact that they were largely the outcome of donor initiatives and, as such, had weak buy-in on the part of the government of the day, and of members of the public service.

145. Another feature of the public service reform strategy is that - again in contrast with earlier efforts - it is based on an overall view of what needs to be done and on a carefully thought-through phasing of actions, so as to ensure that the sequencing is right and that what is attempted does not exceed implementation capacities. There are five phases to the strategy, with no overall time-line given for full implementation, although it seems to be envisaged that it will take several years for the strategy to be fully executed. The tactic is stated to be that the first phase should be focussed on a limited number of ‘quick win’ measures.

146. The 2007 budget statement lays out the progress that has been made so far. The measures reported include:

- ◆ Accelerated programmes of training.
- ◆ The launching of Presidential Excellence Awards for members of the public service.
- ◆ The launching of a customer satisfaction survey.
- ◆ Simplification of procedures and improvement of information flows in twelve selected MDAs.
- ◆ Various steps to improve the management of records.
- ◆ Measures to improve the working environment for public sector workers

### ***The relevance of the MDBS***

147. Effective public service reform can be seen as central to the provision of budget support to Ghana, for at least two reasons. First, the objective of MDBS is to support GoG policies, particularly in the area of poverty reduction and the achievement of the Millennium Development Goals. Since, to repeat the words of the MoPSR, the present public service

“is responsible for implementing Government policy but is demonstrably weak and ineffective” it follows that strengthening its capabilities to carry through policy priorities will be fundamental to the success of the MDBS agenda. Second, much attention is naturally paid within the MDBS scheme to improving public finance management (PFM) but it is difficult to see how basic improvements in this could be sustained over time without rectifying the many deficiencies of the terms of service of the public service.

148. In practice, the present position of the MDBS in respect of public service reform efforts is similar to the position regarding private sector development: there is no doubt about the support of DPs for what the government is trying to do in this area, nor about their readiness to respond to any specific needs the GoG may have in this area. At the same time, given the importance of local ownership and political backing for what is being attempted, and the poor record of past donor-driven programmes, MDBS partners have had to be careful to avoid any appearance of attempting to exert undue influence.

149. What can be said more positively is that the MDBS arrangements probably had an influence on the decision to create the MoPSR (which, in fact, was a trigger provision), and that its PAF provisions played their usual role in translating general objectives into specific, monitorable actions. As one senior official of the MoPSR said, the PAF “helps to keep us honest.” The formation of the public service reform strategy was itself a consultative process in which DPs were included. The position now, however, is that a good level of mutual agreement has been reached, so that, for example, the current PAF contains only targets in the area of public service reform and no trigger provision.

### ***Future prospects for public sector reform***

150. Having made the case earlier why public service reform is of fundamental importance to the working of MDBS, we offer here our own brief assessment of some of the limitations of present policies, in order to identify areas with which the MDBS stakeholders should concern themselves for the future, while always being careful not to dilute the essential ingredient of local ownership. We would identify the following areas as among the more problematical:

- It could be argued that the MoPSR's strategy shies away from dealing with the most difficult - but also the most fundamental - question: how to achieve a re-balancing between the size of the public service and the rewards enjoyed by public servants. In fact, the strategy takes no view on the desirable size of the public service, and on wages and salaries contents itself with saying that the government “must undertake a comprehensive review.” Such a review is under way and the 2007 budget announced the creation of a Fair Wages Commission to implement the resulting structure. No doubt much can be done to rationalise the existing system and make it more efficient. But it is hard to see how the ‘big issue’ of raising the general level of remuneration for public officials closer to levels in the private sector can be addressed, within the constraints of budget discipline, without simultaneous reductions in the 650,000 people said to be employed in the public sector (MoFEP, 2007:307).<sup>19</sup> What one Minister admitted to us could probably be writ large for many MDAs: ‘we could manage this ministry with half the existing number but with more of the right skills’.

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<sup>19</sup> The 2007 Budget statement did signal that ‘Government will be looking to eliminate public institutions that are no longer needed and to consolidate and streamline institutions where activities overlap.’ This is a step in the right direction but, in our view, inadequate in relation to the scale of the staffing and productivity problem.

- GoG actions during 2005-06 to radically improve rewards within the health service, and likely spill-over effects elsewhere in the public service, might be seen as inconsistent with the generally measured nature of the MoPSR strategy and with the design of the promised new integrated salary structure. The wage bill in the budget is expected to rise by 60% in 2005-07, even assuming that there is not the usual over-spend on this item during 2007. This situation is apt to make it all the harder to come to terms with the issue of the desirable size of the public service.
- Despite donors' arms-length relationships, there are also questions about ownership. It is not entirely clear to what extent MoFEP and other MDAs have bought into the strategy of the MoPSR, despite Presidential backing. If the basic issues raised in the previous paragraph are to be tackled, the strongest political support would be essential – right across government.
- There are related questions about sustainability. Perhaps to an unhealthy extent, present efforts owe a great deal to the dynamism of the responsible minister and a supportive President. With elections not too far away, it is natural to ask what will happen when key political personnel are changed. This can also be related to the long-term nature of the MoPSR strategy, stretching over a substantial number of years: can the momentum for this be sustained in the necessary way?

**Summing Up:**

***EQ7: How significant has been the contribution of MDBS towards improving public policy processes?***

***a) Private Sector Development***

- The present administration came to power promising a ‘Golden Age’ for business. There is no doubt that it has genuinely sought to promote a better environment for the growth of the private sector.
- It created a separate Ministry for Private Sector Development, a move that was widely welcomed within the business community. This ministry subsequently produced a Private Sector Development Strategy, and created a joint public-private Oversight Committee to oversee its implementation. In parallel, the Ministry of Trade and Industry produced an important statement of Ghana’s trade policy.
- Government has also placed stress on the importance of major improvements in basic infrastructure. Its actions in cutting inflation and reducing domestic borrowing have helped to bring down nominal interest rates and have reduced the tendency to ‘crowd out’ the credit needs of private businesses. As of September 2006 over four-fifths of total domestic credit went to the private sector.
- While voicing some complaints, private sector representatives are clear that the business environment is probably the best that it has been since independence.
- The MDBS partners favour the government’s emphasis on a strong, competitive, private sector and have throughout been supportive of this policy thrust. Beyond that, it is fair to say that the MDBS *per se* has been somewhat marginal in this area.
- What can be said is that the inclusion of PSD targets and triggers in the PAF has helped to sharpen the GoG’s own focus on specific, time-bound actions.

***b) Public Sector Reform***

- From having the reputation of possessing arguably the strongest public service in Sub-Saharan Africa at the time of independence, there has been a long-term deterioration to the point where the need for action is generally agreed.
- Soon after coming to office, the Office of the Senior Minister produced a ‘Working Document’ for discussion and it was subsequently decided to create a dedicated Ministry to take the reform agenda forward. This commenced work during 2005 and quickly produced a strategy and work programme.
- The strategy and work programme have been generated from within the Ministry and they are in no sense donor-driven. Moreover, the President has publicly associated himself with the strategy. This is in contrast to earlier efforts, whose failings had much to do with the fact that they were largely the outcome of donor initiatives and had weak buy-in on the part of the government of the day.
- The MDBS arrangements may have influenced the decision to create the MoPSR (which, in fact, was a trigger provision), and its PAF provisions played their usual role in helping to translate general objectives into specific, monitorable actions.
- Given the importance of local ownership and political backing, and the poor record of past donor-driven programmes, MDBS partners have had to be careful to avoid any appearance of attempting to exert undue influence.
- The lack of an integrated approach to address together issues of staffing levels and of remuneration is the biggest gap in the PSR strategy and a vital gap in GoG policy overall. Perhaps due to concerns over ownership, it has not been possible to address this issue through the MDBS dialogue.



## 4.4 The Effects of MDBS on PFM systems and the composition of public spending

**EQ8: How significant has been the contribution of MDBS to improving PFM systems and the composition of public spending?**

### 4.4.1 Hypothesis and Assumptions

151. This section examines any influence MDBS may have had on the composition, efficiency and effectiveness of public expenditures and on the quality of public finance management systems and processes. The set of hypotheses to examine is whether there may have been positive effects deriving from the immediate effects of MDBS, notably:

- Increased and more predictable budget funding;
- Enhanced attention to the national budget process both from national stakeholders and from DPs and
- Improvements in the degree of harmonisation and alignment of external assistance as a whole.

152. We concluded in chapter 3 that despite some promising initiatives, there was as yet no firm evidence that MDBS had generated an improvement in the degree of alignment and harmonisation of external assistance as a whole. We also concluded that although relatively more predictable than other aid modalities, the scale of MDBS had been modest and had not caused a sustainable shift in the share of external resources delivered through the budget. We did, however, note improvements in the structure and focus of dialogue as well as in the degree of ownership by GoG over the policy and reform management process. It is therefore through this latter avenue that effects on public expenditure and PFM systems are most likely to have operated.

### 4.4.2 Has MDBS contributed to more discretionary spending?

153. Public revenues and expenditures in Ghana have grown substantially between 1999 and 2005. Total government receipts have increased in real terms by 159% within 7 years rising from 18% of GDP in 1999 to 24.1% in 2006. This increase has been sourced mainly from domestic revenue which has benefited from the introduction of revenue-enhancing measures as well as from improved tax administration, greater collection of internally generated funds and higher levels of remitted profits. This significant increase in domestic revenues has overshadowed the contribution of budget support to discretionary revenue.

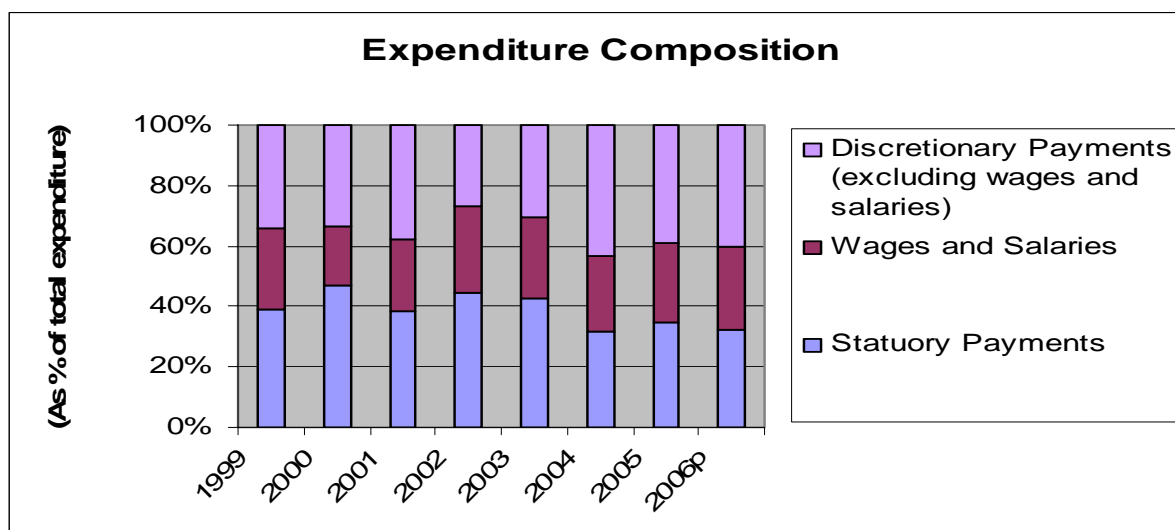
154. Rapid increases in domestic revenue have reduced the reliance of the government on aid receipts. While in earlier years the government was dependent on aid grants and loans to cover the entirety of its discretionary spending and a substantial portion of non-discretionary spending, by 2003 this dependence had been reduced and by 2004 all non-discretionary spending and the bulk of discretionary spending were covered by domestic revenue resources and HIPC.

155. The use of these rising domestic revenues has been conditioned by an explicit fiscal strategy to squeeze the domestic debt to GDP ratio and to reduce the domestic primary fiscal balance to 1.4% of GDP. As a result the increase in public expenditures has not fully kept up with increases in revenues. Nevertheless, it has grown in real terms by 98% during the same time period, rising from 24.1% in 1999 to 30.8% of GDP in 2005.

156. Increases in “discretionary spending” i.e. expenditure other than that arising out of statutory commitments, are perceived as one of the main benefits of direct budget support. Such discretionary spending is regarded as having a particularly powerful effect on the government’s ability to deliver services efficiently to its citizens. This is both because it maximises the flexibility of the budget – allowing resources to be allocated where and when they are needed (rather than being tied up in project bank accounts or in Statutory Funds), and because it tends to increase the availability of resources for operations and maintenance and other such non-salary spending, which has important implications for the quality of services and is typically under-financed.

157. In 2003, the first year of MDBS, there was little change in the share of discretionary spending as defined by the government (that is, including wages and salaries). However, over 2004 to 2006, it comfortably exceeded 60 % of total spending, as compared with a trend level of some 58 % over the previous five years. This is all the more notable given the growth in the real value of spending: discretionary spending has taken an expanding share of a growing level of public spending.

**Figure 4.1 Composition of Total Expenditure 1999 - 2006**



Source: MOFEP Budget documents 1999-2007.

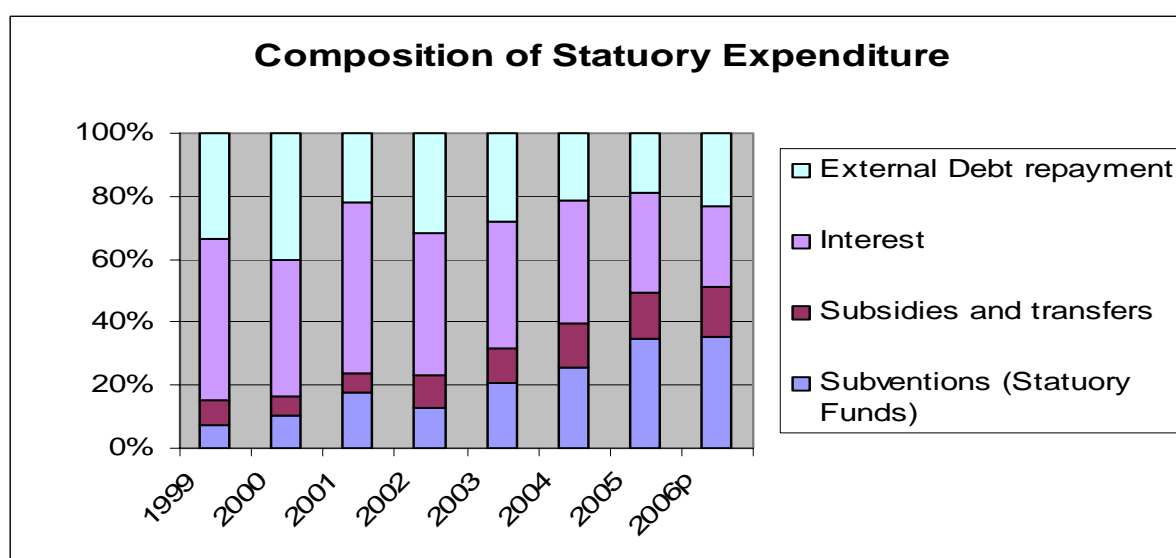
158. In practice, there are significant differences between *de jure* discretion and *de facto* discretion. Discretionary expenditures on items which for formal or political reasons must be given priority such as wages, and salaries, are essentially non-discretionary in practice. Using a narrower definition of “discretionary spending” which excludes wages and salaries, we may see that for 2004, 2005 and 2006, at approximately 40 % its share was again higher than the trend of the previous five years, although there is some variation in 2005<sup>20</sup>. (See Figure 4.1.) This has been in spite of the upward pressure of the last two financial years on wages and salaries which have increased in real terms by 22 % between 2005 and 2006.

159. What is equally striking is the change in the composition of statutory payments. The reduction of domestic debt, combined with HIPC relief, has significantly reduced the non-discretionary expenditure on interest payments and repayments of external debt. However, a large part of the space created for more discretionary expenditure has been absorbed by the

<sup>20</sup> The reason for the decline of discretionary expenditure from 43% in 2004 to 39% in 2005 can be attributed to lower than expected revenue mobilization which led to in-year budget cuts.

increase both in the number of statutory funds and in the volume of expenditure they require. These include the District Assembly Common Fund which has been allocated 5% of total tax revenues since 1994; the Road Fund; the Petroleum Related Fund; the Ghana Education Trust Fund and the National Health Insurance Fund both of which are allocated 2.5% of revenues from Value Added Taxes. The increase in the resources allocated to these funds can be attributed both to growing revenues to which their budgets are explicitly related and a closer adherence to the formula through which their budgets are calculated.

**Figure 4.2 Composition of Statutory Expenditure 1999 - 2006**



Source: MOFEP Budget documents 1999-2007.

160. In terms of the final allocation of resources, the growth of these Funds need not be problematic – indeed, as we note below, a high proportion of their allocations is dedicated to poverty-reducing spending. However, their administration and management does carry unnecessary transaction costs - since these Statutory Funds have been set up as separate legal instruments with their own governing boards, budget processes, calendar and reporting requirements. Secondly, their creation reduces unnecessarily the degree of flexibility in the budget, to the extent that MoFEP might well find itself borrowing from the Bank of Ghana to meet cash flow requirements, despite the existence of idle balances in these Funds. Moreover, this “projectisation” of government resources appears to signal a lack of confidence in the way resources are allocated and used within the Consolidated Fund. For example, the increased spending on health and education which was a requirement of the most recent VAT increases could be secured simply through agreeing higher budgets for the education and health ministries, utilising the normal budget process to plan, allocate, execute and audit these expanded budgets.

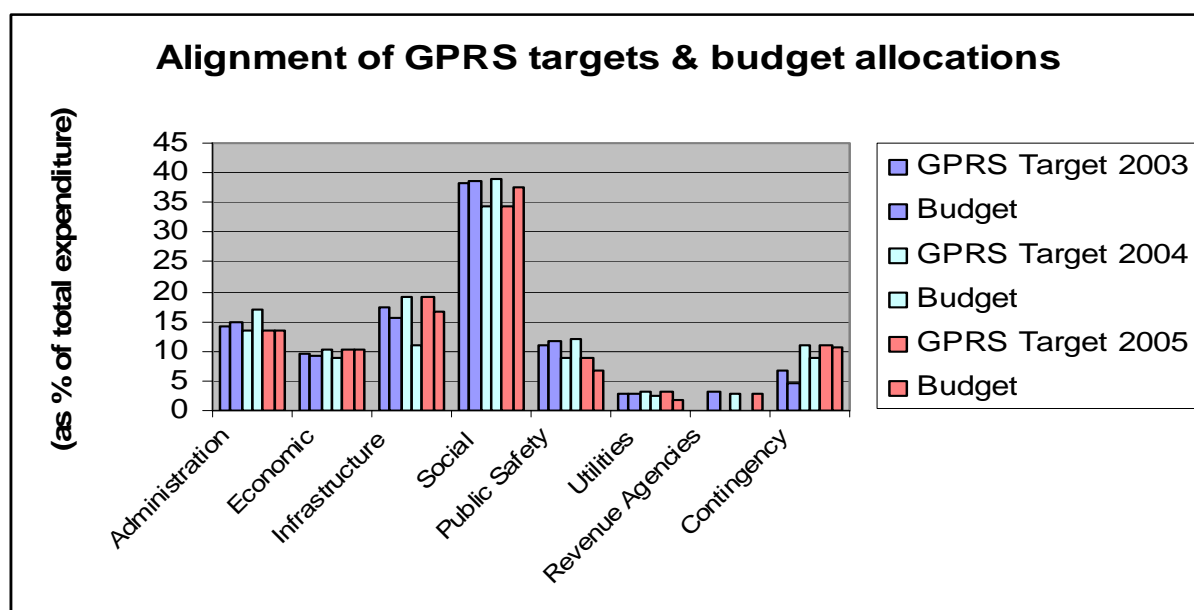
#### **4.4.3 Allocative efficiency: Is spending in line with government priorities?**

161. Government priorities are officially expressed in the Growth and Poverty Reduction Strategy II (2006-09 which is a second generation poverty reduction strategy building on the earlier GPRS1 (2003-2005). The policies, activities and targets presented in GPRS 1 were not based upon a costing out of their financial implications and as such were unconstrained by resource realities. The results of a re-prioritisation and a refocusing of the strategy for GPRS2 were a series of costed Medium Term Priority Programmes which are essentially concerned with capital expenditure (services and investment).

162. The guidelines for the preparation of the 2003 budget and 2003-2005 MTEF, released in October 2002, contained a specific section on the prioritisation of GPRS 1 programmes and projects within MDA estimates. It required that planned programmes relating directly to poverty reduction should take precedence over those that only have indirect effects on it. This attention to the link between GPRS and the budget crystallised further in budget guidelines for subsequent financial years. Guidelines for the preparation for the 2005-07, 2006-08 and 2007-09 MTEFs all emphasised that the basis for the preparation of budgets should be the GPRS. The implementation of these budget guidelines was supported by the NDPC through strategic planning and costing workshops, policy review workshops, and intra-sector meetings.

163. In short, at the administrative level, significant efforts have been made to link the budget preparation process with the GPRS priorities. How far have these efforts worked? Unfortunately, the concept of Medium Term Priority Programmes has proven problematic as a tool of resource allocation. It has not proven possible to reflect these programmes directly in the structure of the budget and the chart of accounts. Moreover, the MTPPs have tended to concentrate on the “additional” capital expenditure required to achieve policy objectives. Costing of plans in this way makes it easier to present the case for additional resources but very difficult to relate these costings to sector ministry budget ceilings. The overlap between ongoing and additional activities is also complicated to manage, especially when there is a need to factor in efficiency savings from discontinuing non-prioritised activities.

**Figure 4.3: Alignment of GPRS 1 targets and expenditures by broad sector 2003 - 2005**



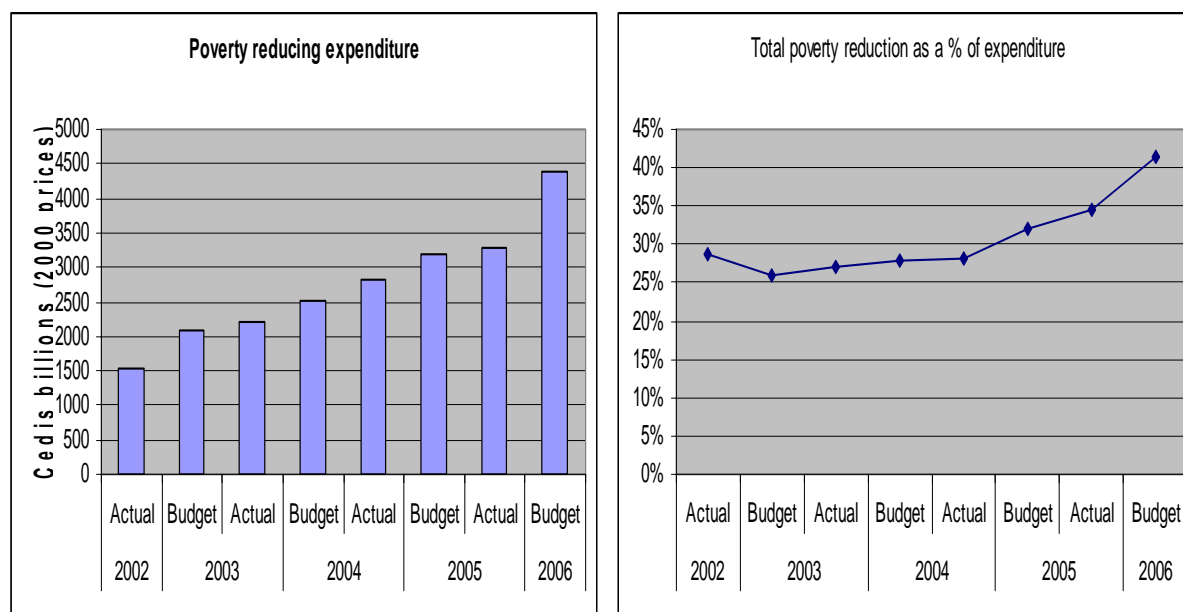
Source: GPRS 1 Annual Progress Reports

164. Nevertheless, in terms of establishing a broad sense of priorities, the GPRS 1 has been influential. It is possible to compare GPRS 1 targets for broad expenditure areas and their budgetary allocation. Overall, there seems to be a growing alignment between targets and budget allocations, although the expenditure on social services consistently outstrips the GPRS 1 targets and that on infrastructure consistently falls short of targets. The main cost driver of these variations seems to be wages and salaries in education and health, which is in practice, a non-discretionary item. By contrast, project spending is both more prone to delays and easier to cut in the event of budget shortfalls.

### Poverty Reducing Expenditure

165. Poverty reducing expenditure was formally defined in 2002 as a selection of activities focussed on: basic education, primary health care, “poverty-focussed” agriculture, rural water, feeder roads, rural electrification as well as other areas such as environmental protection, decentralisation, vocational training etc. Spending on these activities is captured by a new classification structure and chart of accounts which introduced codes identifying poverty related expenditure. These data are then supplemented by information on poverty related expenditure from the GET Fund, NHIF, DACF and the Road Fund.

**Figures 4.4 & 4.5 Poverty reducing spending 2002 - 2006**



Source: Data received from MOF (2002-2006)

166. Figures 4.4 and 4.5 above show consistent increases in poverty related expenditure, both in real terms and as a proportion of total expenditure. In real terms, actual spending doubled between 2002 and 2005, increasing from 28 % to 35 % of expenditure over the same period. Moreover, reported levels of actual spending on poverty reducing activities have consistently exceeded budgeted amounts, which suggests that the high level of budgeted expenditure in 2006 may well be achieved.

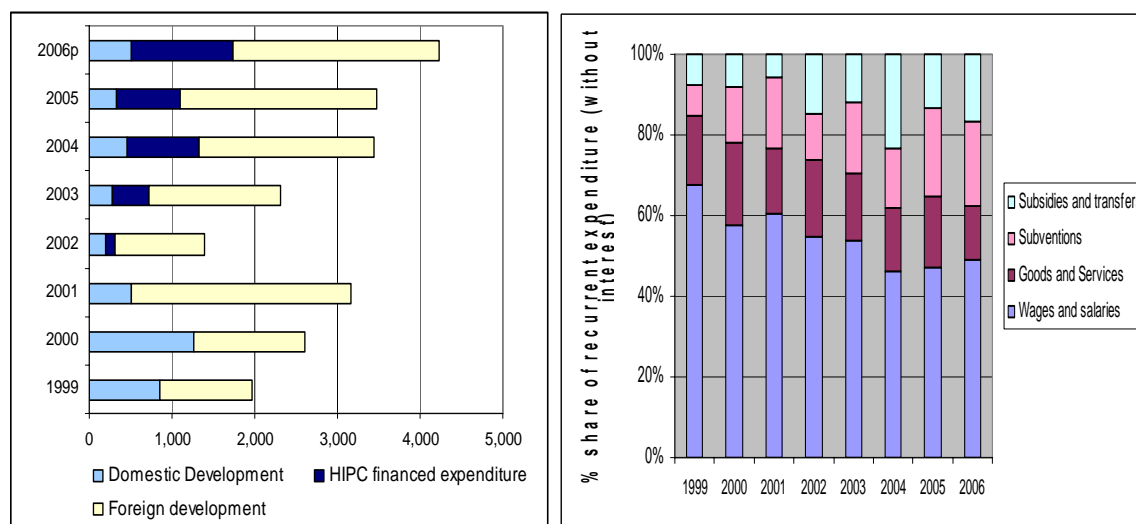
167. There are of course important caveats over the use of these figures. The definition of ‘poverty reducing spending’ inevitably has a level of spuriousness, given that in practice it is not possible to evaluate the empirical link to poverty reduction. There must also be some question marks over the effectiveness of the recording system, given that errors in the coding of expenditures are commonplace in any accounting system and particularly one such as in the Ghanaian government, where a fully integrated system of expenditure commitment, payment and accounting is not yet in place. There are also concerns related to the significance of the wage component of poverty related expenditure. A good part of the recorded increase is attributable to rising wage costs, especially because expenditure on basic education and health care accounted for 66% of poverty related expenditure in 2005. Nevertheless, over the lifetime of the MDBS, the data are indicative of a steady increase in the level of allocated expenditures on poverty reducing activities.

#### **4.4.4 Operational Efficiency: what can we tell from the composition of government expenditure?**

168. The evidence to support an increase in the operational efficiency of public expenditure is unclear. The main positive sign is the decline of public administration

overheads as a share of discretionary spending by MDAs from 24.6% in 2000 to 17.6% in 2005. However, a decomposition of recurrent expenditures does not show any significant increase in actual expenditure on “goods and services” which is probably the most important category of spending determining the effectiveness of service delivery. A declining proportion of funds for goods and services with increasing expenditure on capital spending suggests a growing imbalance between capital and recurrent spending. Most of the increases in development expenditure (excluding statutory funds) have been foreign financed with HIPC financed expenditure displacing domestic spending on development since 2002.

**Figures 4.6 and 4.7 Changing composition of Development & Recurrent spending**



Source: MOFEP Budget documents 1999-2007.

169. It is difficult to comment on overall composition of expenditure since the economic classification of expenditures incurred by statutory bodies is not available. For example, the GET Fund was set up with the explicit objective of investment in education and therefore is most likely to contribute to the non-wage component of expenditure in education. A simple analysis of only the Consolidated Fund is likely to give a skewed overview of the proportion of expenditure spent on each economic item.

170. Information is also not available on total expenditure by district or region. Budgets for Ministry of Health and Education are disaggregated by activity to the regional and district level but similar information is not available for all Ministries, Departments and Agencies (MDAs). The Government has made slow progress in introducing what it calls a “composite budget” for district assemblies which would provide information on all expenditure going to a particular district<sup>21</sup>. Without available information by region and district, an analysis of the equity of public expenditure is difficult. Section 4.5 does however look at this issue in more detail in relation to health and education.

#### 4.4.5 MDBS contribution to allocative & operational efficiency

171. Multi Donor Budget Support has been provided in Ghana within a context of rising domestic revenue and increases in reported project aid. Programme aid flows (including HIPC) were 12 % of total aid flows in 1999, reached a peak of 58% in 2002 and declined to 35% in 2005, before increasing to 47 % again in 2006 as a result of the MDRI. This period

<sup>21</sup> As a start in 2007 all sector ministries have been asked to provide expenditure breakdowns of their budgets up to the district level for 75 (previously 25) districts.



has been associated with an increase in the share of discretionary expenditure from a trend level of 58 % to a share comfortably in excess of 60 % in the last three years. In real terms, this has amounted to a significant increase in the absolute level of discretionary spending. An increased share of wages and salaries in expenditure has been a feature of this but the trend increase is also discernible in non-wage discretionary spending.

172. This is an important development, which has brought much needed flexibility to resource allocation and management. However, the scale of MDBS suggests that its direct flow of funds contribution to this development has been modest. Of much greater importance have been the expansion of domestic revenue collections and the advent of debt relief, notably under the MDRI in 2006.

173. The period of the MDBS has seen significant increases both in the real level of spending on identified poverty-reducing areas and in their relative share in total spending. Without doubt, the increased level of discretionary resources has facilitated this and as we note above, MDBS has played a modest role in this process. The monitoring of budget execution against poverty reducing expenditures is an important part of the MDBS assessment process and an important target within the PAF. This is probably a more significant source of influence from the MDBS but even this should not be overstated: there is a clear GoG commitment to raise spending on GPRS related areas and there are a range of mechanisms which have been put in place by MoFEP and NDPC in order to achieve this. The role of the PAF has been rather to reinforce this commitment.

174. The evidence relating to the operational efficiency of public expenditures is mixed. The declining share of public administration as a share of total government expenditure is a positive development. On the other hand, the declining allocation to goods and services despite increases in development expenditure is indicative of a growing imbalance between the various components of public expenditure. Our analysis in Section 4.5 of service delivery in education and health care gives a similarly mixed picture with operational efficiency and equity of spending declining in health but apparently improving in education.

#### **4.4.6 MDBS and PFM systems: recent developments**

175. The strengthening of Ghana's Public Finance Management (PFM) systems has been one of the main focal points of the policy dialogue around the MDBS. As we noted in Chapter 2 (Figure 2.1), it is one of the key elements in converting increased budget resources into targeted, effective public spending and an aspect of the context for MDBS where there were acknowledged weaknesses at the outset. How far has the situation improved since 2003 and to what extent has the MDBS been a causal factor in this process?

##### **Overview of PFM reform measures 2003 - 2006**

176. There has been an active programme of PFM reforms over the period of the MDBS, which has introduced significant changes across a number of areas:

- One of the major thrusts has been the operationalisation and implementation of the new legal instruments enacted on 31<sup>st</sup>, December 2003 – the Financial Administration Act, the Internal Audit Agency Act and the Public Procurement Act. This has involved the drafting of regulations, internal standards and manuals across each of these areas as well as the actual setting up of the Public Procurement Board and the Internal Audit Agency Board, with their respective secretariats and staffing.

- The on-going development and installation of the BPEMS integrated financial management system has dominated the MDBS dialogue and probably consumed the most administrative and managerial resources on the side of GoG. By end October 2006, three modules of the system (General Ledger, Accounts Payable and Purchasing) had been installed in 8 pilot MDAs across 14 sites.
- The development of the new Integrated Personnel and Payroll Database (IPPD2) has been the other major systems innovation of the period. This will replace the existing data-base (IPPD1) which was developed in the mid 1990s, and will also extend its coverage to all of the MDAs. The new system (IPPD2) has been test-trialled over the course of 2006, when it has been run in parallel with IPPD1. During 2007, it should become the operational payroll system for the central government.
- A more recent initiative has been the re-organisation of the cash management system and the introduction of decentralised treasuries. The decentralisation of treasuries was trialled on a pilot basis from January 2006 within the Ministry of Education and launched in all ministries from 1<sup>st</sup>, September 2006. Early indications, confirmed by our field work in Cape Coast, suggest that this has gone a long way to reducing delays in the receipt of cash requirements at the district level, especially in education but also in health<sup>22</sup>.

177. Alongside these more 'high profile' reform measures, there has been a steady continuation of work within the revenue area, where a Large Taxpayers Unit was set up in 2004 and where revenue collections have steadily grown throughout the period of the MDBS. Similarly, the Office of the Auditor General has made progress in clearing the backlog of audits (with the assistance of private auditors), having submitted the audited accounts for 2003 and 2004 to Parliament in May and December of 2005, and the 2005 audited accounts in October 2006. With the CAGD's report on the annual accounts having been submitted within the three month deadline from the end of year in 2003, 2004 and 2005, the capacity now appears to be in place to fulfil the requirements of the Audit Act by completing the audit of the public accounts of the MDAs within 6 months of the year end.

178. A further indication of progress in re-establishing orderliness and timeliness in the budget process has been the bringing forward of the calendar for the approval of the annual budget. For the first time in many years, the annual budget for 2006 was read and approved by Parliament before the beginning of the fiscal year. This again proved possible for the reading and approval of the 2007 budget.

### **Impact of the reforms on PFM performance**

179. To what extent are these reforms actually beginning to make a difference in terms of the functionality of the existing PFM system and the key outcomes it generates? Figure 4.8 shows the evolution of the performance of the PFM system in Ghana, as assessed by the HIPC AAP of 2001, the HIPC AAP of 2004 and the PEFA assessment of 2006<sup>23</sup>. It has

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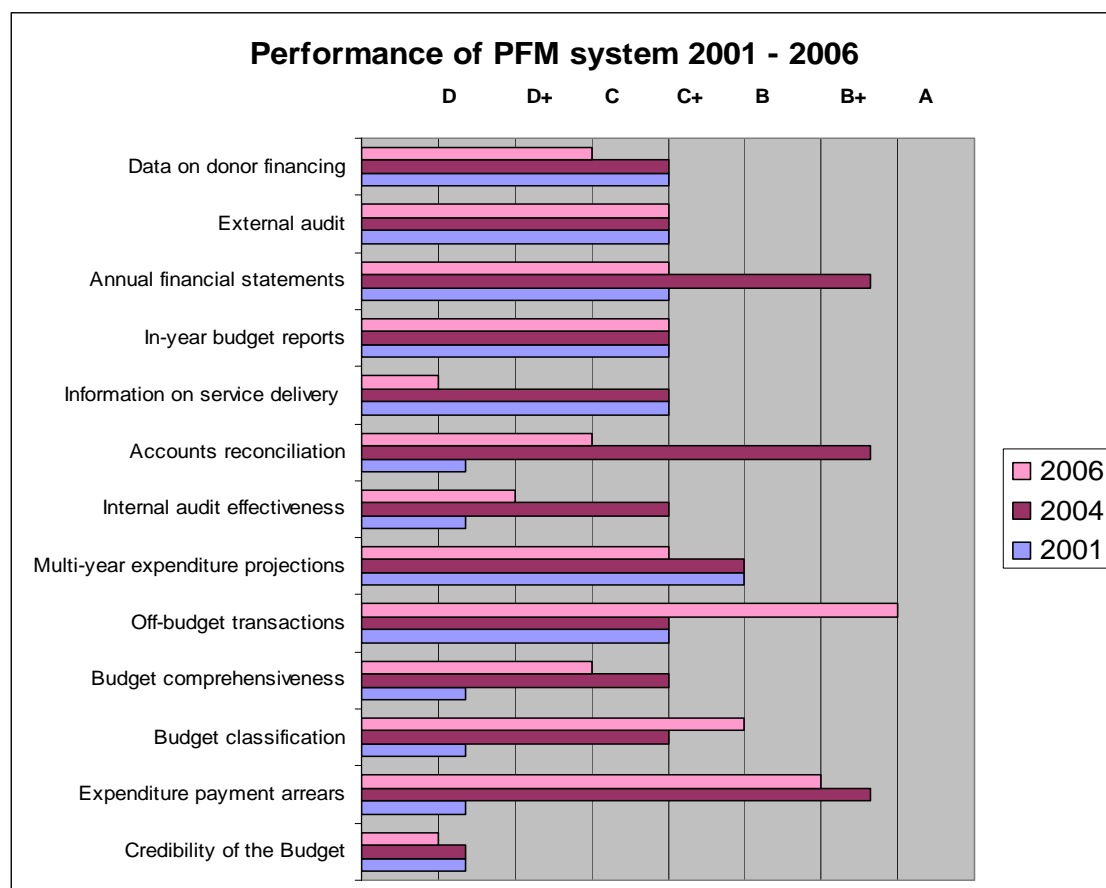
<sup>22</sup> A continuing problem derives from the fact that payment is not decentralised for all items. In particular, in the case of exemption payments in health these continued to be paid by cheque from the central ministry which creates significant problems in disbursing these resources. (See 4.5.2)

<sup>23</sup> The IMF's HIPC Poverty-tracking Assessment & Action Plan reviews introduced the first standard methodology for assessing the quality of public expenditure management in HIPC countries based on a system of 16 indicators. The multi-donor Public Expenditure and Financial Accountability (PEFA) initiative refined the methodology into a system of 31 indicators, which also covers revenue management and an assessment of donor practices.



converted the three level scoring system of the former two reports (A,B,C) and the seven level scoring system of the PEFA (D, D+....A) into a standardised numerical scale, averaging results within each of the thirteen aspects of PFM system performance which are comparable across the assessment systems. Taken at face value, the results are somewhat dispiriting. They suggest that despite the considerable body of reform measures which have been implemented, these have had only limited impact on the actual performance of the PFM system. In several areas, they suggest a decline in the quality of performance from 2004 to 2006 and only in two areas do they suggest an improvement - in the quality of the budget classification system and in the level of control over off-budget transactions.

**Figure 4.8 Comparison of PFM Assessments of 2001, 2004 and 2006**



180. Some modification of this “face value analysis” is needed. In the first place, the PEFA methodology is significantly more robust than that of the HIPC AAP, which involved a much shorter assessment period and a less thoroughly developed methodology. As a result, the HIPC AAP tends more easily to produce over-optimistic judgements than the PEFA. For example, we strongly doubt that the quality of budget comprehensiveness, accounts reconciliation, annual financial statements and internal audit effectiveness has actually declined between 2004 and 2006. A gently positive trend from 2001 to 2006 is more likely to describe the true picture but this is distorted by the over-optimistic assessments of 2004.

181. Nevertheless, the fundamental message that PFM reforms have yet to translate into concrete improvements in the performance of the system is substantiated by our observations on the ground. A chronic lack of consistency between approved budgets and actual expenditures has been a feature of the Ghanaian budget system for several years. How far have improvements been made in the credibility of the budget?

**Table 4.3: Expenditure Deviations between Original Budgeted and Actual Expenditures for 20 Largest Budget Heads, 2003 -2005**

Budget Year	Deviation in Aggregate Expenditure 1/, 2/ (i)	Variance in Expenditure for MDAs 3/ (ii)	Variance in excess of total deviation (ii) – (i)
2003	2.3%	15.8%	13.6 %
2004	12.4%	25.9%	13.4 %
2005 4/	8.0%	33.3%	25.3 %
1. Data cover discretionary and statutory expenditures 2. Figures refer to the absolute value of deviations as a proportion of the total budgeted allocation for primary expenditure. 3. Figures refer to the sum of the absolute value of deviations (ignoring + or -), as a proportion of the total budgeted allocation for primary expenditure. 4. 2005 data are CAGD preliminary data, pending confirmation by the OAG.			

Source: 2006 PEFA Assessment

182. Table 4.3 shows the results, as reported by the PEFA team, for aggregate domestically financed expenditure (excluding interest payments) and for the expenditure variance within the twenty largest budget heads (MDAs). It shows that the reduction in deviations at the aggregate level recorded in 2003 was not continued into 2004 and 2005. Moreover, the expenditure variance at the ministerial level increased significantly in 2004 and 2005, to levels substantially in excess of the norms used to calibrate the PEFA scores<sup>24</sup>.

183. The evaluation team undertook a similar analysis, examining variance within economic items for 2001 to 2006 (expenditure projections to the end of the 4<sup>th</sup> Quarter). It showed that these wide variances (also reported in Booth et al, 2005) persisted into 2006. They were largest for goods & services and investment and smallest for personal emoluments. However, due to the magnitude of funds allocated to the latter, even small deviations translate into large reductions in non-wage spending when unbudgeted wage and salary increases cannot be met by contingency reserves.

184. Without doubt, it is unbudgeted expenditure on wages and salaries, which is driving the variance in expenditure at the MDA level. It has not proven possible to address this problem within the lifetime of the MDBS. As a result, the budget is no more credible in 2006 than it was in 2002 prior to the initiation of the MDBS.

#### **4.4.7 Influence of the MDBS on the pace and direction of PFM reforms**

185. The overall scope and number of reform actions which have been implemented over 2003 to 2006 is impressive; yet the evidence from the PEFA report and from our own observations indicate that, for the most part, PFM reforms have yet to translate into concrete improvements in the performance of the system. How are we to interpret this finding? Does it

<sup>24</sup> An “A” score against this indicator would require the expenditure variance (in excess of the aggregate deviation) to be 5% or less for every one of the three years observed.

suggest a lack of political commitment to the implementation of PFM reforms? Or is it simply that there is a long gestation period before results may be expected? What does it suggest about the selection of reforms or their chosen sequencing? And what does it tell us about the influence of policy dialogue under the MDBS?

186. A first point to stress is that within the context of an essentially half-reformed civil service, it is not surprising that the impact of PFM reforms should be sub-optimal. An effective PFM system requires adequately qualified and motivated staff, working within a disciplined environment towards clearly understood and shared goals. We noted in Section 4.3 that there are key issues of public service reform which have not been tackled. High quality public finance management cannot be satisfactorily achieved without basic improvement to the public service generally. Moreover, the relevance of these weaknesses has been accentuated by the fact that the PFM reform mix has been heavily weighted towards institution-building and systems development.

187. The institution-building elements of the reform – the strengthening of the Ghana Audit Service, the development of the Internal Audit Agency Board, the Public Procurement Board and their secretariats - clearly require more time before significant impact can be expected. It could be argued that the process of institutionalisation has been slow. For the PPB and IAAB, legislation was enacted on 31<sup>st</sup>, December 2003, Boards were nominated and established over June-August 2004, the Chief Executive/ Director-General were appointed over June-August 2005 and it is only in 2006 that these have become operational entities. By international standards, this is slow. But it should be remembered that in the Ghanaian political context where there is close scrutiny over public appointments, such appointments are sensitive and require wide prior consultation and careful attention to due process.

188. The two major systems developments – BPEMS and IPPD2 also appear to have been somewhat slow in being implemented, especially if one considers that design work for BPEMS began in 1997 and for IPPD2 in 2000. However these are both large scale and relatively complicated systems developments, of a type which, anywhere in the world, are frequently prone to implementation problems. Secondly, both of these were initiated through TA projects (funded by the World Bank and DFID) that proved problematic - in neither case were arrangements for quality assurance properly designed, and each was subject to disputes between the design consultants and the implementing contractors.

189. On the positive side, it is reported<sup>25</sup> that the shift in 2003 from a project-based dialogue to a Government-Development partner dialogue in the context of the MDBS was instrumental in re-affirming GoG responsibility for implementation and in re-invigorating these systems developments. There is also a sense that during 2006, GoG has effectively 'turned the corner' on each of these projects and that faster progress towards full implementation may now be expected.

190. How does the issue of 'political commitment' play out in the pattern of reform implementation? The overall scope and number of reform actions which have been implemented over 2003 to 2006 is exceptional. Indeed, we are not aware of another government in Sub-Saharan Africa which has attempted to implement reforms of this magnitude within such a limited time period. On the other hand, there are question-marks over the speed and efficiency with which reforms have been undertaken, as well as over the specifics of reform choices and their sequencing.

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<sup>25</sup> Personal communication with Paul Walters, DFID.

191. There is no overt evidence of reforms being stalled or of ‘non-threatening’ reforms being prioritised over the more important ones but there are aspects of the political culture of Ghana which make it unrealistic to expect a government-wide level of political commitment to reform<sup>26</sup>. A flip-side of the high level of competition between the political parties is a necessity for the main parties to find ways of keeping ‘on-board’ their most influential party members and supporters. The traditional form of doing this is by bestowing patronage - that is by granting high-level political appointments to these key supporters<sup>27</sup>. These posts carry status, a reasonable level of allowances and direct remuneration but most importantly some control over resources. To the extent that that discretionary control over resources is reduced – for example by eliminating political influence over staff recruitment – then those holding that patronage will resist the PFM reforms which tend in this direction. Those bestowing patronage will find themselves in a dilemma between protecting political power and promoting reforms to modernise the public sector in the hope of winning more votes.

192. The end-result in Ghana has been an incomplete and often inconsistent pattern of political commitment to PFM reforms. On balance, we would judge that the pro-reform tendencies in the Kufour administration have out-weighed the anti-reform tendencies but the inconsistency in political commitment is still quite visible and some part of the slowness in reform implementation must be attributed to this.

193. What impact can MDBS dialogue have in the face of such forces? Both GoG and DP representatives stressed how important the MDBS dialogue and its related trigger conditions had been in sustaining a commitment to reform and in keeping managerial attention focused on reform implementation. In the words of one well placed GoG official: “We would probably have done these things on our own but certainly not so fast.”

194. We concur that the dialogue process and the annual monitoring of results against the PAF have been additional factors helping to tip the balance of reform efforts in a positive direction. But they are weak influences when assessed against the weight of domestic political factors at play. This context calls for great subtlety in the way the MDBS dialogue is used to influence reform – an attention to technical detail, an emphasis on giving access to international best practice and a systematic use of MDBS dialogue as a way of making information available to Parliament and the general public. This is not, by and large, the way in which the MDBS dialogue on PFM has been conducted in Ghana.

195. Have mistakes been made in the choice of reform options, their management and their sequencing? Our judgement is that there have been significant mistakes and that, for various reasons, the structure of the MDBS dialogue seems to have ‘embedded’ these mistakes rather than facilitating reflection and strategic re-orientation:

- ***The overall balance between ‘slow but big’ wins and ‘quick but small’ wins.*** The PFM reform programme was heavily structured towards the former, without sufficient attention to relatively simpler institutional or administrative changes which could bring quick efficiency gains. For example, it seems clear that the treasury decentralisation process piloted in 2006 brought immediately noticeable improvements. Similar measures should have been introduced in 2004.

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<sup>26</sup> These political economy factors are comprehensively and cogently explained in Booth et al, 2005.

<sup>27</sup> There are other important forms of patronage, such as the granting of commercial preferences of different kinds but with the steady liberalisation of the Ghanaian economy, there are now substantially less opportunities for such forms of patronage.

- ***The lack of direct attention to the core problem of restoring credibility and predictability to the budget*** has meant that budget deviations have been higher in 2005 and 2006 than they were in 2002 and 2003. The main source of these problems is the fact that salary negotiations and staff recruitment plans are not fully concluded before the finalisation of the budget. A simple re-timetabling of the negotiation and decision-making process would eliminate this source of uncertainty<sup>28</sup>. If that could be coupled with improvements to the forecasting of revenues and grants, then major improvements in the predictability and credibility of the budget could be achieved.
- ***The virtual omission from the reform programme of the budget formulation process***, where there has been no attention beyond the design of a budgeting module within the BPEMS system. Despite the heavy investment in the development of the MTEF under the PUFMARP process, MoFEP has inherited an MTEF system which simply cannot work effectively as a medium term planning tool<sup>29</sup>. Because of its weaknesses, efforts to link the GPRS to resource allocation do not focus (as they should) on the appropriate programming of expenditure through the MTEF and the annual budget but rather on the design of new tools – such as the Medium Term Priority Programmes, which create confusion and dissipate administrative energies. A rethinking of needs in this area is urgently required and arguably was urgently required in 2003.

196. On each of these aspects, one might have hoped that through a process of shared analysis and dialogue a common appreciation of problems might have been built up between GoG and the MDBS partners. This could have led to a refinement of the PFM reform programme and to more substantive progress. Why did this not happen?

197. There are factors independent of the structure of the MDBS dialogue which have influenced the dialogue on PFM issues. For example, we have already alluded to the problems which the TA support to IPPD2, BPEMS and the MTEF had run into by 2002. Nevertheless, we believe that there are weaknesses in the structure of MDBS dialogue which have hindered the extent to which an effective corrective input could have been applied through this avenue:

- ***A lack of access, or an unwillingness to have recourse, to consistent high-level technical advice on PFM reform design and sequencing.*** The design of the PFM reform strategy is one area where independent technical advice to GoG and the MDBS partners would have been invaluable in facilitating a strategic reflection on the direction and sequencing of PFM reforms. In retrospect, it seems clear that this was needed but in general the focus of attention was on TA to specific technical areas (such as external audit, or procurement). Some advice on sequencing questions was sought but not in a consistent manner and perhaps from consultants with an inadequate breadth of knowledge of PFM reforms<sup>30</sup>.
- ***A structural focus on specific policy actions, at the expense of a system-wide perspective.*** The fact that the PAF is structured so closely around pre-defined

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<sup>28</sup> Chapter 7 presents recommendations on this issue.

<sup>29</sup> See the PEFA report for a good summary of the problems with the MTEF. (World Bank 2006).

<sup>30</sup> The evaluation team was unable to familiarise itself fully with the sources of TA utilised so this judgement is based more on a retrospective evaluation that there were sequencing problems, rather than on a detailed assessment of the TA support provided.

policy actions, with only rather limited attention to system-wide outcomes and how they might be measured, tends to focus attention rather narrowly on the existing reform agenda and its pre-defined actions. Consequently, it does not encourage lateral thinking in which new approaches to existing problems might be conceived. For example, where the 'payroll problem' is defined in terms of the need to accelerate implementation of IPPD2, then it prompts no other solution. Where it is defined in terms of 'improving control over the aggregate wage bill', then it might encourage a wider range of institutional innovations and responses.

- ***The linking of performance-related disbursement conditions to policy triggers of a complex institutional nature.*** In chapter 3 we observed that the design of the performance payment has encouraged a confrontational approach to the assessment and negotiation of the PAF. This is nowhere more apparent than in the PFM area and specifically in the selection of policy triggers related to progress with BPEMS and with IPPD2. All large scale systems development initiatives of this kind are prone to delays and implementation problems. Within a process of dialogue, it is essential that when problems arise, there is a willingness to raise them for discussion in order to re-consider the strategy and, where necessary, modify targets. With disbursement linked to a relatively literal definition of fulfilment of a policy trigger, the incentive is to hide problems so as to prevent disbursement shortfalls. In the case of the BPEMS trigger, there was an apparent (and understandable) unwillingness by CAGD (and/or by MoFEP) to present a full and frank assessment of the implementation status of BPEMS in 2005<sup>31</sup>.

#### 4.4.8 Prospects for future improvements in PFM systems

198. Notwithstanding the mistakes in the management and sequencing of reforms that we have described, there is evidence of a wide range of relevant reforms having been implemented. Although their impact to date is limited, there is reason to believe that they should bring improvements in the medium term. We also consider that for the most part, the PFM Short & Medium-Term Action Plan is focused on the right areas. The PEFA report points out that 'all of the measures refer to areas of challenge as measured by the PEFA'. It identifies two further priorities which are not included – the Public Expenditure Tracking Survey (PETS) and (reinforcing our comments above) the need for 'a specific focus on reducing the variance between planned budgets and actual expenditure out-turns.'

199. We would add to this list the need to develop a concerted programme to strengthen medium term planning and budget formulation. We would also endorse the recommendation of the PEFA report for a more precise prioritisation of actions within the S&MTP. This suggests the need for the MoFEP team to take a step back to reflect on progress so far, to consider our comments, and to undertake a new updating of the S&MTP.

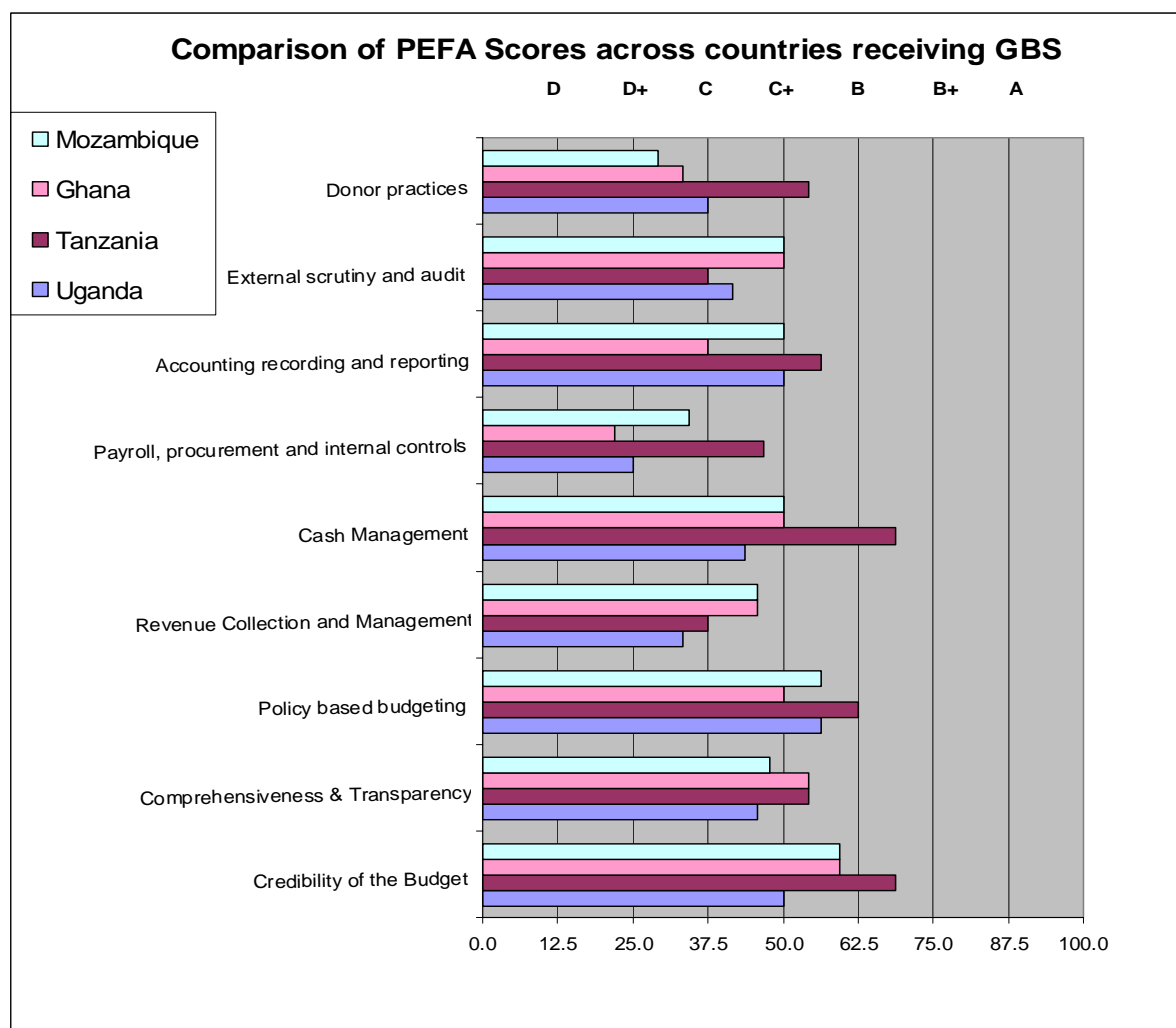
200. While the reform process may be moving broadly in the right direction, it is important to guard against complacency. PFM systems in Ghana were severely weakened over the 1970s and 1980s and they are yet to return to an adequate level of functionality. The weak PFM system is symptomatic of more substantial shortcomings in the effectiveness of the civil service as a whole. PFM reforms cannot proceed very far without parallel advances in public sector reform. We have also noted the continuing ambivalence of the political classes towards PFM reforms. In short, there is a long way to go and neither the administrative nor the political context are unambiguously supportive of fast and effective reform.

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<sup>31</sup> Discussions do appear to have been more open and transparent in 2006, when MoFEP advised the MDBS DPs in advance that the BPEMS trigger would not be fulfilled.

201. We present in Figure 4.10, a comparison of the results of the most recent PEFA analyses in Ghana and in the three main budget support recipients of Sub-Saharan Africa – Mozambique, Tanzania and Uganda. As a rough indication of its relative status, by averaging across all the scores, Ghana may be seen to lie substantially behind Tanzania and marginally behind Uganda and Mozambique.

**Figure 4.10 Comparison of PEFA results for four GBS recipient countries**



**Summing Up:**

***EQ8: How significant has been the contribution of MDBS towards improving PFM systems and the composition of public spending?***

***a) The composition of public expenditures***

- In the first year of MDBS, there was a drop in the share of discretionary spending but over 2004 to 2006, it comfortably exceeded 60 % of total spending, as compared with a trend level of some 58 % over the previous five years. An increased share of wages and salaries in expenditure has been a feature of this but the trend increase is also discernible in non-wage discretionary spending.
- This is an important development, which has brought much needed flexibility to resource allocation and management. However, the scale of MDBS suggests that its direct flow of funds contribution to this development has been modest.
- The MDBS period has seen significant increases in the real level of spending on identified poverty-reducing areas and in their relative share in total spending. The growth of discretionary resources has facilitated this but the monitoring of budget execution against poverty reducing expenditures has been a more significant source of MDBS influence. Even this should not be overstated: the role of the PAF has been to reinforce the GoG commitment to raise spending on GPRS.

***b) Public Finance Management systems***

- The strengthening of Ghana's Public Finance Management (PFM) systems has been one of the main focal points of the policy dialogue around the MDBS. There has been an active programme of PFM reforms which has introduced changes across a number of areas, notably procurement, internal and external audit, financial management systems, payroll and cash and treasury management.
- The overall scope and number of reform actions which have been implemented over 2003 to 2006 is exceptional and suggests a clear Government commitment to an effective PFM system. On the other hand, reform implementation has been slow and there are signs that political commitment is fluctuating and incomplete – something we attribute to the obvious threat to sources of patronage which PFM reforms represent.
- Despite the considerable body of reform measures, these have had limited impact to date on the actual performance of the PFM system. This may be seen from a comparison of the 2006 PEFA, with the 2001 and 2004 HIPC AAPs.
- The problem of large deviations between budgets and actual expenditures has also persisted. The 2003 reduction in deviations at the aggregate level was not continued into 2004 and 2005 and the expenditure variance at the ministerial level increased significantly in 2004, 2005 and according to preliminary data, in 2006.
- The lack of progress is partly attributable to underlying weaknesses in the civil service and partly to the long gestation period which PFM institutional and systems reforms necessarily have. However, there are also indications of some mistakes in reform choices and in their sequencing.
- GoG and DP representatives attested to the important role of the MDBS dialogue and its related conditions. These have helped to sustain commitment to reform and to keep managerial attention focused on reform implementation.
- However, the structure of MDBS dialogue – notably the focus on narrowly defined policy triggers and the tying of conditional resources to these triggers – did not promote the sort of open discussion of problems which might have resolved the sequencing issues and helped to develop a more balanced strategy.
- Nor was information-sharing with Parliament and civil society ever a prominent aspect of the dialogue process - a mistake given the quintessentially political nature of PFM reforms.



## 4.5 The Effects of MDBS on the Delivery of Public Services

**EQ9: Has the MDBS contributed towards expanded and more pro-poor service delivery?**

### 4.5.1 Hypotheses and Assumptions

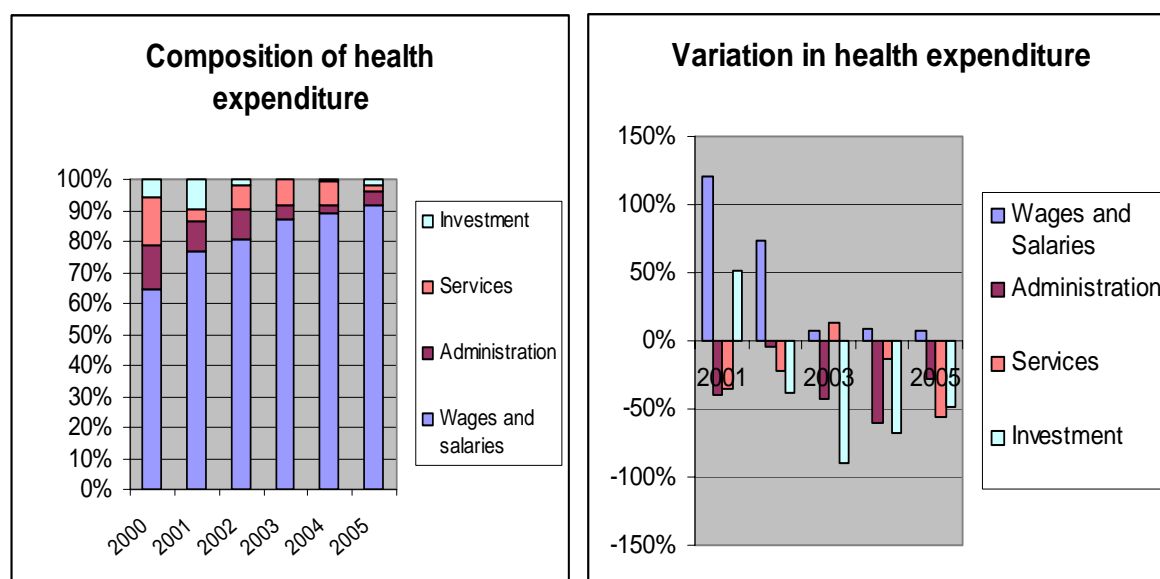
202. This section relates to the transition from Level 3 (outputs) to Level 4 (outcomes) of the Evaluation Framework. The two main causal hypotheses to be tested in this are that Multi Donor Budget Support has contributed to expanded service delivery and to more pro-poor service delivery:

- (a) through increased resources for service delivery (assessed in EQ7) leading to more resources flowing to service delivery facilities;
- (b) through aggregate improvements in the operational and allocative efficiency of the public financial management system (assessed in EQ7), feeding through to similar improvements within service delivery processes; and
- (c) by encouraging and empowering the partner government to strengthen pro-poor policy formulation and implementation (assessed in EQ6);

203. Here the main assumptions between level three and four are that key service delivery targets can be established, agreed and monitored; that pro-poor services can be effectively prioritised; that service delivery agencies are responsive to better and more pro-poor funding and management; and that access of the poor to services can be positively influenced by better targeting and monitoring of results. In order to consider these questions, the evaluation team has chosen to focus on the delivery of public services in health and education, two sectors with a prominent role within the GPRS and on which significant attention has been focused within the PAF.

### 4.5.2 The health sector – changes in funding, efficiency and effectiveness

**Figures 4.10 & 4.11 Composition of health spending by economic classification and variance of expenditure from budgets by economic classification**



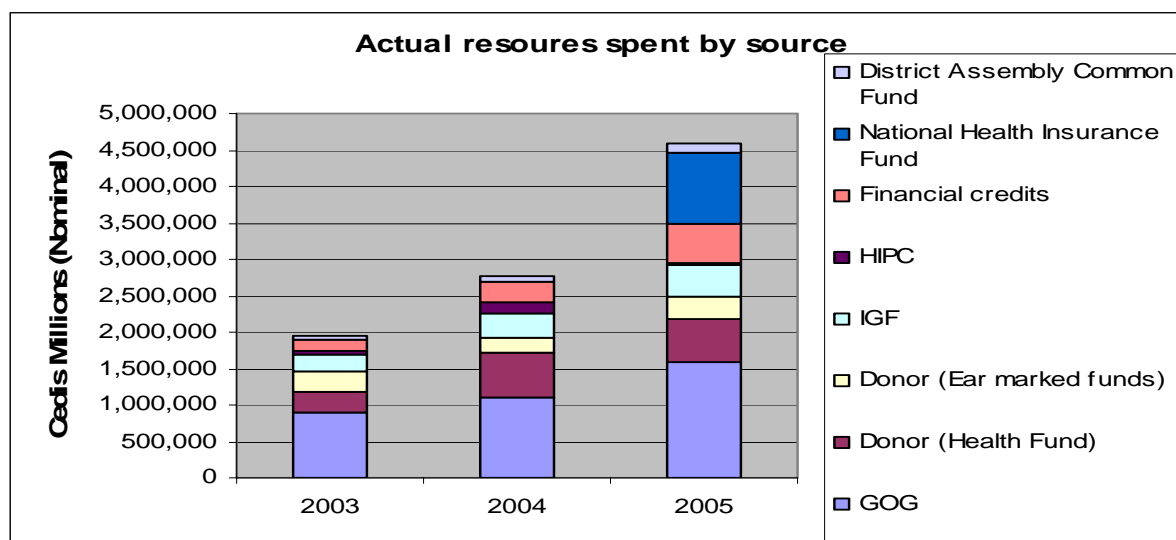
Source: Audited Financial Statements 2001-2005

204. Public resources to the health sector have increased substantially in recent years. Between 2000 and 2005 budget allocations to the Ministry of Health from the Consolidated Fund have grown by 179%, increasing from 7.54% of total domestically financed discretionary expenditure to 12.43%. However, there is an increasing rigidity in the structure of health sector spending. The proportion of actual expenditure on personal emoluments within the health allocation from the Consolidated Fund has risen from 65% in 2000 to 92% in 2005. This dramatic shift in wages and salaries has squeezed the proportion of expenditure spent on administration, services and investment.

205. During 2006, wage negotiations have resulted in a further sharp increase in the salaries of health workers. Health worker pay and allowances in Ghana are generous in comparison with other countries, amounting to 8 times of GDP per capita, and are partly a measure to dampen the significant international migration of Ghanaian doctors and nurses. However increasing remuneration is not sufficient to stimulate staff morale. Consultation with a few district health offices suggested that lack of adequate medical supplies and operational infrastructure were major factors in declining staff motivation. Increasing budgets for such non-wage items may at the margin have a more significant impact on conditions for health workers than the equivalent amount passed on as salary increases.

206. The increasing share of wages in the health budget is clearly problematic but a further problem is presented by the fact that these increases are not properly budgeted. Expenditure trends show a consistent over-spending on wages and salaries and under-spending on everything else. Wages and salaries for the sector are not part of the MTEF and are negotiated centrally. Increases resulting from such negotiations are meant to be accommodated by additional transfers of resources to the sector (from contingency reserves) but in recent years these transfers have not been sufficient. As a result, these increases, which the sector is obliged to pay, bite into budgeted allocations for non-wage expenditure.

**Figure 4.12 Health Sector spending by Source**



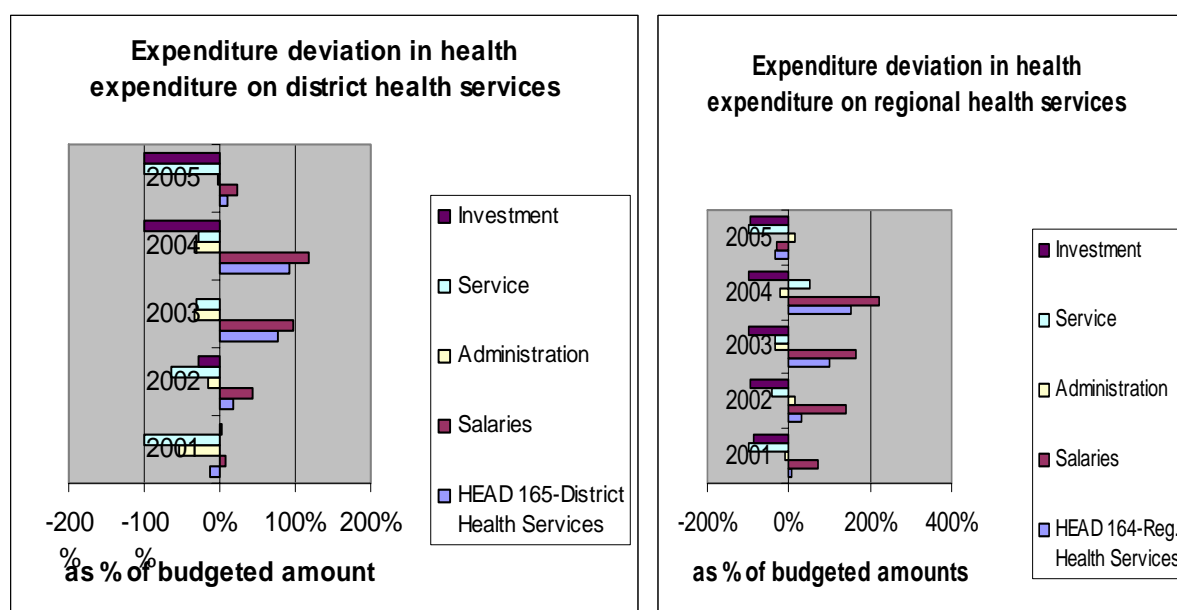
Source: MOH, 2006; MOFEP, 2007; DACF 2004

207. Consequently, the sector depends on other sources of revenue to fill the gaps in non-wage items. In 2005, health sector allocations from the Consolidated Fund made up only 35% of total resources available to the sector. Internally generated funds (IGF), generated from user fees, are collected and retained by health centres to cover the costs of drugs and a proportion of the cost of non-drug consumables. The National Health Insurance Fund –a

statutory fund – covers the service fees of those deemed unable or not required to pay and is now a significant source of revenue for the sector. Earmarked donor projects and the sector common basket fund represent important additional sources, for investment projects and for non-salary costs. Small amounts are also received from the DACF.<sup>32</sup>

208. While these different sources of funding are important to address shortages of non-salary items, they make coherent and credible financial planning difficult. The health sector develops five year programmes of work from which an annual programme is derived, which is meant to be related to the MTEF. In reality, with a large proportion of resources sitting outside the government budget, it is difficult to target expenditure effectively and to avoid duplication of activities.

**Figures 4.13 & 4.14 deviations in health expenditure at regional & district levels**



Source: Audited Financial Statements 2001-2005

209. The allocation to regional and district levels is further complicated by the elaborate formula through which resources are divided. The annual budgeting process in theory is meant to be an aggregation of “bottom up” needs. In reality, the budget goes through different iterations before and after ceilings are awarded as each year district and regional resource needs fail to be met within awarded ceilings and further rounds of prioritisation are required before the budget is finalised. Ceilings for regions and districts are managed by the Ghana Health Service which allocates resources to the ten regions on the basis of factors such as population size, number of districts, and size of the region and the level of deprivation based on per capita income. A region in turn is advised to transfer 82% of their budget to district health services on the basis of three different categories - district health administration, district hospitals and sub-district health services. These allocations exclude budgets for central procurement which are held within the main GHS HQ budget.

210. However, this formula for distribution of resources excludes wages and salaries which are the major cost driver of the sector and are distributed unevenly throughout the country.

<sup>32</sup> The proportion of DACF spent on health (including water and sanitation) was equivalent to 13.7% in 2003 and 2004. The same percentage has been applied to actual DACF expenditure for 2005 so it is an approximation. Figures for the NHIF for 2005 are based on actuals in the 2007 Budget Statement.

As a result the total allocation varies between regions. In 2003 the Upper East region enjoyed the highest per capita health expenditure while the Northern region – also one of the poorest - received the least amount. (IMF, 2005) There are striking differences at the regional and district level between what is budgeted and what is actually spent. A Public Expenditure Tracking Survey (PETS) completed in 2000 reported major leakage of non-wage funds between central and district level health offices, especially in terms of supplies in kind.

211. There is also evidence of growing administrative and management costs associated with public health care<sup>33</sup>. Ghana has an “agency” model as the management framework for its health sector through which the Ministry delegates responsibility for the delivery of services to the Ghana Health Service. With decentralisation, the health sector has developed a four tier management system - MOH national, and GHS national, regional and district. The National Health Insurance Fund is also incurring its own management costs, which can only be justified by gains in service delivery productivity or allocative efficiency - neither of which are being realised to date.

212. For the sector as a whole, aggregate labour productivity appears to have declined sharply with 49% of the real increase in the wage bill being allocated for non-clinical staff between 1999 and 2004. (MoH, 2006) Bed occupancy rates (BORs) have also declined from 65.5% in 2001 to 53.1% in 2005<sup>34</sup>. With no evidence that patients are staying longer, falling BORs suggest that hospital efficiency has declined.

### **Coverage, quality and equity of public health care services**

213. Improvements in the level of funds to the health sector have yet to translate into significant improvements in the scale and quality of health services provided. As a result the health sector has been unable to achieve most of the targets for improvements in access and coverage which it set for itself:

- Increases in primary health care access were foreseen through the completion of CHPS compounds but progress has been slow, with only 186 out of the intended 250 CHPS functional with a CHO in place.
- OPD visits have increased only marginally in the last five years.
- Service outputs have stagnated with antenatal care coverage falling from a high of 93.3% in 2002 and the rate of supervised deliveries declining to only 54.1% in 2005.
- Post-natal clinic attendance rose in 2005 as did maternal audits (which exceeded their projected target).
- The average number of ante-natal visits per client, also increased from 2.8 to 3.4 between 2001 and 2005.

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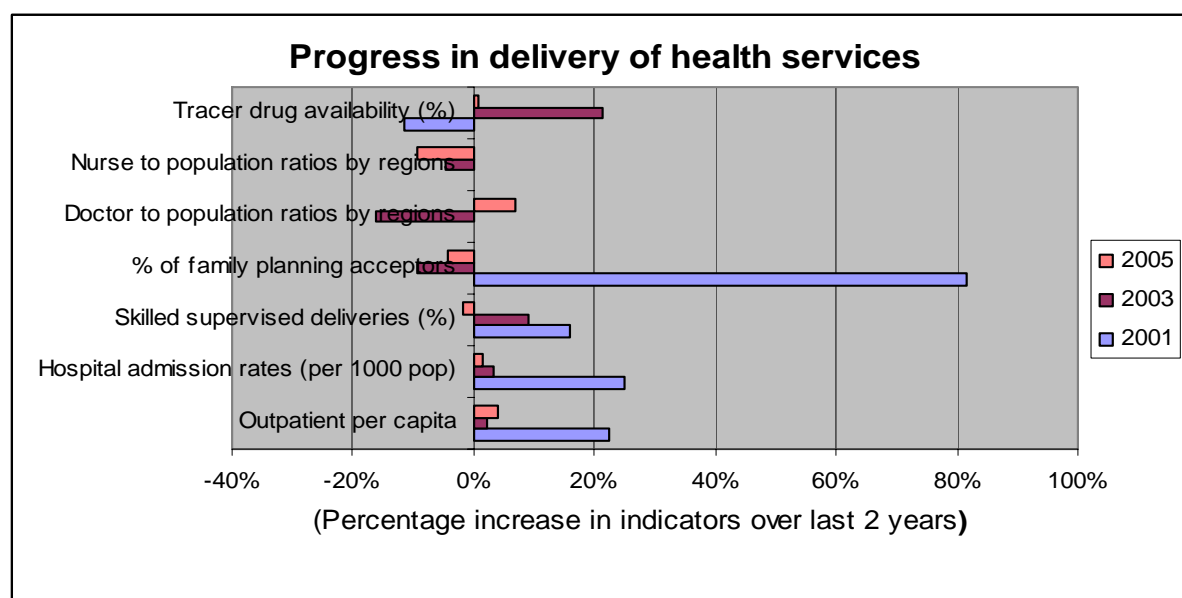
<sup>33</sup> There is also evidence that the distribution of expenditure is moving away from the point of service delivery. From 2003 to 2005 there has been a major centralisation of expenditure (from the Consolidated Fund), with the share of MOH HQ increasing from 9 % to 51 % and that of district health services declining from 52 % to 24%. However, without a full picture of sector spending, the significance of this is difficult to interpret.

<sup>34</sup> This does vary significantly across facilities: teaching hospitals record BORS above 90% while some district hospitals have BORs as low as 40%.

- The sector failed to realise its targets of providing 9,500 people with anti-retroviral drugs and have all regional hospitals providing ARV therapy by the end of 2005. Currently only half of this number receive treatment and only two teaching hospitals bear the burden of the ART programme.

214. Significant variation hides behind these national averages. The disparity in service inputs is largely driven by the exceedingly unequal distribution of doctors across regions. In 2003 for instance, in Greater Accra the doctor to population ration was 1:5,368 whereas in the Northern Region it was 1:71,267. To improve the disparity between the ratio of doctors and nurses to the population a Deprived Area Incentive Allowance was introduced in 2004 which covered 55 deprived districts and included top ups of 20-30% and other perks relating to housing, vehicles and education. An evaluation found that the scheme was only partially implemented and that the DAIA represented only a 7-9% real increase in remuneration. Due to shortfalls in funding the scheme was discontinued in 2005, although some improvements in these ratios were recorded over 2003 – 2005 (See Figure 4.16.)

**Figures 4.15 Key indicators of health care coverage 2001 – 2005**



Source: MOH, 2006

215. The utilisation of public health services by the poor has been negatively influenced by the introduction in the mid 1990s of the “cash and carry” system which is a front payment fee-for-service system. The GLSS of 1998/99 recorded a decline in the use of health services by the poor, a development which surveys confirmed was directly linked to the introduction of charges. A mechanism of exemptions was introduced to cover the costs of consumables and drugs for which patients would otherwise be responsible. However, there have been consistent problems firstly, in developing adequate mechanisms to identify those who should be exempt, secondly in ensuring adequate budget allocations for exemption funds and thirdly in ensuring the release of the exemption funds budgeted. These problems have persisted right through the MDBS period. A major cause of these problems is the fact that exemption funds are budgeted as part of the central budget for the Ghana Health Service (rather than the budgetary allocation to regional and district health offices) and are payable on demand. As a result of significant delays between the utilisation of exempted services and the receipt of compensation funds at the point of service delivery, the provision of “free” services is withheld. For example, in 2006, GHS reported that 150 billion cedis had

been budgeted for exemptions and up to the end of November only 86 billion cedis (57%) had been disbursed<sup>35</sup>. This acts as a significant entry barrier for those who cannot afford to pay for services on demand. Discussions with district health officials in the Central Province reported this to be a major factor behind low utilisation of maternal health services.

216. The government is committed to limit private payments and to progressively dismantle the “cash and carry” system and replace it with health insurance and community based prepayment schemes. The unrolling of the National Health Insurance Scheme is part of this process. Medical services are intended to be free for those registered as indigents on the Scheme. However, a number of problems have emerged in servicing the needs of the poor through the NHIS:

- Overall levels of registration on the scheme have been low - particularly for the more disadvantaged districts and for populations distant from service facilities;
- The travel and opportunity costs for the very poor to register for the Scheme thus appear to have been a significant constraint;
- Over 2005 and 2006 there have been long (although decreasing) lags between when patients first register on the Scheme and when they actually receive the registration cards which enable them to access free medical services;
- The degree of discretion required of NHIS officials to register the poor as “indigents” in unsupervised areas creates significant opportunities for rent-seeking at the expense of the poor.
- Whilst the need to maintain the exemption scheme during the transition to the NHIS is understood, the problem of delays in release of exemption funds by MoH persists.

217. In short, a satisfactory resolution of the problem of meeting user fees for the poor has not been reached during the MDBS period, either from an improvement in the operation of the exemption scheme or from successful introduction of the NHIS. Moreover, there are doubts as to whether the NHIS is financially sustainable. This is in part because its administrative costs are proving to be very high but more particularly because with the financing of health care services coming exclusively from the NHIS, neither the users nor the providers of health services have any incentive to ration the use of NHIS-funded services. These moral hazard problems cannot be addressed by use of co-payments for services by NHIS registered patients as the Scheme is meant to benefit the poor.

### **Indicators of health status**

218. Health funding has not translated into commensurate improvements in health indicators. Although the picture is not wholly unfavourable, it is clear that the upward trends in health indicators recorded between 1988 and 1998 have not been sustained in recent years. The two most relevant surveys for health - the Demographic & Health Survey and Core Welfare Indicators Questionnaire have not been carried out since 2003 making it

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<sup>35</sup> Similarly, refunds for delivery of anti-retroviral services have been delayed putting pressure on the two teaching hospitals carrying the weight of the Anti Retroviral Treatment programme and interfering with treatment for poor patients unable to pay for ART.

difficult to comment on the movement of health indicators during the MDBS period but the trend over 1998 to 2003 is clear.<sup>36</sup>

219. The available evidence suggests that the sector has performed better at dealing with communicable and non communicable diseases than in the areas of maternal and child health. Between 1998 and 2003 the health sector has been successful in dealing with tuberculosis, polio, measles and under-five malaria cases. This trend seems to have continued: less than five malaria case fatality has declined from 3.7 to 2.4% between 2003 and 2005; the natural cure rate for tuberculosis has increased to 67% before the end of 2004; measles cases have continued to decline, and some positive outcomes have been registered in HIV and AIDS rates between 2003 and 2005. As these diseases afflict the poor disproportionately, this achievement is of some importance.

220. However, of major concern are indicators reflecting deteriorating maternal and child health. Between 1998 and 2003, infant mortality, child mortality and child malnutrition rates have all risen. (See Table 4.4) Projected forward, this means that Ghana will be unable to achieve the Millennium Development Goal of reducing child mortality rates by two-thirds of their 1990 level. Moreover, existing evidence – although incomplete - suggests that indicators have not improved since 2003:

- Recorded deaths in infants 0-11 months increased from 3,500 to 4,618 in 2005;
- Recorded maternal deaths for 2005 were 952 against 824 in 2004; and
- Child malnutrition rates are reported to have risen from 25% in 2001 to 33% in 2004.<sup>37</sup>

**Table 4.4 Evolution of Key Health Indicators 2001 - 2005<sup>38</sup>**

Health Indicators	1998	2001	2003	2005	Trend
Infant Mortality Rates (per 1000 live births)	61	57	64		Deterioration
Under five mortality rate (per 1000 live births)	110	108	111		Deterioration
Maternal Mortality Ratio (per 100,000 live births)		214			Suspected deterioration <sup>39</sup>
HIV prevalence (%)		2.9	3.6	2.7%	
Under five malaria fatality rates (%)		1.7	3.6	2.4	Improvement since 2003
Tuberculosis cure Rates (%)	43.8	44.9	53.8		Deterioration
Number of Guinea Worm cases		4,733	8,290	3,944	Improvement

<sup>36</sup> Health data reported in this section, unless otherwise stated is sourced from MOH, 2006

<sup>37</sup> Preliminary findings from the Ghana Multiple Indicator Cluster Survey conducted in 2006 by GSS with MOH are now available, with a full final report to be released in May, 2007. This Survey will provide important updated information on health indicators an analysis of which is **not** included in this Evaluation. For example preliminary findings from the GMICS 2006 indicate a decline in the prevalence of underweight children under 5 from approximately 24% in 2003 to 17.8% in 2006.

<sup>38</sup> Source: MOH, 2006



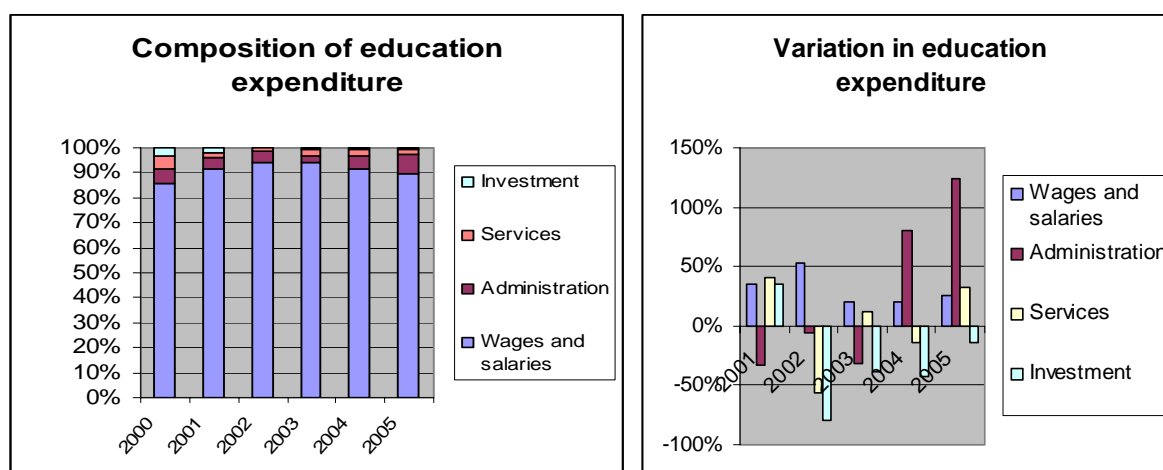
221. The evidence of decline in these health indicators is especially worrying in the context of significant increases in the budgetary envelope for the health sector. It could be argued that the major increase in health resources is recent and that it is to be expected that there should be a lag before its effect is felt on health indicators. It could be that even poorly allocated and inefficiently utilised resources will eventually make a difference but better results would certainly be achieved faster if the most serious inequities and inefficiencies in allocations could be addressed. We refer in particular to the failure to achieve adequate levels of non-salary funding, to allocate clinical staff around the country in relation to needs, to keep an adequate balance between administrative and service delivery costs and to create a functional, sustainable mechanism to compensate for the inability of the poor to pay for the health services they need. We will consider below whether the MDBS has been able to have any influence on the ability to address these significant policy failings.

### 4.5.3 The education sector – changes in funding, efficiency and effectiveness

222. The education sector has seen a less dramatic increase in resources between 2000 and 2005, growing in real terms by about 80%. Its share of domestically financed discretionary expenditure has grown from 38.3% to 40.8% in the same time period. Actual expenditure as a percentage of GDP was 4.14% in 2000 rising to a 5.24% in 2005.

223. The education sector has been marginally more successful than health in controlling salary expenditures. Actual salary expenditures consistently exceed budgeted amounts and the execution rate for the non-salary component of expenditure has increased only very marginally in the last few years. Just as in health, this skewed pattern of budget execution has a significant negative impact on quality and productivity. Early studies<sup>40</sup> of the education sector in Ghana have shown that non-wage expenditure in education such as school maintenance and provision of adequate teaching supplies has a greater and more immediate impact on staff motivation than salaries.

**Figures 4.16 & 4.17 Composition of education spending by economic classification and variance of expenditure from budgets by economic classification**



Source: Audited financial statements 2000-2005

224. However, the analysis of education expenditure by economic classification and level of education can only be undertaken for funds available from the Consolidated Fund. This

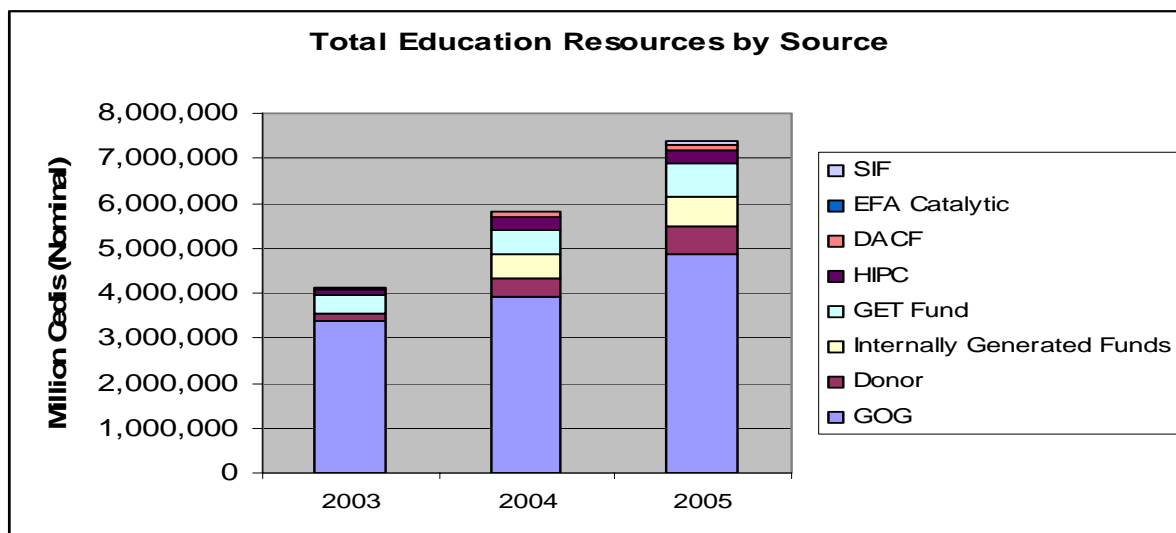
<sup>39</sup> The 214 per 100,000 was estimated in 1994 by the Ghana Statistical Service. It is suspected to be higher than 214 but a maternal mortality survey is yet to be implemented (Ministry of Health, 2005).

<sup>40</sup> GES & UNICEF, 1995.



comprises 70 - 80 % of total funding but additional funding is available to education from a variety of sources as shown in Figure 4.19 below. The Ghana Education Trust Fund provides investment expenditure primarily targeted towards tertiary education. The District Assembly Common Fund provides funds at district level for activities such as promoting girls' education, science and mathematics subjects and motivating teachers through awards.

**Figure 4.18 Total education sector funding by source of funds**



Source: Ministry of Education, 2006

225. There are some conflicting trends evident in education expenditure by the level of education. Sector plans continue to stress the link between expenditure on primary education and the pro-poor focus of the GPRS. However, actual primary education expenditure in 2005 was 31.8% - well below the 37.7% set in the Education Strategic Plan. Its share has declined steadily since 2002 (34.83%), while the share of tertiary education has steadily increased.

226. The present configuration of funding in the education sector makes it very difficult to link expenditures to plans and policies. The Education Strategic Plan (2003-2015) guides sector plans and policies, providing the basis for Annual Education Sector Operational Plans. The AESOP is a three year rolling work plan which lists costed activities within the strategic framework. It has been specifically designed to link with the MTEF budgeting and planning process. However, the most significant cost drivers of the education sector- wages and salaries- are excluded from the MTEF. It is also difficult for resources from statutory funds to be linked effectively to sector plans and policies. Allocations from the GET Fund for example are subject to the 'guidance' of the Ministry of Education on investment needs but the Fund have been unwilling to commit themselves to following a precise plan developed with the Ministry of Education. They have preferred to guard the autonomy provided to them in law and to encourage education institutions to make direct approaches for funding.

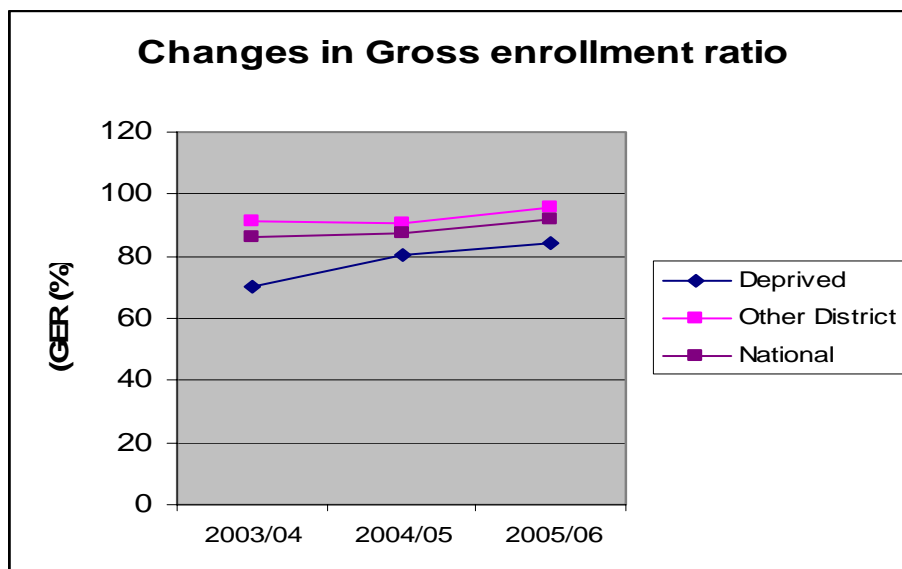
### Coverage, quality and equity of public education services

227. Access to education services in Ghana has improved significantly over the lifetime of the MDBS and especially in the last two years. There has been a 5% growth in the number of public schools and an 8% growth in the number of teachers on payroll between 1999/00 and 2004/05. Total enrolment of 6-11 year pupils in both public and private schools has jumped from 2,079,786 in 2004/05 to 2,484,855 in 2005/06 an increase of 19.5%<sup>41</sup>, although this

<sup>41</sup> This improved the Net Enrolment Ratio from 59.1% in 2004/05 to 69.2% in 2005/06.

may still not be enough to meet the Education Strategic Plan target of Universal Basic Completion by 2015. The total gross enrolment rate in Junior Secondary Schools reached 72.8 % in 2004/05 exceeding its target of 68.30%. Increases in enrolments at the Senior Secondary School and tertiary levels have also been substantial.

**Figure 4.19 Primary GER 2003/04 – 2005/06: Deprived districts and national average**

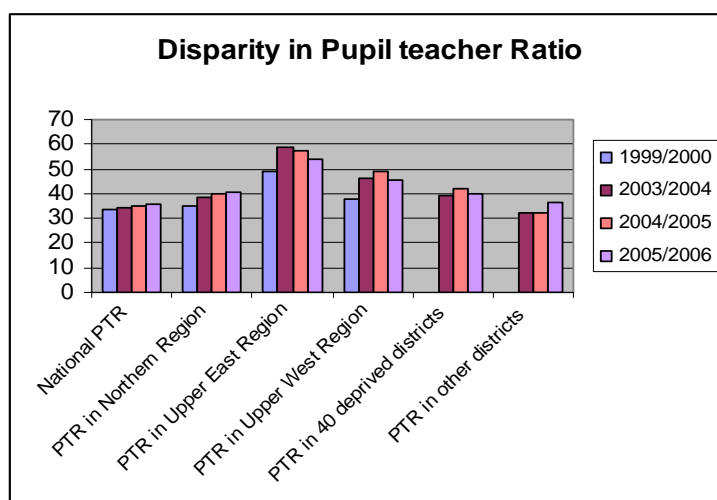


Source: MOE, 2006

228. Alongside these improvements in enrolments, there is also evidence that disparities across regions and between genders have reduced. Improvements do not cover all indicators but nevertheless show strongly favourable trends:

- Over 2003/04 – 2005/06, there was a significant narrowing of the disparity in primary Gross Enrolment Ratios between the 40 most deprived districts and other districts. (Figure 4.20)

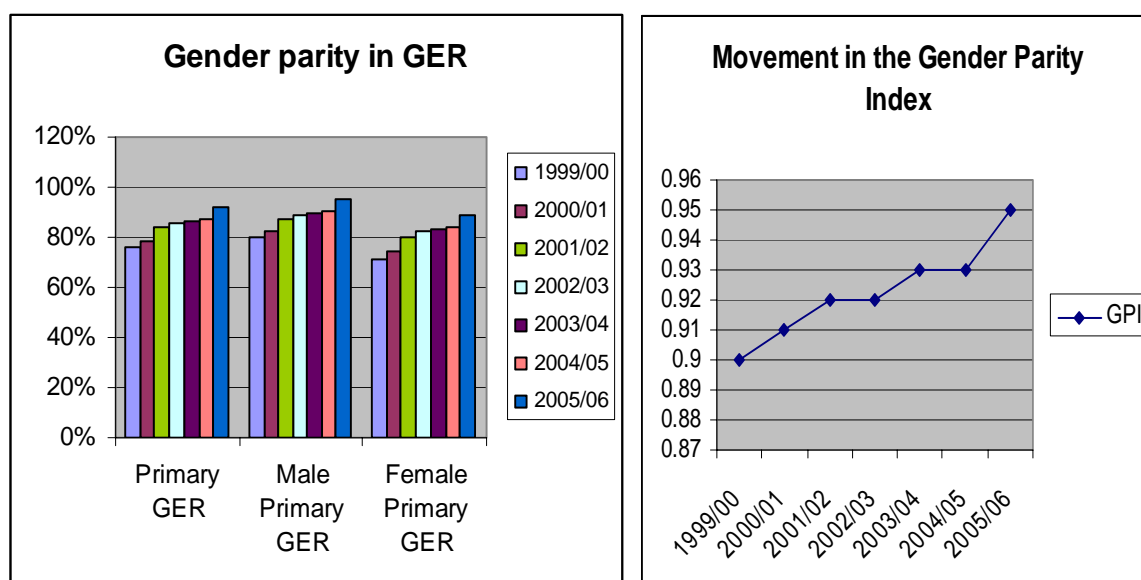
**Figure 4.20 Disparities in Primary PTRs between deprived districts and others**



Source: EMIS Reports, various

- The disparity index, which measures differences in the quality of service provision (as measured by seating places per pupils, writing space per pupil, access to drinkable water and textbook ratio) also fell from 0.2 in 2001/02 to 0.13 in 2005/06.
- Despite an increase in the primary Pupil: Teacher Ratio at the national level, PTRs fell significantly in Upper East and Upper West and for the 40 most deprived districts as a whole. (Figure 4.21)
- It proved more difficult to achieve improvements in the distribution of qualified teachers, with the 40 most deprived districts having only 55 % of qualified teachers in 2005/06 as compared with over 80% in other districts and a national average of 70%.
- The gap between female and male primary GERs has steadily narrowed over 1999/00 to 2005/06, moving the Gender Parity index from 0.9 to 0.95

**Figures 4.21 & 4.22 Female and Male Primary GERs and the Gender Parity Index**



Source: EMIS Reports, various

229. A key factor in the expanded utilisation of primary education services, in particular in the more disadvantaged areas, has been the implementation of the Capitation Grants Scheme and the abolition of levies. The CGS involves an allocation of Cedis 30,000 per enrolled pupil, paid directly to the school in order to cover the non-salary costs, which would previously have been covered by school levies. Effectively, it has now made public primary schooling free for all and has undoubtedly been a major boost to enrolment rates. It has been suggested that 'top-ups' should be provided to the scheme so as to give higher per pupil allocations to schools with lower numbers (where unit costs are necessarily higher), to schools where girls are significantly under-represented and to schools in disadvantaged districts. Such adjustments may certainly help to address disparities in education provision more effectively. The key point is that the scheme has already proven its efficiency as a mechanism for transferring resources directly to schools, so such adjustments ought to be relatively easy to institute, subject to the availability of budgetary resources.

230. The School Feeding Programme has also had an impact on improving access for poorer learners. Originally targeted at 1 school in each region (10 schools overall), then at 1 school in each district (138 schools), it has now expanded to 5 schools in each district and is strictly targeted towards primary schools in the most deprived areas.

231. A further innovation which has facilitated the operation of the Capitation Grants Scheme, as well as the more efficient use of administration and service budgets in general has been the decentralisation of treasury management responsibilities to Regional Treasuries. The 2003 Finance Administration Act provided the legal framework for this decentralisation and it was piloted from 1<sup>st</sup>, January 2006 in education before being introduced on a nationwide basis from 1<sup>st</sup>, September 2006. Our interviews with regional and district education (and health) staff in Central province all pointed to the success of the scheme in reducing delays in the disbursement of non-salary budgets.

232. Inevitably, the picture is not all favourable. The increase in pupil numbers in primary and junior secondary schools has meant that some critical inputs are stretched beyond capacity. Significant crowding has resulted in classrooms and is accelerating the deterioration of existing facilities. In some areas, enrolment in 2005/06 is increasing at a decreasing rate as parents encounter other constraints in sending children to school: shortages in seating places, lack of toilet and drinking water facilities and uncommitted teachers.

233. The rate of increase in enrolments has simply been too fast for education sector inputs to keep up. Although the Pupil Teacher Ratio of 35 pupils to one teacher has been reached at the primary level, the percentage of primary qualified teachers as a percentage of the teaching force has declined from 73.9% in 2001/04 to 70.8% in 2005/06 (The percentage has risen marginally in JSS). EMIS data between 2002/03 and 2004/05 also show a decline in core (mathematics, science and English) textbooks per learner available at the primary level.

234. In relation to text-books and other non-salary inputs, there is evidence that some of these deficiencies have been corrected during 2006. Notably, the Ministry of Education now report improvements in text book numbers such that each learner again has a textbook for all core subjects. It will be more difficult to make good the deficit in the numbers of qualified teachers. The fact that the overall deficit is combined with a regional distribution of teachers (both in terms of numbers and qualifications) which continues to be biased towards urban areas<sup>42</sup> will make it especially difficult to maintain the quality of learning in the more disadvantaged districts.

235. Difficulties in maintaining inputs of adequate volume and quality may also jeopardise continuation of the positive trends in relation to the Gender Parity Index. It should be recalled that these national averages mask significant regional variations ranging from 0.52 in some districts to 1.0 in others. The national primary survival rate for females in 2005/06 is also only 72.4% (as opposed to 78.4% for males) and has dropped from 81.1% in 2003/04. The total national grade 6 completion rate is 78.7% compared with 85% for males (in 05/06), showing that more significant effort is needed in not only attracting girls to schools but in

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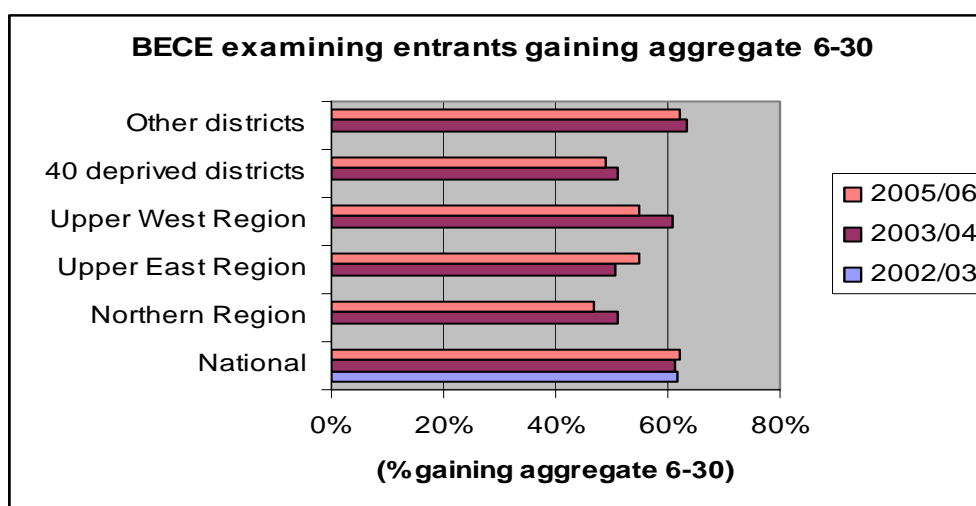
<sup>42</sup> Teachers continue to resist transfers to rural or deprived areas despite incentives in the shape of rotating transfers which bring them closer to towns; moving expenses, free housing provided by rural communities and items such as radios and cooking stoves. The resistance is reported to be stronger by female teachers who prefer to be in urban areas whereas male teachers are more likely to stay in rural areas especially if they are interested in commercial farming.

retaining them in the school system. To continue to make progress in reducing these gaps, whilst also expanding education coverage and protecting quality, will require a continued expansion of resources to education, combined with more efficient management and targeting.

### Education outcome indicators

236. The BECE is the examination taken at the end of the basic education cycle, which determines whether or not a pupil is able to progress on to second cycle education. It is the main outcome indicator available to assess the quality of basic education. At the national level, there appears to have been only a marginal improvement in performance in the BECE between 2002/03 and 2005/06 but with enrolments rising fast, this equates to a significant rise in the aggregate numbers of pupils passing and as a proportion of the school age population. Most significantly, the proportion of BECE passes in the 40 deprived districts has declined. These districts experienced marked increases in enrolment during the same time period, and with scarce inputs spread over a larger number of learners, the deterioration in quality is not unexpected.

**Figure 4.23 Percentage Pass rate of BECE examining entrants 2002/03 - 2005/06**



Source: EMIS Reports, various

### 4.5.4 Overview – achievements, shortcomings and the MDBS contribution

237. Has Multi Donor Budget Support contributed to expanded service delivery and to more pro-poor service delivery? Both health and education have received significant increases in budget allocations. Between 2000 and 2005, budget allocations to the Ministry of Health from the Consolidated Fund grew by 179%, increasing from 7.54% of total domestically financed discretionary expenditure to 12.43%. Education sector increases were less dramatic but still substantial, growing in real terms by about 80% over the same period. The education share of domestically financed discretionary expenditure grew from 38.3% to 40.8%. Both sectors – but especially health - were also major recipients of resources from statutory funds (GETF and NHIF) as well as from donor projects, common basket funds and in the case of the education sector in 2006 from sector budget support.

238. In the context of growing domestic revenues, expanding non-MDBS aid-flows and debt relief from HIPC and the MDRI, the direct funding contribution of the MDBS to health and education was a contributory but not decisive factor. The MDBS dialogue would appear to have been a more important influence. Discussions with health and education sector

officials indicate that dialogue around MDBS and the visibility of social sector ministries in the PAF has helped to lend these areas greater budget priority. On the other hand, the relative influence of the MDBS dialogue should not be overstated. A major driver of increases in budget allocations has been the substantial rise in wages and salaries won by health and education workers.

239. Did these increased allocations translate into improvements in coverage and quality? In the education sector, they clearly did: access to education services in Ghana has improved significantly over the lifetime of the MDBS and especially in the last two years. There has been a 5% growth in the number of public schools and an 8% growth in the number of teachers on payroll between 1999/00 and 2004/05. Total enrolment of 6-11 year pupils jumped by nearly 20 % over 2004/05 to 2005/06. This has been accompanied by a significant narrowing of the disparity in primary GERs between the 40 most deprived districts and other districts and by a closing of the gap between female and male primary GERs.

240. The introduction of the Capitation Grants Scheme, alongside the abolition of school levies, was a major contributor to this result. Although it was rooted in earlier government initiatives, the CGS was a PRSC measure, whose implementation has been followed closely in the MDBS dialogue. The need to address geographical and gender-based disparities in education access has also been a significant issue within the MDBS dialogue both at central levels and within the education sector group.

241. The performance of the health sector has been strikingly different. Although progress has been made in the treatment of tuberculosis, malaria and other diseases which disproportionately affect the poor, improvements in the level of funding have yet to translate into commensurate improvements in the scale and quality of health services provided. As a result the health sector has been unable to achieve most of the targets for improvements in access and coverage which it set for itself. This has been despite close monitoring of these targets and active dialogue around them at both sectoral and MDBS levels.

242. Four principal factors underlie this poor performance – the first two of them are relevant to all the major service delivery sectors, the second two are more particular to the health sector:

- In common with education and many other service delivery sectors in Ghana, the health sector suffers from the severe fragmentation of its funding sources: only 35% of its funding comes from the Consolidated Fund. With such a large proportion of resources sitting outside the government budget, it is difficult to plan expenditure effectively and to avoid duplication of activities.
- A second major factor undermining the ability of the health sector to allocate its resources effectively has been the inability to control the wages and salaries budget. This lack of control manifests itself in three ways:
  - The centralised management of the payroll means that managers of hospitals and other service facilities do not have control over their staff budgets. They are unable (and have no incentive) to generate savings and cannot plan the use of the wage bill alongside other aspects of the budget.

- Staff demands for increases in the level of remuneration have proven impossible to contain and have significantly squeezed available budgets for non-salary items within the Consolidated Fund.
- To make matters worse, the particular way in which wage agreements have been negotiated and budgeted has meant that in most years, wages and salaries have been under-budgeted, necessitating unplanned cuts in non-salary budgets during the process of execution.
- There has been a steady growth in the costs of administration of the health sector – in part because of its multi-tiered structure, in part because of the new administrative costs created by the establishment of the NHIS and in part because of the high degree of centralisation of budget-holding and decision-making powers.
- Finally, there has been a long-running failure to find a sustainable and satisfactory resolution of the problem of meeting user fees for the poor, either from an improvement in the operation of the exemption scheme or from successful introduction of the NHIS.

243. Have these specific issues formed part of the MDBS dialogue? And to what extent have weaknesses in the policy dialogue hindered the search for solutions to these problems? The answers to these questions are not entirely clear but they prompt two observations. Firstly, problems of this kind are common to many health sectors around the world and there do exist examples of international good practice which might have contributed to their successful resolution. The failure to do so must be considered in some sense a failure in the process of policy dialogue. Perhaps it was not sufficiently open and honest? Perhaps it was not focused on the right strategic issues or did not bring the right types of analysis and good practice examples to the table?

244. The second observation relates to the interplay of dialogue at the sector level and at the level of the MDBS core group, and has relevance for ongoing discussions about sector budget support. A SWAp has been in place in the Ghana Health sector since 1998 and a frequently cited characteristic of this SWAp is the strength of the policy dialogue. Yet, this apparently strong dialogue has been unable to create the right policy framework for the health sector to achieve a majority of its results, despite the availability of substantial funding. An argument frequently made in relation to general budget support is that it is less effective in influencing sectoral policies than sector-focused structures of dialogue. The Ghana case would appear to disprove this. The real truth is that there are inherent limitations to the level of influence which external Development Partners may have under any circumstances. This in turn points to the importance of using budget support and the related fora for dialogue as channels for the promotion of domestic dialogue and debate, based on well publicised policy targets and performance results. This has not been a major feature of the MDBS policy dialogue and needs to be given more emphasis.

**Summing Up:**

***EQ9: Has the MDBS contributed towards expanded and more pro-poor service delivery?***

*a) The expansion of service delivery*

- Health and education have received significant increases in budget allocations, growing substantially in real terms and attracting increased shares of domestically financed discretionary expenditure.
- The direct financing of the MDBS was a contributory but not decisive factor. The MDBS dialogue would appear to have been a more important influence. The visibility of social sector ministries in the PAF has helped to lend these areas greater budget priority. On the other hand, a major driver of increased budgets has been the rise in wages and salaries won by health and education workers.
- Access to education services in Ghana has improved significantly over the lifetime of the MDBS and especially in the last two years.
- The introduction of the Capitation Grants Scheme, alongside the abolition of school levies, was a major contributor to this result. Although it was rooted in earlier government initiatives, the CGS was a PRSC measure, whose implementation has been followed closely in the MDBS dialogue.
- Increases in the level of health funding have yet to translate into commensurate improvements in the scale and quality of health services provided. This has been despite active dialogue and close monitoring at both the sector and MDBS levels.
- Allocative efficiency has been hampered by the fragmentation of sector budgets, the lack of control over the wage bill and the rising administrative costs of health service provision. The inability to make serious progress in resolving any of these problems must be considered, at least partly, a failure of the process of policy dialogue.

*b) The Pro-poor orientation of service delivery*

- Expansion of education provision has been accompanied by a significant narrowing of the disparity in primary GERs between the 40 most deprived districts and other districts and by a closing of the gap between female and male primary GERs.
- The need to address geographical and gender-based disparities in education access has been a significant issue within the MDBS dialogue at central levels and within the education and gender sector groups.
- In the health sector, there have been improvements in the level of treatment of several communicable diseases which commonly affect the poor.
- On the other hand, there has been a long-running failure to find a sustainable and satisfactory resolution of the problem of meeting user fees for the poor, either from an improvement in the operation of the exemption scheme or from successful introduction of the National Health Insurance Scheme. Again this must be seen as a failure in the process of policy dialogue.



## 4.6 The Effects of MDBS on Governance and Democratic Accountability

### ***EQ10: How significant has been the contribution of the MDBS to Governance and Democratic Accountability?***

#### **4.6.1 Hypotheses and Assumptions**

245. This section also relates to the transition from Level 3 (outputs) to Level 4 (outcomes) of the Evaluation Framework. The main causal hypotheses to be tested are that the increasing importance of the budget process, combined with specific improvements in PFM systems and in policy making processes (EQ7 and EQ6) have:

- (a) strengthened the effectiveness of reporting lines within government and between the Executive and the Legislature, thus improving the quality of democratic accountability (level 3); and that
- (b) this process of strengthening of democratic processes combined with specific improvements in aspects of governance highlighted in the MDBS dialogue have contributed to better overall governance and respect for human rights (level 4).

#### **4.6.2 Changes in the quality of democratic accountability**

246. The Kufour-NPP administration since 2001 has increasingly committed itself to a poverty reduction agenda, as reflected in the ratification of GPRS 1 and the launching of GRPS2. There has been a focus on good governance as a key policy goal – with emphasis on enhanced policing and improved access to justice. The creation of a Ministry of Women and Children's Affairs (MOWAC) has been an important policy initiative along with the increased independence of the Commission on Human Rights and Administrative Justice (CHRAJ).

247. It has not been possible for the team to analyse in any depth the range of initiatives within the governance arena. Accordingly, we focus in this section on two aspects which are more likely to have been directly influenced by the MDBS process – namely the changing roles of Parliament and of civil society in relation to the budget process. In the subsequent section, we consider how far these and other changes have brought about positive improvements in relation to governance outcomes and the control of corruption, before addressing in a concluding section the specifics of the MDBS process.

#### **The changing role of Parliament in the budget process**

248. The policy making and budget processes have begun to shift from a nearly exclusive focus on the Executive Branch and Ministry of Finance to greater involvement of Parliament and non-state actors (private sector representatives and civic advocacy groups). Parliament's involvement with the budget begins from the day the budget proposals are presented to the House by the Minister of Finance. The House then breaks into committees – with the select committees interrogating estimates for MDAs while the Finance Committee (FC) focuses on estimates for the Office of the President, the Government machinery and the independent constitutional bodies. The Finance Committee also examines how the objectives of the GPRS are captured in the various sector estimates and how they have been financed. A Poverty Reduction Committee has recently been created to focus on the implementation of the government's growth strategy and the GPRS, and a special budget committee to handle the portion of the national budget dealing with public/ state governance institutions such as the Office of Parliament, the Electoral Commission, the Commission on Human Rights and Administrative Justice (CHRAJ), the Serious Fraud Office (SFO), and the

National Commission for Civic Education (NCCE). The Public Accounts Committee (PAC) is the most important parliamentary body engaged in monitoring and tracking budget expenditures. It examines audited accounts of amounts granted by Parliament for public expenditures.

249. A number of recent initiatives have clearly enhanced the prospects for improved monitoring and tracking of expenditures by Parliament. The Minister of Finance has begun to present the budget to Parliament before the end of each fiscal year so that the approved budget can take effect in January. The Minister has introduced quarterly performance reports and beginning with GPRS 2, has implemented a standard operating procedure for allocating poverty related funds to Parliament for approval. The improvements in the capacity of the Auditor General (AG) and the growing independence of that specific post<sup>43</sup>, the significant reduction in the time lag between government expenditures and audits, and as a result, the reduction in delay on the part of the AG in submitting the annual audit reports to the PAC, as well as the recent introduction of performance audits by the AG, are all facilitating the work of the PAC. The PAC's willingness to collaborate with research and advocacy organizations such as the Centre for Policy Analysis (CEPA) is also helping to enhance the committee's effectiveness in tracking government's financial performance.

250. However, a combination of factors continues to impose limitations on the role of Ghana's Parliament in the budget process. These constraints are as follows:

- Article 108 of the Constitution prevents Parliament from varying allocations upwards<sup>44</sup>;
- Ghanaian Parliamentary Committees are chronically under-funded and poorly equipped;
- The budget debate lasts for only one or two weeks, despite the fact that it is not yet a systematic practice to undertake prior consultations with Parliament before presentation of the budget estimates.

251. In addition, the PAC is not fully effective, having no analytical support and only modest secretarial support. Until 2006, it had always been faced with a backlog of AG reports to review. Typically, it focuses on AG reports submitted to Parliament and limits itself largely to post-facto expenditure review and tracking of reports submitted by the AG.

### **The role of the private sector and civil society in the budget process**

252. The participation of the private/ non-state sector and of civil society and independent research and advocacy organizations in the budget process has been growing over the period of the MDBS. The Ministry of Finance and Economic Planning (MoFEP) has created entry points for private sector and civil society bodies to provide input into the budget and policy process. For example, at the time of the MDBS evaluation mission, MoFEP had put adverts in the media soliciting inputs into the budget proposals, announcing an extension of

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<sup>43</sup> The independence of the Auditor General has been particularly enhanced since 2003 with the confirmation of the appointment of the present Auditor General – Edward Dua Agyeman. It should be noted that this is the first time in the 4th Republic when the Auditor General is not serving in an 'acting' capacity, which enhances security of tenure of this key oversight agency. He is also incidentally the first holder of the position who is a fully chartered accountant in this Republic. While the Ghanaian constitution provides for the independence of the Auditor General, governments have sought to keep them on a short lease by keeping them on short term post-retirement contracts.

<sup>44</sup> Such a restriction is in fact standard in Westminster-based systems but it clearly places a major limitation on the ability of Parliament to change the proposed budget.

the budget preparation period to allow time for additional civil society inputs into the 2007 budget estimates.

253. The Private Enterprise Foundation (PEF), the Association of Ghana Industries (AGI), the Chamber of Commerce and Ghana Employers Association have regularly submitted comments and recommendations on the budget (largely on macro-economic targets and policy directions). The Trades Union Congress (TUC) has collated the inputs of its members and submitted them to MoFEP and Parliament; and Data Bank Financial Services –a leading local brokerage firm - has held seminars to subject the annual budget proposals to critical review in order to suggest changes.

254. PEF believes access to policy makers is improving; that its budget monitoring capacity is deepening; and that its policy recommendations and inputs into the budget have helped to secure modest improvements in the macro-economic environment in general, and to the business climate in areas such as reductions in corporate taxes/ Reconstruction Levy and exchange rate stability.

255. Civil society and non-state actor involvement was traditionally limited to post-budget analysis. Organizations like the Centre for Economic Policy Analysis (CEPA), the Institute for Statistical, Social and Economic Research (ISSER), Institute of Economic Affairs (IEA) and the Centre for Budget Advocacy have all reviewed the annual budget at some point during the financial year. However, the involvement of CSOs in budget and policy formulation processes has been expanding since 2003. The National Development Planning Commission (NDPC) has coordinated and collated their inputs into the preparation of the GPRS1 and to a lesser degree the GPRS 2 document. The GoG has also held public fora/ People's Assemblies in the national and regional capitals to receive public input on its proposed policies.

256. The CDD, Canadian Parliamentary Centre (CPC) and others have coordinated private sector partners, civic advocacy groups, think tanks and independent experts to provide macro economic analysis and sector inputs into the budget proposals. Principally, this has taken the form of retreats with Parliament ahead of parliamentary deliberations on the draft annual budget. For instance, in 2005 and 2006, CDD co-coordinated a retreat for Parliament ahead of the parliamentary debate on the annual budget proposals. The retreat featured presentations on the various aspects of the budget by independent experts from the private sector, think tanks and advocacy groups such as the Institute for Democratic Governance (IDEG) the Centre for Budget Advocacy, PEF, CPC, and Data Bank.

257. Moreover, entry points are beginning to open to CSOs (civil society organizations) to provide input into the policy process and budget monitoring beyond macro-economic analysis. For instance, the Budget directorate of MoFEP invited the Ghana Centre for Democratic Development (CDD-Ghana) to make a presentation on the social and economic findings in the Ghana Afrobarometer Round 3 with the intention of gathering insights into popular expectations and ratings of government economic and social performance. IDEG's Growth and Poverty Policy Forums provide a platform for coordinating CSO input into poverty reduction in the budget and GPRS.

258. The GPRS and MDBS are beginning to foster opportunities for organizations representing specific pro-poor and vulnerable groups - gender, children, and persons with disability, to have a voice to critique and shape policy. In addition, they are making space for other pro-poor advocacy groups such as the Social Enterprise Development (SEND) Foundation/ HIPC Watch (operating in over 40 districts in 2006) and ISODEC/Centre for

Budget Advocacy to directly or indirectly provide input into policy processes. For example, CPC and gender advocacy groups have spearheaded gender analysis of the budget.

259. Whether the MDBS is beginning to improve the bargaining power of social groups such as gender, persons with disability (PWDs), and the poor in negotiating for a share of national resources can only be inferred. CSOs themselves assess their impact on the MDBS dialogue to be low. Indeed, the involvement of the non-state sector/ CSOs in general and pro-poor, governance and anti-corruption advocacy groups in the MDBS is indirect at best and extremely limited. These actors are no more than occasional participants in sector working groups and are hardly privy to MDBS information, which is held almost exclusively by DPs and GoG parties. Moreover, the involvement of CSOs in these processes is some way from being institutionalised. Their role is not given prominence in the MDBS Framework Memorandum and there is a risk that a change in personnel in the MDBS core group and/ or in relevant sector groups might easily bring a set of dialogue leaders, less sympathetic to the need for CSO consultation and input.

#### **4.6.3 Governance, corruption and access to justice**

260. This evaluation takes place against the backdrop of steady progress in institutionalizing democratic governance in Ghana in the decade preceding MDBS. Civic participation has continued to expand as seen in sustained high levels of voter turn out in the general elections of 2004. Governmental transparency has grown and the exchange of government information with non-state and private sector actors has increased; respect for human rights has continued to improve. Improved access to justice overall is partly due to increases in funding to CHRAJ from 6 billion cedis to 26 billion cedis in four years, the introduction in October 2006 of token monetary reparations for victims of past human rights abuse by the state or its officials, the modest increase in funding to the Legal Aid Board, and the expansion of training in alternative dispute resolution.

261. However, inadequate policing, lagging police training and professionalism, and weak sensitivity to the human rights of suspects, as well as generally weak law enforcement and administration of justice, undermine both access to justice and confidence in the judiciary. Ghana continues to experience mob justice whose victims are mainly the poor. About one third of inmates of Ghanaian prisons are on remand and recent visits to the prisons by CHRAJ and others confirm extreme overcrowding and poor sanitation and health care.

262. Nevertheless, a number of recent legislative and institutional reforms provide encouraging indications of GoG commitment to good governance and poverty reduction:

- a bill criminalizing child trafficking;
- laws to protect the interests of persons with disability (PWDs) in August 2006;
- a move to protect public interest disclosure/“whistle blowers”;
- confirmation in office of the Auditor General and capacity strengthening of the agency; as well as
- the reconstitution of the board of the Serious Fraud Office.

263. There has been increasing attention to prison reforms including the development of plans to decongest the prisons. Indeed, consensus has nearly been reached among the heads of the institutions within the criminal justice system on non-custodial sentencing options. The GoG has recently co-organized and hosted with CHRAJ and CDD a multi-stakeholder workshop to harmonize and finalize action plans to implement guidelines on non-custodial sentencing put together by the Attorney General's Office, the Chief Justice and CDD/CHRAJ.

264. In relation to women's rights, the creation of the Ministry of Women and Children's Affairs (MOWAC) in 2001 is notable, since when there has been increasing elaboration of MOWAC administrative structures, deepening of MOWAC involvement in sector wide work related to the welfare of women and children and progress in reorganizing the Women and Juvenile Unit of the Police (WAJU) as the Domestic Violence and Victim Support Unit (DOVVSU). The Domestic Violence Bill (DVB) was passed in 2007, following the appointment of a dynamic sector minister. The draft DVB bill was finally approved by Cabinet and placed before Parliament, only after the removal of the provisions criminalizing marital rape, which were deemed culturally offensive.

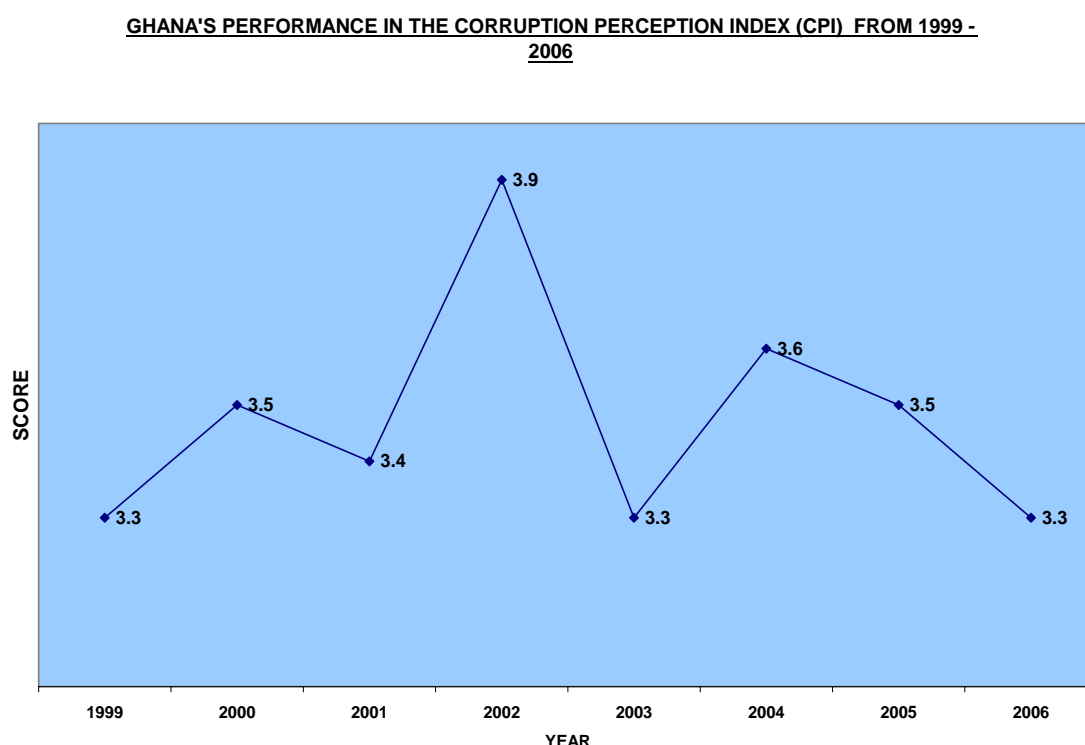
265. However, progress has also stalled on some important reforms:

- First, the GoG has failed to deliver on its promise in 2001 to enact legislation that promotes public access to information, particularly related to government activities, despite extensive work done on the draft bill by public and civil society bodies since the late 1990s.
- Secondly, the public officers' asset disclosure regime remains backward – declarations are largely inaccessible, unverifiable, infrequent, limited in coverage and scarcely accompanied by a sanctions regime.
- Third, the GoG has yet to commit itself to the application of the conflict of interest prevention guidelines and code of conduct which CHRAJ has recently developed for the Executive Branch and other public employees.
- Fourth, the new Public Procurement Act 663 is lacking crucial refinements, especially the provisions regarding sole sourcing.
- Lastly, political patronage remains endemic and perceptions of public corruption remain high. This is reflected in Ghana's 3.3 score in the Transparency International 2006 Corruption Perception Index<sup>45</sup>, which is a drop from 3.5 in 2005 and 3.9 in 2002, but similar to 2003 and 1999. (See Figure 4.24)
- Decentralization reforms have also stalled on all fronts (administrative, political and fiscal). For example, the implementation of the Local Government Act (2003) aimed at bringing public service agencies under District Assembly control has scarcely been implemented; and the new procurement legislation appears to recentralize rather than decentralize district level public procurement. In addition, the government has been heavy handed in imposing District Chief Executives (DCE) on assemblies.

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<sup>45</sup> The CDD-Ghana Afrobarometer Round 3, 2005, and the Ghana APRM country self-assessment report, 2005 also reflect the same trends.

**Figure 4.24 Results of Corruption Perception Index for Ghana 1999 - 2006**



Source: Ghana Integrity Initiative (GII), *Press Statement to Launch the TI's 2006 Corruption Perception Index*, Accra November 6, 2006

266. Representation of women in cabinet, parliament, state and parastatal boards, and district assemblies remains weak (activists have criticized the government for not doing much to increase the percentage of women government appointees to the district assemblies as promised in 2001) though there was a general increase in the number of women candidates in the September 2006 local government polls thanks to modest support to over 1400 women contestants from a basket funds put together by MOWAC and gender advocacy CSOs. The representation of women in appointive senior level technocratic positions in the public service appears to have improved (as a result of these increased funding efforts).

#### **4.6.4 Influence of MDBS on governance and democratic accountability**

267. Improvements in governance and democratic accountability in Ghana in the MDBS period follow a path of steady political reforms that have been ongoing for several years. While the improvements appear to have coincided with government efforts to deepen governance, the MDBS has encouraged the government to stay on track and to deepen such reforms. On the other hand, key governance and democratic accountability deficits persist despite MDBS.

268. In terms of the policy process itself, the MDBS provides for, or at least appears to encourage, some prior consultation with the private sector and non-state advocacy bodies. Indeed, the Government and the political executive are becoming relatively open to the involvement of independent non-state actors, parliamentary and advocacy groups in the policy and budget processes.

269. However, on the whole, the Executive Branch of government dominates the MDBS process. Parliament in general, and particularly the opposition parties, and other actors outside of the Executive Branch, are generally excluded from the crucial decision-making stages of the MDBS process. Non-state stakeholders enjoy only indirect access to and somewhat token participation in crucial MDBS decision making fora. One should expect their involvement to be formally institutionalised rather than being apparently granted 'as a favour'. Yet, non-state and non-executive branch stakeholders are scarcely privy to the targets and 'triggers' agreed upon between the government and the development partners.

270. Moreover, the technical quality of the inputs from these bodies (independent research and advocacy organizations and private sector) is uneven. This is partly because they lack access to crucial official information and partly because they possess limited technical capacity to capture, analyze, and disseminate relevant data on a timely basis.

271. These drawbacks may be taken as teething problems associated with a relatively new experiment, or even unavoidable transaction costs associated with building government ownership of reforms. But caution is also necessary to protect the MDBS from being caught up in the prevailing political culture of patronage, Executive dominance and state capture in Africa's new democracies. The MDBS process must give special attention to the participation of parliamentary, non-state and private sector stakeholders. Enhancing their inclusion in the dialogue, promoting consultation, and sharing of relevant information, whilst improving their technical capacities, will help to place them in a position to shape and monitor the MDBS agenda and through it the processes of national policy-making and public spending.

**Summing Up:**

***EQ10: How significant has been the contribution of MDBS to Governance and Democratic Accountability?***

***a) Changes in the quality of democratic accountability***

- Since 2001, policy making and budget processes have begun to shift from a nearly exclusive focus on the Executive Branch and Ministry of Finance to greater involvement of Parliament and non-state actors. Recent initiatives have enhanced the prospects for improved monitoring of expenditures by Parliament.
- Improvements in the capacity of the Auditor General and the growing independence of that post, the significant reduction in the time lag between government expenditures and audits, and as a result, the reduced delay in submitting the annual audit reports to the PAC are all facilitating the work of the PAC.
- There remain problems of under-resourcing of Parliamentary Committees (the PAC in particular) and time constraints on the budget debate, which lasts only two weeks, but there is no doubt of the growing role of Parliament and its Committees.
- Participation of the non-state sector and of civil society and independent research and advocacy organizations in the budget process has also been growing over the period of the MDBS. MoFEP has created entry points for private sector and civil society bodies to provide input into the budget and policy process. These opportunities have been actively taken up by civil society whose inputs now extend well beyond the traditional post-budget analysis.

***b) Improvements in Governance***

- Governmental transparency has grown and the exchange of government information with non-state actors has increased; respect for human rights has continued to improve. There has been improved access to justice (partly due to increased funding to CHRAJ and to the Legal Aid Board) and increasing attention to prison reforms.
- In relation to women's rights, the creation of the Ministry of Women and Children's Affairs (MOWAC) in 2001 is notable, since when there has been a deepening of MOWAC involvement in sector wide work related to the welfare of women and children and progress in reorganizing the Women and Juvenile Unit of the Police(WAJU) as the Domestic Violence and Victim Support Unit (DOVVSU).
- However, progress has also stalled on some important reforms. Decentralization reforms have stalled on all fronts (administrative, political and fiscal). GoG has failed to deliver on its 2001 promise to enact legislation promoting public access to information. The public officers' asset disclosure regime remains backward; a conflict of interest prevention guideline has yet to be adopted. Political patronage remains endemic and perceptions of public corruption remain high.

The improvements in governance and democratic accountability during the MDBS period have followed a steady, well-established path of ongoing political reforms. They have coincided with government efforts to deepen governance, although the MDBS dialogue has encouraged the government to stay on track and to deepen such reforms. On the other hand, key governance and democratic accountability deficits persist despite MDBS.

There are concerns about the dominance of the Executive over the MDBS process and over the quality of access to information and decisions coming out from the MDBS dialogue. Greater efforts need to be made to promote systematic consultation and sharing of relevant information, in parallel with ongoing capacity building efforts for CSOs and Parliament.



## 5 The (Potential) Impact of MDBS on Poverty Reduction

### 5.1 Introduction

***EQ11: How far has MDBS strengthened government policies in ways which are likely to have an impact on poverty?***

#### 5.1.1 Hypotheses and Assumptions

272. This chapter relates to the transition from Level 4 (outcomes) to Level 5 (impacts) of the Evaluation Framework. The two causal hypotheses which should in principle be tested in this chapter are that MDBS has:

- (a) reduced income poverty (level 5), through increasing the scope for a more conducive growth enhancing environment and more responsive service delivery (level 4); and
- (b) led to the empowerment and social inclusion of poor people and a reduction in non-income poverty (level 5) through more responsive, accountable service delivery and improved administration of justice and respect for human rights (level 4).

273. In making progress with this line of investigation, we are critically hampered by the lack of Information on recent poverty outcomes. The last round of the Ghana Living Standards Survey (GLSS) was undertaken over 2005/06 and the compilation and analysis of results is due for completion in July 2007. This is exactly the information that would be needed to make any sort of serious judgement on poverty trends during the period of the MDBS and to evaluate the validity of the assumptions linking government actions promoted by MDBS with growth and poverty reduction. When the GLSS 2005/06 results are published, it would be appropriate to undertake a more comprehensive analysis of the links between the MDBS, economic growth and poverty reduction.

274. Given this major data gap, we will here confine ourselves to a prior question within the causality chain. Specifically, in this chapter we ask, "To what extent has the MDBS strengthened government policies in ways which are likely to have an impact on poverty?" In order to answer this question, we will look first at the extent to which the MDBS has actually influenced government action, basing our judgement on a summary of the conclusions reached in Chapter 4. Then, we will assess the extent to which government policies and their mode of implementation may be said to be pro-poor. As part of this process, we examine the extent to which gender issues are given serious priority in the policy-making process. This analysis is necessarily impressionistic but it points to those aspects of public policy-making and implementation which are most likely to be important for the achievement of the GPRS, and, by implication, for the success of the MDBS.

### 5.2 How far has the MDBS influenced government policy?

275. In chapter 4, we assessed the outputs and outcomes of the MDBS process, asking two essential questions:

- i. At the Output level, had the MDBS facilitated positive changes in the financing and institutional framework for public spending and public policy?
- ii. At the Outcome level, had these changes in turn enhanced the Government's capacity to implement actions to reduce poverty?

276. We examined whether there was evidence of these types of ‘outputs’ and ‘outcomes’ in five particular areas where the evaluation framework postulates that MDBS should facilitate, or help to accelerate, institutional and policy improvements:

- ◆ Reinforcement of fiscal discipline and overall macroeconomic performance;
- ◆ Improved policy making and acceleration of reform processes in support of the GPRS;
- ◆ Strengthening of Public Finance Management systems and improvements in the allocative and operational efficiency of public expenditures;
- ◆ Increased efficiency and effectiveness of service delivery and enhanced access of the poor, and specifically of women, to those services;
- ◆ Enhanced effectiveness and accountability of democratic institutions and improved conditions for democratisation.

277. We noted that the extent to which positive changes in these areas were likely to be generated by the MDBS would depend largely on the degree to which the expected immediate effects of MDBS had been achieved. In this respect, we observed in chapter 3, that for the most part, the ‘flow of funds’ effects of GBS had been modest, essentially because of its limited scale. In the absence of a relative shift towards on-budget financing, Ghana would have experienced only to a limited extent the ‘endogenous’ institutional effects of an increase in the importance of the national budget and its related structures of accountability. In short, it was the immediate ‘exogenous’ institutional effects of MDBS dialogue and conditionality which were identified as the most likely causes of changes at the output and outcome levels.

278. In general, these influences were found to be of a secondary order, helping to generate effective responses to government commitments and helping to sustain that government commitment, but only rarely having a decisive influence. Limitations in the scope and structure of dialogue were also noted. Nevertheless, important developments in policy and public spending have occurred, which to a greater or lesser extent can be said to have been facilitated by the MDBS, and which seem clearly favourable to poverty reduction:

- Firstly, the macro-economic picture has strengthened.
- Secondly, the environment for the private sector has improved.
- Thirdly, there has been an increase both in the real resources and in the relative shares allocated to ‘poverty-reducing’ spending areas; and,
- Fourthly, in the education sector at least, this has translated into improvements in access and equity.

279. These are important achievements which augur well for the ability of the Ghanaian economy and the Ghanaian government to reduce poverty. But they are not enough: for a growing economy to serve the needs of the poor, there must be opportunities for the poor to actually participate in the growth process. For increased spending on 'poverty-reducing' areas to have an impact, resources need to be utilised efficiently, effectively and equitably. How confident can we be that the appropriate linkages are in place in Ghana to convert growth and increased spending into poverty reduction?

### **5.3 Is government policy likely to reduce poverty ?**

280. In order to attempt an answer to the question above, we examine here the existence of three such linkages:

- i. The ability to convert increased allocations to poverty-reducing areas into concrete investment programmes and service delivery actions.
- ii. The ability to design and implement policies with a clear pro-poor focus; and
- iii. The ability to empower women and the vulnerable to protect their rights and thus participate in the growth process.

#### **5.3.1 Converting resource allocations into concrete actions and investments**

281. The MDBS period has seen significant increases in the real level of spending on identified poverty-reducing areas and in their relative share in total spending. Between 2002 and 2005, spending on these areas more than doubled in real terms, increasing from 28 % to 35 % of total expenditure over the period.

282. We noted in section 4.4 that the interpretation of these increased allocations is not straightforward. Apart from the definitional and recording problems, there are also concerns related to the significance of the wage component of poverty related expenditure. A good part of the recorded increase is attributable to rising wage costs, given that expenditure on basic education and health care accounted for 66% of poverty related expenditure in 2005.

283. However, there is a more fundamental problem of interpretation. In order to be confident that allocations to 'poverty-reducing' spending areas are likely to accelerate progress towards the goals of the GPRS, one would want to see a strategy (either within the GPRS or at the sectoral level) identifying not only broad areas of spending but actual investment projects and service delivery programmes, which would generate outputs linked in a logical and plausible way to a pre-conceived path of poverty reduction. One would then want to see a budgetary structure which permitted a direct tracking of expenditure against such programmes and a review process allowing for changes and refinements in the light of experience. Although these processes have worked better in some sectors than others, by and large the sectoral strategy formulation and budget preparation and execution processes which have operated during the period of the MDBS have not ensured this close link between spending and the GPRS target outcomes.

284. Amongst the main systemic gaps, we would identify the following:

- The lack of a clear definition of the concept of "programmes" which could inform the GPRS and the budget formulation process, whilst also acting as a set of cost centres around which to organise expenditure control. The GPRS 1's "Medium

Term Priorities” are defined too broadly to constitute programmes of action, while the MTEF’s activity focus involves too high a level of detail (and consequently too much need for frequent changes) to form the basis for medium term programming.

- The fact that the chart of accounts is not consistent with a programme-based planning approach, being focused on organisational categories (MDAs, and in some cases, sub-departments) and on an economic categorisation of expenditures.
- The lack of a suitable structure for disaggregation of staff allocations, so that they might be divided by programmes, permitting staff utilisation to be related to outputs.
- The fact that the MTEF and the budget omit Statutory Funds and a significant proportion of aid-financed expenditures, which are either fully off-budget or subject to processes of their own (such as the health sector common basket fund). The programming of spending in these areas works outside of the mechanisms of budget scrutiny by NDPC, MoFEP, Cabinet and Parliament.
- Finally, the continued high levels of deviation between approved budgets and actual expenditures, which undermine the value of the budget as an expenditure plan.

285. As we noted in section 4.4, the PFM reforms undertaken during the MDBS period have largely ignored planning and budget formulation processes. They have also failed to focus in an explicit way on diagnosing and resolving the problem of deviations between approved budget and actual expenditures. Until the focus of reforms can be re-oriented to give serious attention to these issues, linkages between resource allocation and GPRS outcomes are likely to remain unsatisfactory.

### **5.3.2 Designing and implementing policies with a clear pro-poor focus**

286. If increases in ‘poverty-reducing spending’ are to result in improvements in the welfare of the poor, then they must be based on policies which address effectively the constraints hindering the ability of the poor to access the government services they need. This is not always straightforward: the poor are often poor precisely because they are located in areas where services are difficult to provide or because they are disempowered in ways that make it difficult for them to access services. What evidence is there that the Ghanaian government is able to design and implement policies which overcome these obstacles?

287. The evaluation team has not had the time or resources to undertake a comprehensive analysis of the pro-poor focus of government policies. However, we did examine health and education service provision in a moderate amount of detail (See Section 4.5). This analysis threw up two contrasting examples of policies to address the needs of the poor in relation to primary health care and basic education – the National Health Insurance Scheme and the primary education Capitation Grant Scheme. The cases are written up more fully in Box 5.1 but the key findings are as follows:

- In the health sector, there has been a long-running failure to find a sustainable and satisfactory resolution of the problem of meeting user fees for the poor, either from an improvement in the operation of the exemption scheme or from successful introduction of the National Health Insurance Scheme.

- As a result health care utilisation rates appear to be stagnating – most notably for maternal and child health care services – and particularly so in the more disadvantaged districts of the country.
- The education sector has devised a functional mechanism for transferring capitation grants directly to schools, as a way of replacing the former education levies which used to be payable at the primary level. As a result net enrolment rates at this level have risen dramatically.
- The scheme will need refinement in order to deal more effectively with the special needs of girl pupils, of pupils from disadvantaged areas and of smaller-sized schools with higher unit costs. However, the scheme is only in its second year of operation and such refinements should be expected at this stage.
- By contrast, in the health sector, the problem of declining utilisation of health services by the poor as a result of user charges had already been analysed in the late 1990s, drawing on the data of the 1998/ 99 GLSS. The lack of an effective resolution by 2006 thus constitutes a major example of policy failure.

288. We cannot judge which of these two experiences is more representative of the capacity for pro-poor policy design and implementation in the GoG as a whole. However, the experience of the health sector would seem to suggest significant weaknesses, which raise questions over the ability of the central agencies of government – NDPC and MoFEP – to scrutinise on a systematic basis the pro-poor nature of policy and to effect changes where necessary. This is in part linked to the fragmentation of budgets and to the inability of NDPC and MoFEP to analyse sector spending in its entirety. In the case of health, for example, neither the use of the NHIS Statutory Fund nor of the Health Sector Common Basket Fund are subject to the scrutiny of MoFEP and NDPC. It also raises doubts about the effectiveness of DP-GoG dialogue both in the sector and within the MDBS framework.

289. More fundamentally, it raises questions about the ability of the poor to represent their own interests and to lobby effectively for change – either through their political representatives, or through NGOs and faith-based organisations. So long as these weaknesses persist, there must be doubts over the ability of the prevailing policy and institutional mechanisms to systematically generate and execute public policies which favour the poor. In this respect, it should be noted that health insurance was one of the flagship policies of the NPP when it was elected in 2000; thus, it is failing to meet the needs of the poor despite the highest-level political backing.

#### **Box 5.1: A Tale of Two Policies: How do they affect the Poor?**

##### **a) The National Health Insurance Scheme**

The National Health Insurance Scheme was launched in 2005 as mandated by Act 650 of 2003 with the main aim of dismantling financial barriers to health care services. It was intended to provide for those who could contribute to the scheme an insurance mechanism to cover costs of health care and for the poor a means-based system of subsidies to permit the user fees for public health care to be covered. There is some evidence that the NHIS has been successful in this, *in areas where the scheme is fully operational*. However, there are significant concerns about the coverage of the NHIS and its financial sustainability. According to the 2007 Budget Statement 134 district mutual health insurance schemes are in operation having registered 34% of the population. Membership varies significantly by region with the highest proportion being in *Brong*

Ahafo (26.69%) and the lowest in Upper East (7.06%). The NHIS revenue currently comes from a 2.5% levy on VAT; mandatory payroll deductions of 2.5% of the 17.5% SSNIT contributions for formal sector workers and graduated premia for the informal sector.

It is unlikely that there will be significant growth in NHIS revenue due to the large informal sector and the low premia being paid by those in the formal sector. Meanwhile, the Scheme carries high overhead costs and seeks to provide a comprehensive benefits package, which is free at the point of service. With no co-payments, both the users and providers thus have an incentive to increase the scope of services provided. This gives rise to the real possibility that the NHIS is unsustainable.

A large proportion of members registered also fall under exempt categories (59%). It is not exactly clear how individuals are classified as “exempt”. According to the DHIF office in Elmina district, Central Region, one *“just knows as soon as soon as they walk into the office, it is only if you are not convinced that you investigate further”*. There is already anecdotal evidence that registration as an indigent can result from bribes or through interventions by MPs as part of their political campaigns. The Government also offers exemptions to various categories of the population when they access medical services.

Even under the former “cash-and-carry” system, the funds allocated to cover exemptions had always been overstretched. Now concurrent with the implementation of the NHIS, there is evidence that in some districts these funds are no longer forthcoming. Visits to the Elmina and Cape Coast districts in the Central Region showed that medical staff are no longer providing free services to ‘indigent’ patients as their claims for provision of exempted services are not being processed by District/ Regional Health Offices due to the absence of the funds which should arrive by cheque from HQ.

Access to health services for the poor then suffers four-fold. Accessing health services under the NHIS may be difficult due to:-

a) Over the top charges being paid by individuals who can afford them to be registered as “indigents” ;

b) Being unable to access the District Health Insurance Scheme offices. (A pilot study in Dangme West found that those who joined the scheme were less likely to be poor, likely to be more educated and living closer to facilities.)

c) The lag between joining and being eligible to benefit from free services; and

d) The fact that funds provided for “exemptions” are being reduced, meaning that the poor who could access health services because of these exemptions will no longer be able to do so.

It seems clear that the short run transitional costs will be borne by those who can least afford it, whilst who will bear the long run costs if the Scheme proves unsustainable remains an open question.....

#### **b) Education Capitation Grant Scheme**

In 1998, the education ministry introduced a Head Teachers Petty Cash Scheme in 40 districts (a minimum of 3000 Cedis for Primary and maximum of 6000 Cedis for JSS students in 1999), which later proved difficult to manage. In 2004/05 a Pilot Capitation Grant Scheme was launched in the original 40 and later 53 deprived districts at a total cost of cedis 28.5 billion. This was later extended to 30,000 Cedis paid per pupil enrolled

in all Primary Schools. In response, the total enrolment of 6-11 year olds in both primary and private schools has increased by 19.5% between 2004/05 and 2005/06 with the Net Enrolment Ratio increasing from 59.1% to 69.2% over the same period.

While the Capitation Grant has been successful in improving access for education services there are problems in its implementation. Firstly, it has resulted in significant overcrowding in schools, with classrooms, teaching and learning materials, and staff stretched over a larger number of students, which can lead to a decline in education performance. Secondly, it has proven to be inequitable in several ways. School management face problems in accessing grants specially those schools with unqualified heads. The Grant as currently implemented is also biased against schools with less population although these schools face higher unit costs. In addition, the Grant currently is paid per learner irrespective of the region or gender of the child.

Further resources need to be made available for the capitation grant schemes with top-ups factoring in current inequities in the provision of education and the size of the school. In this way, the CGS can be more effectively targeted, although there is already evidence that even as an undifferentiated scheme it has succeeded in raising enrolments in disadvantaged districts by making primary education free of all fees.

**Source:** Various Interviews by the Evaluation team, 2006

### 5.3.3 Empowering the poor and vulnerable: what can we learn from the attention given to gender issues?

290. Despite the improvements of the 1990s, poverty in Ghana remains a disproportionately rural phenomenon, which is especially prevalent in the northern, savannah regions and especially amongst the producers of food crops, who are known to be predominantly women. The PSIA on Vulnerability and Exclusion of 2003 confirmed the links between gender and poverty and the fact that it is rural women farmers who are the poorest in society. In short, if poverty in Ghana is to be significantly reduced, poor women need to be empowered to access public services, to invest in their assets and to participate in available income earning opportunities. How much priority has been given to gender issues and with what results?

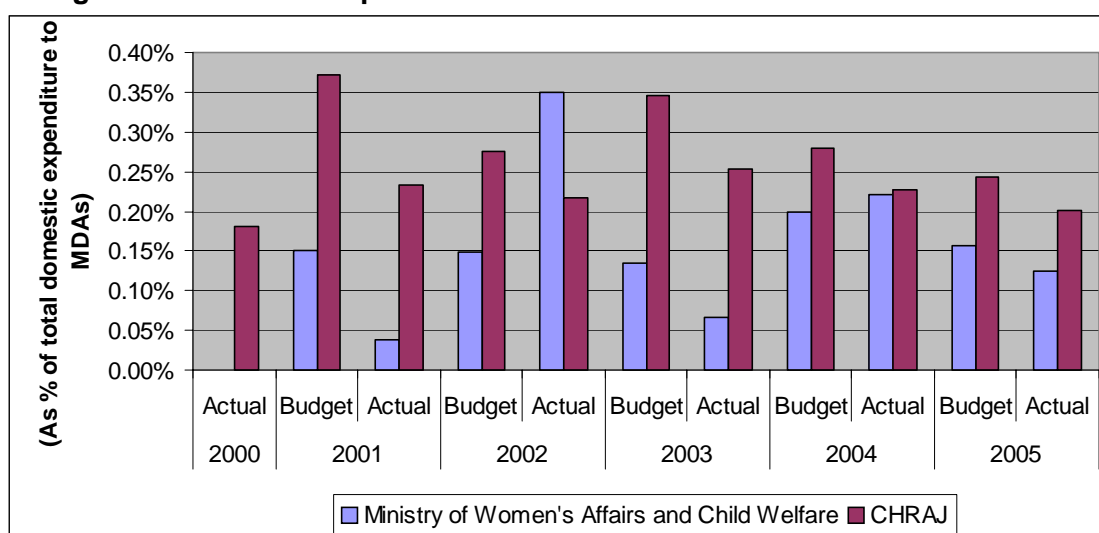
291. A first question to ask is whether the prominence given to the GPRS and to the importance of links between the GPRS and the budget has in any substantial way contributed to a more explicit focus on gender during the budget process?

- Guidelines for the preparation of the 2003-2005 budget issued in late 2002 did not mention gender as a priority in budget preparation and this did not change for subsequent guidelines issued for the budgets of 2005-2007 and 2006-2008. The guidelines for the preparation of the 2007-2009 budget issued in May 2006 however do mention the "promotion of gender equity" as one of the goals for GPRS II and advise MDAs to treat it as a cross-cutting priority (together with HIV and AIDS, environment and employment).
- As part of the budget preparation process, workshops are held with sector ministries to help them link sector budgets and sector plans with GPRS priorities. There is no evidence that the MOWAC plays a substantial role in this process to ascertain the extent to which MDA budgets are gender neutral. Our discussions with MOWAC

officials suggested that although they had a formal role in advising on these matters, their input was given very little weight.

- As a step forward, Gender Desks are present in each Ministry since 1998. However, discussions with the Girls Education Unit in the Ministry of Education<sup>46</sup> and the Ministry of Finance and Economic Planning suggest that these units do not participate actively in the resource allocation process within the sector (beyond involvement in negotiating resources available to their units during the financial year).
- Actual allocations for the Ministry of Women and Children's Affairs (MoWAC) and the Commission on Human Rights and Administration of Justice (CHRAJ) as a proportion of total domestic expenditure spent on MDA's have remained constant and low, although they have increased in real terms in line with overall budgetary resources. (Figure 5.1). Actual allocations to the MOWAC have been consistently lower than budgeted amounts except in 2004.

**Figure 5.1: Share of expenditure to MOWAC**



Source: Audited Financial Statements, 2001-2005

292. Even though MOWAC is both a co-ordinating agency and an implementing one, the bulk of expenditure that affects gender equality is spent through sector ministries, such as Health or Education. Final consolidated accounts however, report final expenditure data by MDAs, heads (for e.g. Ministry of Information: Headquarters, Information Services Department, Ghana News Agency) and items (personal emolument, administration, service and investment.) Without some sort of programmatic breakdown, it is thus not possible to analyse how much expenditure within sector ministries is explicitly aimed at addressing gender equality.

### Box 5.2 Constraints on Gender Analysis

There are various tools and processes in use designed to facilitate a gender analysis of the formulation of government budgets and the allocation of resources. The aim of gender analysis is not to create different budgets for men or women. It is an attempt to breakdown the government's aggregate budget according to its impact on women and men.

<sup>46</sup> The Girls Education Unit in the Ministry of Education is a Unit set up explicitly to address gender equality in education provision. Its role is larger than that of Gender Desks in other ministries.



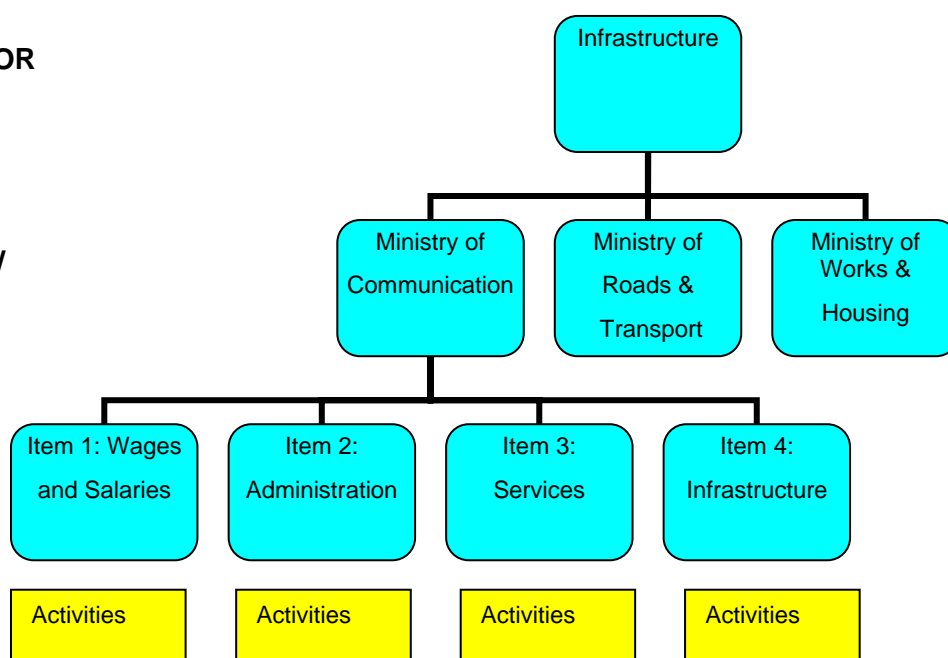
It is currently not possible to do this type of gender sensitive analysis in Ghana. This is because the current budget structure does not permit a direct tracking of expenditure against programmes (including those that affect gender equality). As a result it is not possible to know with any degree of certainty how much of public money is actually spent for example on improving maternal health or on getting more girls into secondary schools in a given year.

Why is it not possible to identify actual expenditure on gender sensitive programmes? The chart of accounts in use in Ghana divides public expenditure into sectoral, organisational and economic categories. This means that actual public expenditure as reported in annual audited statements is presented by: a) sector e.g. economic services or infrastructure b) organisation or “head” e.g. Ministry of Mines or Ministry of Interior and “sub heads” such as Ghana Refugee Board and c) economic classification or “item” e.g. wages and salaries or administration. So even though individual ministries *budget* according to activities the actual expenditure on these activities is not reported in the final accounts. An example for the infrastructure sector is presented below.

#### LEVEL 1: SECTOR

#### LEVEL 2: HEAD/ SUB HEAD

#### LEVEL 3: ITEM



This suggests that although it is possible to track consistently the budget and actual expenditure of the Ministry of Women and Children Affairs (since it is an individual “head” in the chart of accounts) it is not possible to identify, from the audited statements, the kinds of programmes the Ministry of Women and Children Affairs spends its resources on. Certain individual ministries do try and generate such information internally. For instance the Ministry of Education reports collects final expenditure by level of education. The Ministry of Health, in its Annual Financial Reports, presents use of donor funds (only) by programme (e.g. National Aids Control Programme). However, a review of these reports found little information on the proportion of the sector’s budget dedicated to gender-related activities.

Even if available information did report on final expenditure by activity for each sector ministry, a huge investment of time and resources would be required to give any real meaning to this data. Gender related activities, under each Sub-Head and Head would need to be identified and aggregated in much the same way as poverty-related expenditure is tracked by MOFEP. To further disaggregate gender-related expenditure by region would require a level of effort in expenditure recording which we judge to be well beyond the present capacities. Certainly, at present, information on poverty related expenditure by region is not available.

293. There is substantially more emphasis on gender equality within sector policies:

- The Ministry of Education established a Girls Education Unit, which coordinates activities of Regional/District Girls Education Officers present in each region and district. An explicit policy goal of “Providing Girls with equal opportunities to access the full cycle of education” was added on the original 8 goals of the Education Strategic Plan. Resource allocation within the Ministry is driven by a pro-poor formula, one criterion of which is the level of female GER (although there are substantial variations between allocated and budgeted expenditure across regions and districts).
- The education sector targets are linked to the MDG goals of achieving universal primary education (girls and boys) by 2015 and of eliminating gender disparity in primary and secondary education preferably by 2005 and at all levels by 2015. Progress seems to have been made. Between 2000 and 2005 the Gross Enrolment Ratio Gender Parity Index<sup>47</sup> has improved from 0.91 to 0.95 in 2005/06. At the district level, GER GPI showed 29 districts on course (0.96-1.04) and five above parity (above 1.05).<sup>48</sup> However, in other regions and districts there has been some slippage in progress previously made in achieving gender parity while the Northern Regions continue to rest at the bottom of parity rankings.
- The Capitation Grants Schemes resulted in a 18.31% growth in enrolment of girls compared to a 15.18% growth in enrolment of boys underlining the reality that girls’ education is more likely to suffer from parental resourcing constraints. However, there are emerging issues of overcrowding and under resourcing in schools as a result of the Capitation Grants Scheme. Some infrastructural deficiencies (such as toilets), which can result from such over crowding, are thought to affect girls’ dropout rates more than boys.
- Discussions with the district and regional education offices visited in the Central Region highlighted a portfolio of activities explicitly aimed at getting more girls into school. For the Cape Coast Municipal Directorate in 2005 for instance these included: sensitisation campaigns (including visits to village elders and radio campaigns); registration of children not attending schools; stakeholder meetings; career counselling sessions (including an emphasis on technical education). Each district has a District Girls Education Officer who submits quarterly reports to the Girls Education Unit at the central level.
- The sense of urgency regarding growing maternal mortality rates was visible in discussions with district health officials in the Central Region. The officials held inadequate and fluctuating exemption funds responsible for rising maternal mortality rates. There is some anecdotal evidence to suggest that maternal health is given priority in the exemption funds that are made available. In addition, prevention costs of mother to child transmission of HIV and AIDS are available free.

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<sup>47</sup> **Gross Enrolment Ratio:** total enrolment in the first 6 years of basic education known in Ghana as primary school regardless of age, expressed as a percentage of the eligible official school age (6-11 year olds) population corresponding to the same level of education in a given school year. **Gender Parity Index** is defined as the ratio between the female and male rates as the denominator. For example, female GER divided by male GER.

<sup>48</sup> Ghana Education Service (2006). *Towards Gender Parity in Primary Education in Ghana* (March, 2006). GES: Accra

- Within the Police Service, there has been progress in reorganizing the Women and Juvenile Unit of the Police (WAJU) as the Domestic Violence and Victim Support Unit (DOVVSU), and an increasing focus on the problem of Domestic Violence. The draft Domestic Violence Bill (DVB) was finally been approved by Cabinet in December 2006 (but only after the removal of the provisions criminalizing marital rape deemed culturally offensive) and approved by Parliament in early 2007.

294. So what can we conclude? Is the issue of gender given the weight of importance in budgetary allocations which it deserves? With the current structure of the chart of accounts, it is not straightforward to answer this question without a more disaggregated analysis at the ministry by ministry level but there is evidence of more attention being given to gender issues in the guidelines for budget preparation.

295. Is the issue of gender given the weight it deserves in questions of policy? Almost certainly, it is not. On the other hand, it is clear that gender issues have come to assume a major importance in the formulation and implementation of policies in health and education. With the prominence given in the media to the problem of domestic violence, this aspect of gender issues has also been given significant attention within the police service and in the justice sector. We were also informed by MoFA that the issue of women in agriculture will have some considerable prominence in the new agricultural development strategy, currently under formulation.

296. In short, there is evidence of an increasing profile being given to gender issues within GoG policy. Of course, increased profile is only a first step towards real empowerment but the evaluation team were persuaded by the various interviewees who addressed questions of gender that this increased profile is more than just “window dressing”: there is a genuine recognition – at least at the technical level – of the relevance of women’s empowerment to poverty reduction and social development. These judgements are necessarily impressionistic but our overall view was that in the short-term the main constraints to implementing effective actions to improve the status of poor women are more to do with generalised weaknesses in planning and budgeting and in the quality of pro-poor policy formulation and implementation than from a lack of attention or ‘profile’ to gender issues.

## 5.4 Overall Assessment of the potential for Poverty Impact

### **Summing Up:**

***EQ11: How far has MDBS strengthened government policies in ways which are likely to have an impact on poverty?***

The most recent published data on poverty levels and profiles derive from the 1998/ 99 GLSS. Until data from the 2005/ 06 GLSS are processed and analysed, it will not be possible to say anything robust about the impact of the MDBS on poverty.

We have therefore tried to assess the likelihood of MDBS having a favourable impact on poverty trends in the future and we conclude as follows:

**a)** Important developments in policy and public spending have occurred, which to a greater or lesser extent can be said to have been facilitated by the MDBS, and which seem clearly favourable to poverty reduction.

**b)** In order for such developments to impact systematically and effectively on poverty, one would need to have confidence in the ability of the government system: i) To convert increased allocations for poverty reduction into concrete programmes of investments and

service delivery actions; ii) To formulate and implement pro-poor policies effectively; and iii) To undertake actions to empower the poor to take advantage of the opportunities generated by faster growth.

**c)** In the first of these areas, there are real doubts over the ability of current processes of sector policy formulation, budget preparation and execution to convert allocations into actions. Strategies are inadequately conceived, the budget structure does not permit the use of programmes as a focus for budget allocation and service management, and budget execution continues to deviate sharply from planned budgets.

**d)** Evidence of the ability to formulate and implement pro-poor policies is also uneven. The primary education Capitation Grant Scheme can be considered in broad terms a success, notwithstanding the need for some refinement so as to adapt the allocation formula more precisely to the needs of girls, of pupils from disadvantaged districts and of small schools with higher than average overheads.

**e)** The introduction of the National Health Insurance Scheme has proven less favourable to the poor, especially because it was combined with a continued use of centralised budgets for health fee exemptions, against which disbursements have been very slow. The difficulties in registering for the Scheme, along with the long delays in distributing registration cards have effectively excluded most of the poor from access to either the NHIS or to fee exemptions. The consequences for access to services are already apparent and some health staff attribute directly to this the declines in maternal mortality and infant mortality statistics.

**f)** With regard to empowerment, we have specifically considered the role of gender programmes in bringing greater budgetary and policy priority to women. In terms of procedures, such issues are now given explicit attention in budget guidelines, although the structure of expenditure data does not easily permit an analysis of the effects. In terms of policy priority, there are examples of gender-focused adjustments to policy in agriculture, education, health and police.

**g)** Thus, gender issues have a relatively high profile within the GoG's policy-making processes. Therefore, in the short term it is the generalised weaknesses in pro-poor policy-making and in budget formulation and execution which appear to be the binding constraints on converting policy intentions into results.

**Overall, we conclude that although there is evidence of the MDBS having a positive influence on pro-poor policies and spending, the institutional environment displays too many significant weaknesses to be confident about the final impact on poverty.**

## 6 The Relevance and Sustainability of the MDBS

297. In the previous three chapters we have assessed the Ghana MDBS against the evaluation framework, asking eleven questions about the chain of causality from Level 0 (base conditions) to Level 5 (impacts). These together permit us to make judgements on the impacts and the overall efficiency and effectiveness of MDBS, which are presented in our concluding chapter. In this chapter we will assess MDBS against the remaining DAC evaluation criteria – relevance and sustainability, as described in the box below.

### Box 6.1 : The DAC Evaluation Criteria

The five DAC evaluation criteria are:

- **Impacts:** Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.
- **Relevance:** The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies.
- **Effectiveness:** The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
- **Efficiency:** A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results.
- **Sustainability:** The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time.

Source: IDD 2005: Box 3.1.

## 6.1 The Relevance of Multi Donor Budget Support

**EQ 12: Was budget support relevant to the starting conditions in 2003 and did the evolving MDBS design provide an appropriate response to the specific conditions of Ghana?**

### 6.1.1 Key features of the starting conditions in 2003

298. What were the key features of the starting conditions in 2003 and what particular challenges did they present for the design of the MDBS? We analysed these questions in Chapter 2 and concluded as follows:

*'At the outset of the MDBS, there remained serious weaknesses in the quality of strategy formulation, budget preparation and execution which placed question marks over the ability of the Government of Ghana to utilise budget support effectively to enhance poverty reduction efforts. The MDBS partners were well aware of these limitations and had identified them as significant risks within the programme design.'*

299. We also noted that there were four factors suggesting an improvement in the overall environment for budget support, which provided the essential justification for proceeding:

- The peaceful alternation of power following the December 2000 elections, which pointed to a steady continuation of the improvements in democratic governance witnessed since 1992.

- The strengthening of macroeconomic management over 2001 and 2002, which allowed the Government to conclude a PRGF arrangement with the IMF and gave confidence in the Government's commitment to fiscal stability.
- The approval of GPRS 1 by Parliament in February 2003.
- The tabling of three new acts during 2003 covering Finance, Procurement and Internal Audit, together with the preparation of short and medium term action plan for PFM reform.

### **6.1.2 Did the MDBS design respond appropriately to the starting conditions?**

300. We would assess the MDBS design as being fully **relevant** if it could be seen to respond appropriately to the key features of the starting conditions. In particular, the design should be expected to enhance the strong features within the starting situation, whilst aiming to correct the weaknesses. In addition, the design should be true to the core principles of budget support - in promoting government ownership over policy and public spending decisions and in seeking to correct the weaknesses of previous systems of aid management. There are thus six factors against which to judge the relevance of the Ghana MDBS design:

- Did the MDBS design serve to reinforce the presence of a democratic challenge to the Executive and the existence of transparent processes of policy assessment, debate and refinement?
- Did it seek to strengthen the Government's commitment to fiscal stability and sound macroeconomic management?
- Did it seek to enhance the role of the GPRS as a system for setting targets for poverty reduction measures and for reviewing their progress on an annual basis?
- Did it build upon and enhance the short and medium term action plan for PFM reform as a mechanism for planning and monitoring PFM reforms?
- Did it seek to correct weaknesses in aid management systems, by reducing transaction costs and by promoting coherence and ownership through the channelling of resources through the budget?
- Did it seek to achieve these objectives in ways which promoted government ownership over policy and spending choices and responsibility for the results?

301. There is a considerable amount of attention given to these six factors in the design documents (loan and grant agreements) of the MDBS partners as well as the text of the MDBS Framework Memorandum. The MDBS partners were aware of their importance and of the need to use the MDBS mechanism as a tool to enhance the positive developments within these different areas. The possibility of providing technical assistance support was also envisaged through the MDBS technical assistance fund. Overall, then, the design was well focused and avoided being diverted into consideration of issues that were not germane to the operation of the MDBS. However, were these issues addressed in the right way? In particular, were they addressed in ways which would promote ownership and strengthen domestic structures that might expect to be sustained over the long term?

302. To this second question our answer is negative. We understand the design choices made and accept that they represent a logical response to identified weaknesses. But in our

judgement, they did not respond to the need for design solutions which would promote government ownership and responsibility and would create sustainable management mechanisms. Here, we are referring in particular to the reliance placed upon the MDBS Performance Assessment Framework (PAF) and to the related set of donor-specific accountability mechanisms, reinforced by the use of a 'performance payment' directly linking MDBS disbursements to the fulfilment of trigger conditions.

The PAF in Ghana, as in most GBS-receiving countries, was always expected to have a dual function – on the one hand to provide a framework for monitoring the fiduciary risks of the budget support providers and for assessing the fulfilment of disbursement conditions; and, on the other, to provide a framework for Government to prioritise its own policy and institutional reforms, set targets for progress and monitor them annually. Ideally, a PAF should only fulfil the former function of external accountability, relying on pre-existing domestic mechanisms for reform management and progress monitoring and on pre-existing structures of domestic accountability. At the outset of the MDBS, these domestic mechanisms and structures were either non-existent or too weak to provide an adequate basis for the MDBS partners to meet their own democratic and fiduciary requirements. There is thus no doubt that the PAF was needed and that its dual function was also necessary.

303. However, notwithstanding the short-term usefulness of the PAF, there is no doubt that excessive reliance on the PAF has drawn attention away from the pre-existing structures of domestic monitoring and accountability, which the MDBS design should ideally have sought to strengthen and sustain. There has always been an annual budgetary process, through which the government of the day lays out its spending plans and its key policy priorities – most notably through the Finance Minister's Budget speech. The MDBS design should have sought to reinforce this mechanism and the related structures of democratic consultation and discussion<sup>49</sup>. In practice, the PAF design gave little attention to the potential role of Parliament and civil society within its construction and monitoring.

304. Similarly, there were existing structures for monitoring the GPRS - through the Annual Progress Report, and for monitoring progress in PFM reform - through the short and medium term action plan for PFM reform. Reference is made to both of these processes in the MDBS Framework Memorandum and, at least in principle, these processes were expected to provide key elements of the monitoring framework for the MDBS. In practice, there has been little real attention paid to these documents and to the underlying processes they represent.

305. The GPRS Annual Reports are intended to be issued prior to the MDBS annual review. Given the timing of receipt of administrative data on service delivery, it has often proven difficult to complete the GPRS Annual Report on time and to an adequate standard of quality. Unfortunately, the response of the MDBS DPs to this problem has been to place reliance on the PAF, rather than putting emphasis on the need to strengthen the GPRS review process.

306. The short and medium term action plan for PFM reform was always a technically weak document but at least it represented the fruits of an internal process, which could provide the basis to bring together the different stakeholders dealing with PFM reform. A relevant MDBS design would have aimed to strengthen this document and to give it more

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<sup>49</sup> Interestingly, in the process of constructing the 2007 PAF, the MDBS partners have explicitly suggested that the 2007 Budget Speech might be used as one of the sources of policy targets and triggers, which is a step in the right direction.

weight within the PFM reform coordination process. By relying on the PAF and the discrete PFM triggers contained within it, the MDBS stakeholders effectively lost the opportunity for a serious analysis of the overall coherence of PFM reforms and of the appropriateness of sequencing decisions. (See 4.4.7)

307. These same issues were reviewed in section 3.3.2 in considering the contribution of the MDBS to the alignment process. Our conclusions there seem equally pertinent to the wider question of the relevance of the MDBS design:

*‘...On balance, we are convinced that the short term gains that have been secured through the PAF (as a mechanism of expediency) have so far outweighed the risks presented by the creation of a new, and somewhat donor-heavy, structure. However, in order for the MDBS to be more aligned and thus to have a greater chance of strengthening domestic institutions, an ‘exit strategy’ from the PAF needs to be developed.’*

308. The design, use and mode of interpretation of the MDBS PAF are heavily influenced by the fact that it includes the 10-14 trigger conditions which form the basis for the disbursement of the MDBS performance payment. The choice of a split disbursement mechanism was motivated by a desire to provide predictability over the disbursement of the base payment of budget support, whilst introducing extra incentives for timely execution of policy and institutional reforms through the use of a conditional performance payment. Was the balance of these objectives appropriate and was the use of a conditional performance payment relevant to the Ghanaian situation?

309. We would argue that this was a logical and yet inappropriate response to the prevailing circumstances. Ghana had a poor track record of reform implementation at the outset of the MDBS; there was a natural desire to create a design response to this situation. But we believe that the choice of a conditional payment was inappropriate for two reasons:

- Firstly, it did not take account of the well documented experiences of the application of conditionality through structural adjustment programmes in Ghana and elsewhere. This experience shows clearly that domestic political factors have been the driving force behind sustained reform processes and that these domestic political factors have been largely immune to the application of conditionality<sup>50</sup>.
- Secondly, it served to shift attention from domestic to external accountability. Governments should commit themselves to reforms not because they are compelled by external parties to do so but because they are important to the achievement of political objectives and because they are held to account for the achievement of those objectives by their own political parties, by the Legislature and by the Electorate. Budget support should seek to strengthen these domestic structures of accountability because they represent the only sustainable basis for improving government performance in the long term.

310. It is possible to strengthen both domestic and external accountability simultaneously. But it implies a very deliberate process of analysis of how domestic accountability works in practice, of which mechanisms of information dissemination, monitoring and control work most effectively and a deliberate structuring of disbursement conditions so that they work as

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<sup>50</sup> Killick *et al* (1998), Dollar *et al* (1998), White (1999), Dijkstra (1999) and Tarp, F. & Hjertholm, P (2000) are the main references but there is an abundance of empirical support for this proposition.



far as possible through these systems of domestic accountability. This will imply some significant compromises by external stakeholders and is never likely to happen in a context (such as the Ghana MDBS) where the focus of attention is so strongly on the needs of external stakeholders.

311. It should also be recognised that domestic stakeholders – even members of the Opposition – are always likely to have an ambivalent attitude to the exercise of conditionality by external stakeholders. At its worst, conditionality could be seen as a threat to national sovereignty. Even where it is not perceived to have ‘political’ undertones of this kind, it is likely to imply a reduced level of budget support and hence a reduced level of public expenditure, a consequence which few domestic stakeholders would favour.

312. Our analysis of the immediate effects of MDBS conditions (in section 3.2) and of the resulting outputs and outcomes (in chapter 4) failed to identify any reform actions which would not have been executed in the absence of conditionality. GoG commentators did attest to the fact that certain reforms were implemented in a more timely way as a result of their inclusion in the PAF but saw this as the result of reform targets being publicly stated and publicly monitored, not as a result of policy triggers having conditional disbursements attached to them. Moreover, we found that the linking of policy dialogue to conditional disbursements had a negative effect on the scope and nature of the dialogue (3.2.2) and that it generated additional transactions costs (3.3.3).

313. The use of a conditional performance payment is illustrative of an approach to MDBS design which places more weight on mechanisms of external accountability than on the mechanisms of accountability to domestic actors and institutions. We have no illusions about how effectively such processes of domestic accountability work in young democracies such as Ghana (or even in some much more mature democracies). This is one of the key sources of risk in providing budget support: an assessment of that risk should determine both whether budget support is provided at all and what the size of budget support should be – a question we examine below. Perhaps the key error in the MDBS design was to assume that a conditional payment might reduce that underlying risk and generate additional incentives to policy reform. The experience thus far suggests that this assumption is false.

### **6.1.3 Was the size of the MDBS appropriate to the context?**

314. Was the aggregate volume of MDBS funding too big, too small or just about right? The calculation of the desirable size of budget support is far from being an exact science so this is a difficult question to answer, although clearly an important one. In the era of controlled exchange rates, the IMF would normally advise on the volume of structural adjustment/ balance of payments support required to meet the foreseeable foreign exchange needs of the economy. With freely convertible exchange rates, a similar calculation is undertaken based upon a view about the desirable rate of fluctuation in the nominal exchange rate. However, Ghana has not in recent years been in a situation of exchange rate scarcity, so this has not been the predominant concern. In calculating the desirable volume of budget support, there would normally be five questions at issue:

- i. What are the external resource requirements over the medium term taking account of the poverty reduction strategy and the medium term fiscal framework?
- ii. What is the total volume of non-GBS external assistance expected to be provided to the public sector, taking account of project grants and loans, common basket

funding, sector budget support, as well as recurrent cost savings accruing from debt relief?

- iii. In so far as there is a resource gap, does the public sector appear to have the absorptive capacity and the necessary fiduciary controls to utilise these resources effectively on pro-poor programmes where value for money is likely to be achieved?
- iv. Would provision of these resources entail any significant macroeconomic risks – in particular, arising out of appreciation of the real exchange rate (Dutch disease effects) or from difficulties in ‘sterilising’ the monetary inflow?
- v. Is there any desire to alter the relative balance of aid resources in favour of unearmarked budget resources, such as general budget support or debt relief?

315. General Budget Support should normally be of a volume sufficient to cover the financing gaps identified in the PRS/ medium term fiscal framework, subject to a judgement over the ability to utilise those resources effectively, without generating negative macroeconomic consequences. In so far as there was an explicit desire to alter the composition of external assistance, then GBS might also be structured to grow over time relative to other sources of external assistance.

316. In analysing these questions retrospectively, what is our conclusion over the appropriateness of the size of the MDBS? Clearly, Ghana was not well geared up to address these analytical questions in 2003. There were major data gaps – particularly in relation to anticipated flows of external assistance, and clearly we benefit from a retrospective knowledge which did not exist then. Looking back, we may identify elements of the GPRS which were under-resourced, where MDBS resources could have been effectively applied. The reduction in the outstanding stock of domestic debt might conceivably have been managed more speedily with more resources. The primary education Capitation Grant Scheme might have been introduced more quickly and more comprehensively. Yet, neither the GPRS1 nor the MTEF process served to identify these resource gaps effectively. Moreover, in the light of the known weaknesses in public sector management and in PFM processes, it would have been financially imprudent to count upon a successful, accelerated start to the CGS. Similarly, a faster reduction in the domestic debt stock might have posed inflationary risks if there was inelasticity in the private sector supply response to lower interest rates. In short, based purely on a resource gap analysis, the size of the MDBS looks about right – particularly alongside HIPC debt relief and expanded project assistance.

317. We have at various points in our analysis alluded to the limited size of the MDBS. This is perhaps most pertinent to a consideration of its relative significance as a proportion of total external assistance. The theory of budget support suggests that a shift from off-budget to on-budget sources of external assistance can generate positive endogenous effects, as a result of the increasing importance of the national budget, the increased control over external resources which this can provide for the Executive and the increased scrutiny over external resources that this can provide for the Legislature. It can also generate efficiency savings by moving from aid modalities which are inflexible (less fungible), relatively unpredictable and relatively high in transaction costs to the use of a budget support modality which scores better against each of these criteria. Unfortunately, it does not appear that it was ever the explicit intention of the MDBS partners or of the Government of Ghana to achieve this relative shift in modalities. Our assessment of the transaction costs of the MDBS (Section 3.3.3) and of predictability (Section 3.1.3) concluded that the MDBS scored

relatively well on these criteria, suggesting that at least on efficiency grounds the relative shift across modalities would have been justified.

318. Perhaps the most striking observation, however, is that there is no evidence of any systematic assessment of the desirable absolute or relative size of the MDBS having been undertaken either by the MDBS partners or by the Government of Ghana. This in itself is a significant shortcoming in the MDBS design. But it is also symptomatic of a more general miss-application, or perhaps, to be more accurate, a very partial application, of the philosophy of budget support. The MDBS was conceived predominantly as a method of opening up a new channel of dialogue between DPs and GoG and, by implication a new means of influence over government policy. Undoubtedly, budget support can and normally does serve this purpose but its primary rationale is that it provides a method of financing public sector activities, which cannot efficiently be financed through other aid modalities.

319. Had the focus of the MDBS design been more explicitly on its value as a financing mechanism, more attention would have been paid to its size relative to financing needs and relative to other aid modalities. There would have been more ex-ante discussion of the nature of the additional spending that MDBS financing might have permitted the GoG to undertake. The medium term fiscal framework, the content of the budget and the results of budget spending would have been the centre points of discussions with the MDBS DPs. Within such a framework, the size of the MDBS would probably have been no greater at the outset but the possibility of its expansion in response to improved efficiencies in public spending would probably have been in-built into its design. These opportunities have been effectively lost. As such we must judge that the MDBS design did not take full advantage of the available development opportunities and was only partly relevant to the starting conditions in 2003.

#### **6.1.4 How has the MDBS design evolved?**

320. The MDBS mechanism is still relatively young, having been in operation for only four years. This is perhaps too short a time to have seen any major evolution in its design. Nevertheless, 2006 has seen at least three significant changes:

- Firstly, the timing of disbursement decisions has been altered so as to provide decisions 8-12 months prior to disbursement. This will permit the GoG to have knowledge of planned disbursements in advance of the launch of the budget preparation calendar for the year in which disbursements will be made, thus providing a high level of predictability over the level of budget funding. (See 3.1.3)
- Secondly, the structure of the PAF has been re-organised so as to provide a framework of policy triggers and performance targets over a three year period (2006-2008), rather than a one year period.
- Thirdly, the Netherlands have announced a reduction in the relative share of their MDBS funding to be disbursed through the performance payment, from 50% to 20%, thus reducing the overall importance of the performance payment.

321. Alongside this, there have been discussions at the 2006 MDBS Annual Retreat about the possibility of moving away from reliance on trigger conditions to a more holistic assessment of progress. Whilst the precise substance of such a change remains under discussion, it is clearly intended to address some of the problems in the nature and scope of

the MDBS dialogue, which have been identified in this evaluation and elsewhere. There were also discussions at the 2006 Annual Retreat about possible ways of streamlining the preparation and review of the 2007 PAF, so as to reduce the related transactions costs. There is therefore a sense of a relatively responsive design process.

## **6.2 The Sustainability of Multi Donor Budget Support**

***EQ 13: Is the MDBS and the resulting process of institutional development sustainable?***

### **6.2.1 Introduction**

322. Sustainability of the MDBS process is important in the context of the long-term objectives that are set for MDBS. The time scale for plausible institutional and policy effects on poverty reduction is a long one, as is the horizon for achievement of the MDGs. MDBS needs to be durable, but also adaptable, if it is to perform effectively over the long periods that its intentions require.

323. In addressing sustainability, it is also important to consider whether the effects and impacts of the MDBS are likely to be durable. How confident can we be that the effects of the MDBS in Ghana will be sustained? This is the second half of the sustainability question.

### **6.2.2 Durability and adaptability of the MDBS process**

324. The MDBS process is now well embedded within the policy-making and budget preparation process of Ghana. The MDBS core group and the Sector Working Groups have become quite well institutionalised and play roles which are well understood. We have expressed doubts over whether they are playing precisely the right roles and whether they have precisely the right membership but there is no doubting their durability, so long as MDBS funding continues. The management and coordination structures of the MDBS are also strongly institutionalised – led by the MDBS technical secretariat on the GoG side and by the Co-chairs and their supporting staff on the side of the MDBS DPs.

325. The MDBS framework has also proven relatively adaptable. Its Technical Annex has been updated on an annual basis to address specific operational concerns and the practice of a regular annual retreat has been part of the management process from the outset. This suggests willingness among the MDBS stakeholders to learn from experience and to adapt to the emerging requirements of the Ghanaian context. One major design change has been introduced – namely the re-organisation of the disbursement decision-making calendar to a “*t + 1*” basis (see sections 2.2.2, 3.1.3 and 6.1.4). This has involved quite a complicated re-synchronisation of the assessment and disbursement processes and should bring important gains in predictability.

326. In other aspects of the MDBS design, there has been more stability. Most significantly, the two tranche disbursement system has remained throughout and the criteria for assessing the performance payment have also seen little change, following the initial expansion of the numbers of triggers and targets in the PAF after the merger of the MDBS and PRSC criteria in 2004. (Table 2.3 in section 2.2.2 shows how policy triggers and targets have been divided between different areas of attention.)

327. The scale of MDBS flows has remained at around US \$ 300 million per annum, although with GDP growing at 6 % p.a. and the share of public expenditure within GDP also rising, its relative significance as a source of funding has declined quite markedly from nearly

13 % of total public expenditure in 2003 to approximately 9 % in 2005 and rather less than this in 2006. However, this in itself illustrates a degree of stability over core objectives – notably over the secondary order of priority given to the financing role of the MDBS and the primary role accorded to its role as a mechanism for policy dialogue and influence.

328. Nevertheless, it would be surprising to see change in the core objectives and the structure of a budget support operation, such as the Ghana MDBS, during an implementation period of only four years. A policy experiment of this kind needs a certain minimum period of implementation before it can be expected to take effect and before it becomes useful to assess those effects. The fact that a major independent evaluation has been commissioned in the fourth year of implementation is a strong sign of a willingness to introduce adaptations and bodes well for the sustainability of the MDBS arrangements.

### **6.2.3 Sustainability of changes generated by MDBS**

329. Chapters 3, 4 and 5 have presented a comprehensive analysis of the effects of the MDBS and the results of this analysis are synthesised in Chapter 7. How sustainable are these effects likely to be? This is the second half of the sustainability question.

330. Three types of changes have been generated by the MDBS. It is useful to consider separately the sustainability of each of these:

- i. Financing or 'flow of funds' effects, resulting directly from the injection of funds provided by MDBS and from the chosen mechanism of disbursement.
- ii. 'Policy effects', resulting from the influence of policy dialogue and conditionality either over the selection by the GoG of policies and reform actions or over the speed of their implementation.
- iii. 'Institutional or Process effects', resulting from the influence of the MDBS over planning, budgeting, monitoring and decision-making processes.

331. Regarding financing effects, it seems reasonable to consider that the MDBS has permitted a faster reduction in the domestic debt stock and a moderately higher level of public spending than would otherwise have been the case. (Because MDBS is a fungible resource, it is impossible to attribute a precise funding impact in each of these areas but this does not unduly affect our analysis of sustainability.) The use of budget support resources to engineer a reduction in the domestic debt stock is a useful way to achieve a sustainable funding effect. Regardless of whether the MDBS continues or not, the domestic debt stock and hence the interest rate on Treasury Bills will both be lower than they would have been in its absence. Moreover, given the declared fiscal strategy of the current Government, it seems reasonable to assume that continued control of domestic borrowing levels will be sustained at least until the elections at end 2008.

332. With regard to public spending, the sustainability of these effects depends in part on how they have been used (in particular on the balance of future costs and benefits which MDBS-funded investments and recurrent activities might generate) and in part on whether the additional level of spending can be maintained. In the absence of a comprehensive analysis, it is impossible to say anything definitive about the balance of future streams of costs and benefits which will be generated by public spending and by implication by the MDBS. However, in chapters 4 and 5, we expressed some concerns over the extent to which the GoG budgeting and expenditure management processes are generating allocative and operational efficiency. With more attention to efficiency issues, a more favourable

balance of benefits could be achieved and sustained. In chapter 7 we make some recommendations in this respect.

333. As regards the capacity to maintain the additional level of current spending which MDBS might have generated, there are two factors favourable to sustainability. Firstly, the fact that the MDBS has been relatively small in scale means that its funding can more easily be replaced by expanding domestic revenues. Secondly, the fact that increases in aid have not for the most part been absorbed (but have to a large extent been used to finance debt stock reductions and expansion of foreign exchange reserves) suggest that public expenditure is probably not much greater than it would have been in the absence of MDBS. (Again fungibility prevents us from being precise in this judgement but as noted in Chapter 3 and detailed in Annex 4, the level of macroeconomic absorption of expanded aid flows has been low.) In short, the financing effects from MDBS have not been of a scale to generate concerns over their sustainability.

334. On the question of policy effects, one of the essential principles of the MDBS arrangement has been that it should provide support to the implementation of the GPRS and the package of policy and reforms chosen by Government to achieve the GPRS. Notwithstanding the influence which MDBS partners have sought to exert over the selection of PAF targets and triggers, our judgement is that the ownership principle has been largely preserved. Although a purely GoG-generated PAF matrix would almost certainly look different to the current one, there are no MDBS policy triggers or targets to which the GoG has not agreed and committed itself. In most cases, these commitments have been manifested in GoG policy statements and speeches unrelated to the MDBS. The fact that ownership has been respected suggests that any effects there may have been over the selection of policies or the speed of their implementation are likely to be sustained so long as the present administration remains in power.

335. Our assessment of the sustainability of institutional and process effects is less favourable. These have been of two types:

- a. The positive effects for the design and monitoring of GoG policies and reforms, arising from the development of the PAF and the associated framework of the core MDBS group and the sector working groups.
- b. The positive institutional effects resulting from changes in the composition of external assistance flows.

336. Considering this second set of effects, we have observed in Chapter 3 that during the life-time of the MDBS there has not been a sustained shift in the composition of external assistance in favour of budget support and debt relief. We also noted in chapter 2 that this was never expressed as an explicit objective of the MDBS arrangement either by GoG or by the MDBS partners. However, the evidence we were able to gather both on transaction costs and on predictability suggested that there would probably be positive efficiency effects arising from such a change in composition. Evidence from other budget support evaluations – notably from Tanzania and Uganda – suggest that positive effects on ownership and on the quality and effectiveness of domestic accountability might also result. With the advent of the Multi-lateral Debt Relief Initiative, it may now be possible for such a shift in the composition of external assistance to occur. Indeed, the combination of MDRI, HIPC and MDBS flows amounted to 47 % of external assistance flows in 2006 (See Section 3.1). Although we do not attribute this change to the MDBS itself, it is certainly appropriate for the GoG and the MDBS partners to consider whether this shift in composition should be

sustained in future. In Chapter 7, we make recommendations which might permit this, should the GoG and its partners choose to make the necessary changes in aid policies.

337. The most significant 'institutional' or 'process' effects of the MDBS have emerged from the establishment of the PAF matrix as a tool for prioritising reform efforts and measuring progress and from the creation of the related structure of sector and core MDBS groups. Our judgement is these are playing a useful function, for which effective structures did not previously exist (with the possible exception of health and education). We also noted (in section 3.2) that the PAF and its related dialogue structures have helped to promote greater Government ownership of and responsibility for the policy agenda. They have done this by filling the policy management vacuum which previously existed and by doing so in a way which, for the most part, has given GoG the leading role.

338. Yet there are concerns over whether this is the right way to fill the 'policy management vacuum'. In section 3.3, where we considered the contribution of MDBS to policy alignment, we concluded:

*"...The PAF has been a useful response in the short term but has it created a structure which the Government would want to sustain in the future, in the absence of budget support? We suspect not. Rather than keeping a 'three-pronged' management structure with the PAF working alongside the GRPS and the Budget/ MTEF process, it seems far more likely that the GoG would seek to strengthen either or both of the other systems."*

339. We consider that, in order to ensure a sustainable institutional impact, an 'exit strategy' from the PAF needs to be developed. This need not necessarily mean stopping the use of the PAF during the lifetime of the MDBS. The PAF will always play a useful role in assessing whether the conditions of the MDBS partnership are being respected. But it does mean, that the domestic reform design and management roles played by the PAF should increasingly be taken up by the budget/ MTEF and GRPS design and review structures. This would imply according a stronger role within the MDBS annual assessment process to the GRPS Annual Progress Report and to the MTEF and budget processes. It would also imply some deliberate limitation of DPs' roles within sector working groups and a greater emphasis on the roles of GoG and CSO stakeholders – the purpose being to convert these into GoG structures for sectoral budgetary and policy formulation and monitoring, in which DPs might act as observers rather than leading protagonists.

340. Several of the MDBS stakeholders with whom we spoke recognised the need for changes in these areas – again reinforcing the sense of adaptability of the MDBS structure. Subject to the changes described above (and detailed in Chapter 7), we would judge that both the MDBS arrangement itself and the various changes it has promoted, have a reasonably high probability of being sustainable.

## 7 Conclusions and Recommendations

341. In this final chapter, we bring together our overall conclusions on the impacts of the of the MDBS process and on its efficiency and effectiveness. These conclusions derive directly from the judgements we have reached in chapters 2,3,4 and 5 regarding the effects of the MDBS at each level of the evaluation framework. The Executive Summary of the report presents a synthesis of these conclusions, so they are not here repeated.

342. In addition, we present recommendations on the future design and management of the MDBS. We also highlight the policy changes which the Government of Ghana and the MDBS partners might need to consider to create a more favourable environment for the implementation of the budget and the GPRS and, by implication, for the success of MDBS.

### 7.1 Efficiency and effectiveness of the MDBS

#### *EQ14: Has MDBS been an efficient and effective use of aid resources?*

343. What have been the most significant effects of the Ghana MDBS at the output and outcome levels? It is difficult to provide a definitive answer to this question. In the first place, the MDBS has not been such a major contribution to government financing to permit an easy identification of the new expenditures (the expenditures 'at the margin' to use the jargon of economists) which could only have taken place with MDBS funding. Similarly, although the role of MDBS dialogue has been prominent and has certainly provided a positive support to the identification, implementation and monitoring of institutional and policy reforms, we have not identified any single reform whose presence or whose speed of implementation can be directly attributed to the influence of the MDBS dialogue.

344. The overall role of the MDBS has been more one of facilitation of a number of positive effects rather than clear-cut causation of any single major output or outcome. However, three important things can be said with a reasonable degree of certainty:

- The MDBS has provided just under 10 % of total government spending over 2003 - 2006. In the absence of this financing, it would not have been possible simultaneously to reduce the stock of domestic debt and to raise both in absolute and relative terms the level of allocations to poverty-reducing expenditures.
- The MDBS dialogue has been clearly influential, creating operational structures for dialogue over cross-cutting and sectoral policies where previously they did not exist, helping to generate relevant policy responses to specific government concerns and helping also to sustain government commitment to reform.
- There is no single area where the MDBS dialogue can be said to have been a decisive influence but there have been a number of important developments in policy and public spending, which to a greater or lesser extent have been facilitated by the MDBS, and which seem clearly favourable to poverty reduction:
  - The macro-economic picture has strengthened.
  - The environment for the private sector has improved.
  - Implementation of reforms to procurement procedures and to PFM systems have proceeded steadily, if not dramatically.



- The relative roles of Parliament and of CSOs within the budgetary process have been strengthened and improvements have also been made in broader aspects of governance.
- There has been an increase both in the real resources and in the relative shares allocated to 'poverty-reducing' spending areas; and,
- In the education sector at least, this has translated into improvements in access and equity.

345. All of these are important achievements, which augur well for the ability of the Ghanaian economy and the Ghanaian government to reduce poverty. They represent the immediate benefits of the MDBS – a set of benefits which could not plausibly have been provided through other aid modalities. Its fungibility as general budget support has permitted MDBS funds to be applied to both 'above the line' and 'below the line' transactions (such as domestic debt repayment) and to be applied in response to financing needs as they arose. Provision of earmarked resources (whether through projects or common basket fund arrangements) would not have generated these benefits.

346. Similarly, the scope of policy dialogue which has been made possible through the MDBS arrangement could not have been reproduced even through a series of several sectoral arrangements because it has covered important cross-cutting issues as well as sectoral questions. It is also rather difficult to envisage how a series of project or common basket fund interventions could have prompted the integrated structure for dialogue which the MDBS has generated, notwithstanding our reservations over the sustainability of these structures and their links to domestic accountability processes.

347. Taking all of these considerations together, we would judge that the Ghana MDBS has represented an efficient and effective use of aid resources. We also have no doubt that the range of benefits which have been facilitated by the Ghana MDBS could not have been generated as efficiently by any other aid modality or combination of modalities. On the other hand, we do believe that the MDBS could have been more efficient under a different management framework. We also have concerns over the extent of the final impact on poverty. We address below these two important reservations.

### **7.1.1 Could the same resources have been used more efficiently?**

348. Was the Ghana MDBS as efficient and effective as it should have been? Could greater results have been achieved with the same volume of resources? We have alluded at various points throughout this evaluation to limitations and weaknesses in the scope and nature of policy dialogue. These were weaknesses which derived from the specific design chosen for the MDBS arrangement and from the management and monitoring systems which were adopted. We refer in particular to three deficiencies :

- i. The almost exclusive focus on the use of the dialogue framework as a mechanism of external accountability, rather than a means to raise domestic awareness and knowledge of key policy debates and to make available information to Parliament, CSOs and the public on the quality of government performance.
- ii. The use of a system of performance payments conditional on the achievement of policy 'triggers' as a mechanism for generating additional incentives for fast implementation of reforms. There is no evidence of reforms having been

implemented faster or more effectively as a result of the performance tranche. Yet, this system has reduced the quality of dialogue, making it less strategic, unnecessarily confrontational and by implication less effective as a forum for open discussion and resolution of politically sensitive policy problems. It has also raised the transaction costs generated by the MDBS process and limited its contribution to harmonisation and alignment objectives.

- iii. The overall emphasis on the use of the MDBS as a channel of policy dialogue, rather than as a tool of budget financing. As a result, the degree of attention to budget allocation decisions, to the effectiveness of their implementation and to the assessment of the corresponding results has been rather less than would be normal in a budget support arrangement. Consequently, the degree of scrutiny of spending decisions has been less than would have been desirable and may have permitted inefficiencies in public spending to have persisted, when they could have been corrected. (We refer in particular to the issues analysed in sections 4.4 and 4.5)

349. In the absence of these design faults, we contend that more substantial benefits would have been achieved with the same amount of resources. Thus, higher levels of efficiency and effectiveness should have been possible. In our recommendations below, we present some proposals on how these deficiencies might be overcome.

### **7.1.2 Should the scale of MDBS disbursements have been higher?**

350. Was the size and scope of the MDBS appropriate to the development opportunities available over 2003 – 2006? In other words, would a higher level of funding have been justified? Here, a distinction needs to be drawn between expanding MDBS so as to increase overall flows of external assistance and a relative expansion of the MDBS as a modality within a constant envelope of external assistance flows. Regarding the former, we acknowledge the weaknesses in the GoG planning and implementation systems which existed in 2003 and the fact that many of these have persisted up to and beyond 2006. This would constitute grounds for caution in expanding the overall level of external assistance to GoG.

351. Arguably, with a closer focus on the resource gaps which higher volumes of MDBS might have filled, it might have been possible to define a framework for cost-effective use of these additional resources. For example, it might have been feasible to engineer a faster reduction in the domestic debt stock or to have introduced the primary education Capitation Grant Scheme more quickly and at a higher scale. For the moment, this is mere speculation but it is indicative of the lack of attention to the MDBS as a budget financing tool that such speculation did not take place in 2004 or 2005 between GoG and the MDBS partners.

352. There is a stronger argument for an increase in the scale of MDBS relative to other external assistance modalities (but within a fixed overall envelope.) We have found some evidence - not fully conclusive but certainly quite compelling - that the MDBS funds were both more predictable and lower in transaction costs than other modalities. There would thus have been a good case for switching funding for recurrent spending from project or common basket fund modalities to the MDBS. We may assume that project-financed investments – for example in the infrastructure sector, would bring some inherent efficiencies which would offset their transaction costs. But this is less self-evident in relation to project or common basket financing of health, education, agricultural extension or road maintenance services of a predominantly recurrent nature.

353. A relative shift towards on-budget financing would also have permitted Ghana to experience to a greater extent the 'endogenous' institutional effects of an increase in the importance of the national budget and its related structures of accountability. Due to the limited scale of the MDBS (and debt relief) in relation to other modalities, these effects were scarcely present during the period of the evaluation. Yet evidence from Uganda and Tanzania where budget support has become a dominant aid modality suggest that these effects can have a significant positive influence on democratic accountability and, under certain circumstances, on the allocative and operational efficiency of public spending.

354. Overall, we would judge that there was a strong case for a higher scale of budget support in relation to other modalities. In addition, there would have been grounds at least for investigating the usefulness of expanding overall external assistance flows through an increased level of MDBS funding.

## **7.2 The impact of the MDBS on poverty reduction**

355. The most recent published data on poverty levels and profiles derive from the 1998/99 GLSS. Until data from the 2005/06 GLSS are processed, analysed and published, it will not be possible to say anything robust about the impact of the MDBS on poverty. We have therefore tried to assess the likelihood of MDBS having a favourable impact on poverty trends in the future.

356. As we noted in reviewing the efficiency and effectiveness of the MDBS, important developments in policy and public spending have occurred, which to a greater or lesser extent can be said to have been facilitated by the MDBS, and which seem clearly favourable to poverty reduction. In order for such developments to impact systematically and effectively on poverty, one would need to have confidence in the ability of the government system:

- i) To convert increased allocations for poverty reduction into concrete programmes of investments and service delivery actions;
- ii) To formulate and implement pro-poor policies effectively; and
- iii) To undertake actions to empower the poor to take advantage of the opportunities generated by faster growth.

357. In the first of these areas, there are real doubts over the ability of current processes of sector policy formulation, budget preparation and execution to convert allocations into actions. Strategies are inadequately conceived, the budget structure does not permit the use of programmes as a focus for budget allocation and service management, and budget execution continues to deviate sharply from planned budgets. The thrust of PFM reforms over the MDBS period has not been in these areas and until priority is given to these budget formulation and execution questions, the impact of 'poverty-reducing spending' is likely to be sub-optimal.

358. Evidence of the ability to formulate and implement pro-poor policies is also uneven. The primary education Capitation Grant Scheme can be considered in broad terms a success, notwithstanding the need for some refinement so as to adapt the allocation formula more precisely to the needs of girls, of pupils from disadvantaged districts and of small schools with higher than average overheads.

359. In contrast, the introduction of the National Health Insurance Scheme has proven less favourable to the poor, especially because it was combined with a continued use of centralised budgets for health fee exemptions, against which disbursements have been very slow. Clearly, the Scheme offers some potential respite for the poor who for many years under the “cash-and-carry” system have been unable to pay fees. However, the difficulties in registering for the Scheme, along with the long delays in distributing registration cards have effectively excluded most of the poor from access to either the NHIS or to fee exemptions. The consequences for access to services are already apparent and some health staff attribute directly to this the declines in maternal mortality and infant mortality statistics.

360. With regard to empowerment, we have specifically considered the role of gender programmes in bringing greater budgetary and policy priority to women. In terms of procedures, such issues are now given explicit attention in budget guidelines, although the structure of expenditure data does not easily permit an analysis of the effects. In terms of policy priority, there are examples of gender-focused adjustments to policy in agriculture, education, health and police.

361. Overall, gender issues do receive attention within the GoG’s policy-making processes. This is not to suggest that the reasons for exclusion of women and other vulnerable groups from publicly financed social services have been comprehensively and successfully addressed. But in the short to medium term, it would appear that it is generalised weaknesses in pro-poor policy-making and in budget formulation and execution which appear to be the *binding* constraints on converting policy intentions into results.

362. We conclude that although there is evidence of the MDBS having a positive influence on pro-poor policies and spending, the institutional environment displays too many significant weaknesses to be confident about the final impact on poverty. We do not mean to suggest by this that increased public spending will have no impact on poverty reduction but rather that the degree of impact is likely to be substantially less than optimal. This may seem a harsh judgement and, certainly it is at odds with the somewhat naïve optimism which has by and large greeted the publication of both GPRS 1 and GPRS 2. Yet even at the international level, the examples of successful public spending to reduce poverty are relatively scarce. Designing and establishing efficient public spending systems is itself difficult; ensuring that they are efficiently and effectively targeted to the needs of the poor introduces another level of complexity.

363. The weaknesses identified in sectoral policy formulation as well as in planning, budgeting, results monitoring and feed-back mechanisms do not suggest that the Ghanaian public administration is likely to be capable of overcoming these complexities consistently and efficiently across a majority of sectors. It is hugely important that attention should be focused on correcting these weaknesses and that the design of the MDBS should be adjusted so as to provide the right incentives and the right environment for this to happen effectively. In the final two sections of this evaluation, we turn our attention to what this might mean for the Government of Ghana and the MDBS partners.

### 7.3 Recommendations for an improved MDBS design

364. There is no doubt that the MDBS has had benefits at the output and outcome levels. These have not been as great as they could have been if MDBS had been delivered more

efficiently and effectively. Moreover, there are question-marks both over the likely sustainability of these benefits and over the extent to which they will translate into poverty impacts. In short, the MDBS in Ghana is falling short of its potential and its design needs to be adapted so as to increase its sustainability and impact.

### 7.3.1 Objectives of the proposed design revisions

365. The good news is that there are changes which could be made to the MDBS design to increase its efficiency and effectiveness and raise the probability of its benefits being sustained. Few of these changes are simple but all could feasibly be introduced within a period of two years. Fundamentally, what is required is an adjustment of the design of the MDBS so as to play more obviously to the strengths of budget support and to respect its inherent limitations. This will require a re-conceptualisation of the MDBS so as to achieve six important changes.

366. First and foremost, ***the MDBS needs to be conceived as a method of budget financing and not a tool of policy leverage***. Much of the current design of the MDBS revolves around the monitoring of policy and institutional reforms. Whilst these are clearly important and can enhance the effectiveness of the public sector, the basic case for budget support does not rely upon the implementation of such reforms. Budget support is justified where there is the potential for high social returns from increased public spending, where there is the will and the capacity within government to expand the services or undertake the investments which bring high such returns and where the necessary financing cannot, in the short term, be raised efficiently from increased domestic taxation or from expansion of other aid modalities. We assume that at the outset of the Ghana MDBS, the DPs must have believed that the MDBS was a wise investment, *even in the context of an unreformed public sector*. It is important now to re-focus on the role of the MDBS as a method for enhancing budget financing and accelerating implementation of the Ghana Poverty Reduction Strategy.

- **Why is this change needed?** Because the importance of utilising effectively the \$300 million provided annually to the GoG budget through MDBS has been forgotten. In the process the opportunity to contribute to steady improvements in the Value for Money attained with the GoG's own budget resources is being lost.
- **How can this change be introduced?** By placing more attention on the annual mechanisms which already exist for tracking budget allocations and monitoring spending out-turns and complementing these with additional analyses (such as sectoral or government-wide expenditure reviews<sup>51</sup>), which begin to provide more regular information on value for money questions.

367. Secondly, ***the MDBS needs to be re-designed as a sustainable mechanism for enhancing internal accountability rather than external accountability***. In the long term, it is the quality of the mechanisms of democratic accountability which will ensure that elected governments have the right incentives to manage public spending efficiently and effectively. Development Partners have an obligation to their own Parliaments or Boards and their own tax payers and financiers to ensure that external resources are well utilised and that fiduciary risks are controlled. But these mechanisms of external accountability will work more effectively in the short term if they serve to reinforce internal accountability and will only have a sustainable effect in the long term if they succeed in doing this.

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<sup>51</sup> We are not referring here to the sort of analysis of expenditure management systems which is currently undertaken through the annual World Bank-led external review of public finance management. We are referring to more traditional expenditure reviews which examine the structure of spending allocations, to assess whether they are efficient, effective and equitable. (See 7.3.4)

- **Why is this change needed?** Because current structures for monitoring the MDBS through the PAF run the risk of generating unsustainable, externally-focused structures for policy dialogue, consultation and reform monitoring. In so far as MDBS has helped to fill the gaps in policy management and monitoring which previously existed, it must now consolidate these gains by placing these functions within sustainable structures.
- **How can this change be introduced?** Wherever information is generated for DPs as part of the requirements of external accountability, this information should systematically be made available to the relevant agencies of the government, to Parliament and to civil society so that domestic accountability is also enhanced. Secondly, where existing review & control structures generate the information that is necessary for purposes of external accountability, then these should be utilised and strengthened, keeping to a bare minimum the numbers of parallel structures necessary for external accountability purposes.

368. Thirdly, **greater attention needs to be focused on the results of enhanced budget spending – in terms of pro-poor service delivery, as the basis for judging MDBS progress over the medium term.** If budget support is conceived as a tool of budget financing, then the renewal or scaling up of 3-year MDBS agreements should depend upon an assessment of the performance of the budget in delivering public service improvements in a cost-effective and pro-poor manner. In so far as the increased spending, permitted by general budget support, was failing to generate high social returns, then one would have to question the original justification for the budget support investment. However, this is not a judgement that can be reached on the basis of annual data alone. Assessment must be based on an evaluation of performance over a number of years – we would suggest at least three years – but drawing on annual data related to spending, to outputs and to the outcomes of public spending, in terms of service utilisation and other such indicators.

- **Why is this change needed?** At present, there is very little attention in the monitoring process for MDBS on the benefits of budget support which have been identified in this evaluation, particularly on the benefits arising from increased provision of discretionary budget resources and their application to the achievement of public spending objectives. This gap needs to be redressed in order to provide an adequate basis for decisions on the renewal and/ or scaling up of budget support.
- **How can this change be introduced?** Annual data on results needs to be collected and assessed on a systematic basis so as to build up a sufficiently complete and balanced picture to permit a reasoned judgement over the medium term on the continuation of budget support arrangements. The key sources of these data are likely to be the GPRS Annual Review and the related sectoral annual reviews. Attention therefore needs to be given to strengthening the quality of these processes and the relevance and reliability of the performance data they generate.

369. Fourth, **MDBS does have a role in promoting more effective institutional and policy reforms but should do this through open and unconditional dialogue, not through conditional disbursements.** The MDBS framework of policy dialogue can assist the implementation of reforms by helping to prioritise reform efforts, by setting public annual targets for progress, by monitoring performance and helping to diagnose the reasons for poor progress. Where disbursements become conditional upon reform performance, then the incentives will be to identify the simplest reforms rather than the most important ones, to choose easily achievable targets and to avoid highlighting problems. As a result of the performance tranche, the MDBS dialogue has become increasingly closed, confrontational and superficial rather than open, incisive and strategic. The MDBS needs to restore a

positive framework for dialogue by avoiding conditionality over policy and institutional reforms, and by restating the virtues of a partnership approach.

- **Why is this change needed?** Because the quality of dialogue has been undermined by the application of performance conditionalities and needs to be re-focused on strategic, non-confrontational discussions. This would preserve the role of the PAF as a useful “signalling device” to make public reform targets and progress indicators but would eliminate the ‘negotiating tactics’ which conditionality will inevitably generate<sup>52</sup>.
- **How can this change be introduced?** Over the medium term, this would entail the elimination of the annual performance tranche or at the very least a significant reduction in its relative importance.

370. By implication, ***annual MDBS disbursements should not be conditioned upon the completion of reforms but upon the maintenance of the due processes of public spending.*** If the annual performance payment is removed and if the monitoring of service delivery results is used to influence medium term decisions, then what sort of annual safeguards could be provided against the fiduciary risks of budget support? We would recommend the definition and monitoring of basic ‘due process’ requirements to ensure an adequate level of protection against fiduciary risks. For example, if public finance legislation were not respected or if transparent access to information were denied, then this would increase the fiduciary risks of providing resources through the budget and would in most cases constitute solid grounds for suspending the MDBS. If the initial assessment of the case for budget support were sound, then such events would be rare (none have so far occurred within the life-time of the MDBS) and would not threaten the basic predictability of budget support.

- **Why is this change needed?** Clearly Development Partners need some assurance that the resources provided as budget support will be well utilised. In the medium term, this assurance is provided through the results achieved by budget support but some structure of annual safeguards is also needed which does not generate high transaction costs and does not undermine either the quality of government ownership or the quality of dialogue.
- **How can this change be introduced?** There is a need to define and agree upon these basic due process, fiduciary requirements and to identify the means for monitoring them. Box 7.1 below provides a more detailed recommendation.

371. Finally, ***the original objective of minimising transaction costs needs to be reiterated and reinforced.*** The MDBS memorandum describes the minimisation of transactions costs to the GoG as an overarching objective. Having concluded a negotiation process for the new PAF which began in May 2006 and ended in October, it seems clear that this objective is not being achieved. The changes described above should lead to major reductions in transaction costs but it would be useful to restore the attention given to this objective in the past and monitor its achievement on a continuous basis.

- **Why is this change needed?** Despite the best intentions of all of the MDBS stakeholders, the transaction costs of current arrangements have proven to be significantly higher than necessary. This has been in large part a reflection of the particular design for dialogue and conditionality adopted in Ghana but we

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<sup>52</sup> It was reported in the dissemination workshops of April 2007 that the negotiation of the 2007 – 2009 MDBS PAF had been considerably more harmonious and less transaction cost-intensive. If true, this is a positive development but so long as the structure of dialogue and conditionality remains unchanged, then the contradictory incentives influencing the GoG and the DP's respective behaviours will continue to operate and are likely to recreate the deeply unsatisfactory PAF negotiation process, on which the evaluation team collected evidence over August and September 2006.

recognise that the proposed re-design also presents a risk of high transaction costs. Regular monitoring of these costs and regular ‘reminders’ of their importance seem to provide a sensible way of avoiding these risks.

- **How can this change be introduced?** A simple re-statement of the importance of controlling transaction costs would be a first step. In addition, some simple mechanism by which the MDBS secretariat could monitor the number of person-hours spent in MDBS meetings would serve to provide a barometer of whether transaction costs were being properly contained.

372. The achievement of these six objectives will require changes to three core elements of the MDBS design. We discuss each of these in turn, before considering how the transition to this new management framework might best be managed:

- i. The framework of conditionality for the MDBS
- ii. The PAF and the accompanying systems of monitoring performance
- iii. The assessment tools and review structures for the MDBS.

### **7.3.2 The framework of conditionality for the MDBS**

373. The single most important change, which we recommend, is to move away from the current structure of conditionality for disbursements, divided between a base payment and a performance payment. There is no evidence that this structure is generating effective incentives for the faster implementation of reforms but it is undermining the quality of dialogue, generating unnecessarily high transaction costs and diverting attention away from the fundamental issues, upon which the disbursement of budget support should be based.

374. We recommend that the existing structure should be replaced with a framework which would have three elements:

- Definition and annual monitoring of ‘due process’ requirements, as the basis for judging continued annual eligibility for budget support;
- Definition and annual monitoring of the results of public spending, as the basis for a medium term decision over the continuation of budget support; and
- Setting of annual targets for key policy and reform initiatives as a framework for assessing progress and organising open dialogue on reform options and strategies.

#### **Base conditions for the MDBS – the concept of “due process”**

375. What are the relevant conditions to monitor for the annual continuation of the budget support arrangement? We believe that the concept of “due process” is a useful one to introduce in this respect. Essentially this means that Government is doing what it ought to do to respect the underlying partnership compact of the MDBS. It entails an assessment that Government is acting in good faith and following its own legal requirements as well as international norms of transparency and fiscal discipline. In general, respecting due process conditions should not present a problem but if they are broken then that should be an acceptable justification for stopping MDBS payments altogether.

376. We would recommend eight ‘due process’ requirements, presented in Box 7.1. These are linked to the underlying principles of the Framework Memorandum and to the conditions for effective use of budget support, identified in chapter 2 and re-produced in Figure 2.1. Transparency in the publication of results is a key aspect.

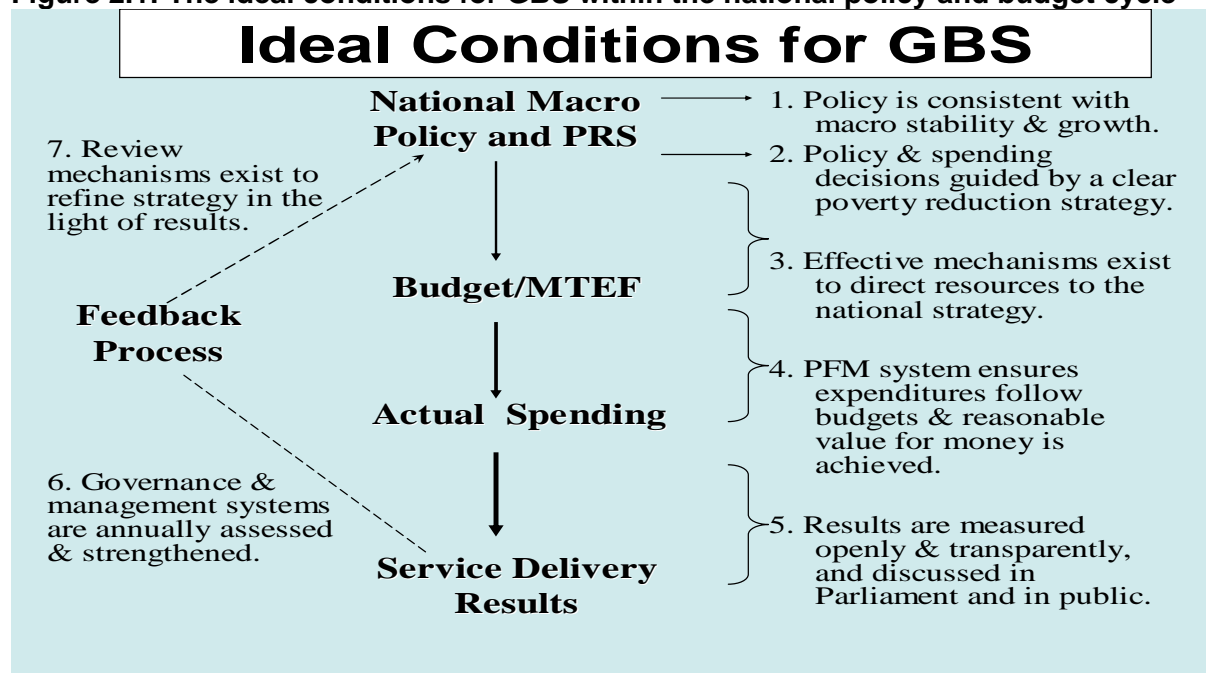


**Box 7.1 - Dimensions of 'due process'**

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

- i. Continued respect for democracy and human rights.
- ii. Maintenance of fiscal and monetary policies consistent with macro-economic stability and growth.
- iii. Adherence to a clear poverty reduction strategy and allocation of resources in line with this.
- iv. 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.
- v. Continuing reforms to improve the quality of these systems and raise value for money.
- vi. Transparent measurement of the results of public spending and use of these to improve sectoral policies.
- vii. Continuous strengthening of the quality of governance and public administration, and periodic public assessments to assess progress.

**Figure 2.1: The ideal conditions for GBS within the national policy and budget cycle**

**The role for results monitoring**

377. Budget support represents an investment in a partner government. As we have noted above, there are three criteria which justify such an investment:

- There is the potential for high social returns from increased public spending;

- There is the will and the capacity within government to expand the services or undertake the investments which bring these high returns; and
- The necessary financing cannot, in the short term, be raised efficiently from increased domestic taxation or from expansion of other aid modalities.

378. In so far as the increased spending, permitted by general budget support, was failing to generate high social returns, then one would have to question the original justification for the budget support investment. However, as we have noted, this is not a judgement that can be reached on the basis of annual data alone. Many public sector investments take time to generate social returns and the achievement of these returns is itself subject to fluctuations in external conditions. Hence, we recommend that assessment should be based on an evaluation of performance over a number of years – we would suggest at least three years.

379. In the case of the Ghana MDBS, several of the multi-year agreements under which budget support is provided are coming up for renewal during 2007 and 2008. In reaching a judgement over whether to extend their support for the MDBS and at what scale, MDBS partners will need to consider:

- How have public resources been utilised during the MDBS period?
- What have been the effects of such spending and, in particular, is it probable that the spending undertaken will impact upon growth and poverty reduction?
- Have there been changes in the policy environment, in the framework of democratic accountability, in the systems of public finance management or in public sector capacities which suggest that public resources will be allocated more efficiently in future and utilised more effectively?

380. This evaluation already provides the basis for reaching judgements in each of these areas. Additional information will emerge from the analysis of the latest GLSS and from the assessment of performance during 2007. We would recommend that the monitoring framework for the MDBS should be structured so as to generate the necessary information both to assess the adherence to basic 'due process conditions' and also to build up a multi-year picture of the overall efficiency and effectiveness of the budget support investment.

### **Setting targets for policy and institutional reforms**

381. We have emphasised that one of the major achievements of the MDBS arrangement has been to create a structure of sector working groups and a core apex group through which specific reform priorities (drawn from the GPRS and the budget process) could be identified, targeted and monitored. The PAF has been the vehicle for this process and we believe it ought to continue to play this role, just so long as it proves possible a) to also address the due process and results monitoring requirements through the PAF and b) to use the PAF in conjunction with other systems of monitoring such as the GPRS annual review and the sectoral annual reviews, which are likely to prove more sustainable in the long term. We turn to the question of the use of the PAF below.

### 7.3.3 The PAF and the accompanying systems for performance monitoring

382. The recommended adjustments to the framework of MDBS conditionality clearly imply some changes to the PAF and how it is used. The required conceptual redirection of the MDBS (outlined in 7.4.1) also implies important changes. What do these add up to both for the PAF itself and for the wider framework of performance monitoring?

- Firstly, the annual decision on the eligibility for continued disbursement should be based upon a holistic assessment of whether the base conditions of the budget support partnership have been maintained. We propose that this should rely upon an assessment of the adherence by the GoG to eight 'due process' requirements. It should not hinge on adherence to a list of highly-specified action or outcome indicators, although these might be used to track results over the medium term.
- We further propose that each MDBS partner should disburse only one single tranche annually, thus dispensing with the distinction between the 'base payment' and the 'performance payment'.
- We recommend that the recent decisions over the timing of disbursement decisions should continue to be respected so as to maximise predictability. (Thus firm decisions would be made in year  $t$  over disbursements in year  $t + 1$ .)
- At the same time a dialogue needs to be developed over annual progress in the execution of the budget and in the implementation of the most important policy and institutional reforms.
- In addition, basic information on budget allocations, on the efficiency of spending and on changes in the policy environment, the framework of democratic accountability, the PFM system and the capacity of the public sector need to be collected annually so as to provide the basis for a decision in the medium term over the renewal of budget support arrangements and over their scale.
- The relative importance of budgetary issues needs to be enhanced, within the annual assessment of 'due process', within the policy dialogue and within the medium term assessment of results.
- The participation of domestic stakeholders needs to be entrenched within each of these processes.
- At the same time each of these processes must be established in a way which creates sustainable frameworks for future management of the budget and of policy and institutional reforms. This implies more reliance on national processes and structures and less on transitional structures such as the PAF.
- Finally, these structures and processes must be designed so as to minimise transaction costs, implying the continued use of a common framework for all MDBS partners and the use of streamlined decision-making processes.

383. These proposals imply a radical set of changes to the current MDBS monitoring process. In particular, it would imply a shift away from exclusive reliance on the PAF towards greater use of existing budget monitoring processes, increased reliance on the GPRS Annual Progress Review and increasing use of sector specific annual reviews. These are the sorts of structures which most governments would commonly use to track progress in the implementation of reforms and the execution of public spending. Thus, they are the sort of structures which one would expect to survive in a post-GBS Ghana. By implication, the key protagonists within these structures would not be Development Partners (as at present) but rather the sector ministries, MoFEP and NDPC, together with relevant Parliamentary and CSO stakeholders, and with the Development Partners, acting primarily as observers. The results of these various domestic processes would provide the necessary information to feed into the annual review of the MDBS, which would continue to be structured predominantly as

a bi-lateral review between GoG and the MDBS partners but with the resulting information and reports being widely disseminated and, potentially made available to the media through press conferences.

384. The PAF itself would retain its importance as the basis for the MDBS partners to judge adherence to 'due process conditions', to assess progress in key policy areas and to monitor the outputs and outcomes of budget spending. However, most of the information necessary to do this would be generated by domestic processes and not necessarily through the MDBS annual review.

385. We envisage a PAF which would be divided into eight sections, corresponding to the eight 'due process' requirements. As process conditions, they would not have quantitative targets associated with them but they would include some specification of minimum quality standards where necessary. Within some of these eight sections, there would also be policy targets and results indicators, which would be drawn from the GPRS and from the related sectoral target-setting and review processes. It might be useful to continue to distinguish between high priority policy targets and lower priority policy targets but we would recommend discontinuing use of the phrase "policy triggers. It is intended that these should be GoG targets, over which there would be dialogue but no conditionality.

386. Within this framework, the need for negotiation would be very considerably reduced, and possibly altogether eliminated. Due process conditions, of their very nature, would be constant over time and because their importance is already recognised by the Government and the MDBS partners, they ought to be uncontroversial. Policy targets and results indicators would be chosen by Government and would not condition annual disbursements. Certainly, Development Partners would have recommendations to make about the choice of policy targets and results indicators but Government would be at liberty to ignore these, so they would not actually be negotiated as at present. A failure to implement reforms seriously or to give attention to the results of public spending might mean that budget support would not be renewed or that the value of future arrangements would be reduced. Equally, such failures might entail the loss of a parliamentary majority at the next general election. In short, we believe that the Government already has sufficient incentives to implement reforms seriously and to consider on their merits any policy recommendations that might be provided by the Development Partners.

387. Table 7.1 illustrates the proposed structure for the PAF, as well as the suggested means of assessment and the review fora at which assessments might be made. This should be taken purely as an example for further refinement. Table 7.2 shows the proposed calendar for this process. Amongst other things, the calendar requires a later timing for the annual MDBS review but also a semi-annual MDBS review (in late November or early December) which would provide the basis for the macro-economic assessment. This would be one of a number of new or modified assessment processes which would be necessary for the structure to work effectively. We detail each of these below.

**Table 7.1 Proposed Structure for a Revised MDBS Performance Assessment Framework (PAF)**

Performance Area	Due Process Requirement	Related Areas for Policy targets & results indicators	Means of Assessment	Review Forum
<b>Human Rights &amp; Democracy</b>	The GoG shows respect for the established principles of democracy and human rights.	Targets on public access to budgetary and public spending information, established through Governance Working Group.	National election monitoring processes; Reports by Attorney General; Reports by CDD, TI and other relevant NGOs.	Annual MDBS Review; Annual Governance Review (once established)
<b>Macroeconomic Policy</b>	GoG follows fiscal and monetary policies which are consistent with macro-economic stability and growth.	Private Sector Development	IMF PSI reviews; Comments of Parliamentary Finance Committee; Separate review by MDBS partners at semi-annual MDBS review	IMF PSI reviews as agreed with GoG; Semi-annual MDBS review in late November/ early December
<b>Growth and poverty reduction strategy</b>	The Ghana Poverty Reduction Strategy provides the overarching framework for all national and sectoral policies and is reviewed and refined annually to ensure its continuing relevance.	Agriculture; Education; Health; Infrastructure, Social Protection; Water & Sanitation	Information produced for annual sectoral reviews; Annual GPRS Progress Report	Annual Sectoral Reviews; Annual GPRS Progress Review
<b>Allocation of public resources</b>	Public resources are allocated in line with the Ghana Poverty Reduction Strategy.	Annual Sectoral Reviews may define targets for intra-sectoral allocations.	Analysis of budgets and expenditure reports	Discussion of draft Budget and of Annual expenditure Report with MDBS partners and relevant CSOs
<b>Budget</b>	All public spending is executed in line with the Finance	Annual Sectoral Reviews may define targets for	Annual Expenditure Report; Quarterly	Discussions of annual and

Performance Area	Due Process Requirement	Related Areas for Policy targets & results indicators	Means of Assessment	Review Forum
<b>Execution</b>	Administration and Procurement Acts, so as to ensure that spending is in line with the approved budget and that correct procedures are followed.	VFM or for efficiency indicators.	Expenditure Reports; Annual Report of Auditor General; Annual PER reports	quarterly expenditure reports; Annual Public Expenditure Review
<b>Public Finance Management (PFM) reforms</b>	GoG implements a programme of PFM reforms, monitoring results annually to ensure continuous improvements in the quality of PFM systems and by implication in the effectiveness of spending.	PFM reforms; Procurement reforms.	Annual progress report on PFM reforms; Periodic PEFA assessments; Comparisons of Budget & annual Expenditure Report; Annual Report of Auditor General	MDBS Annual Review; Annual “sectoral” review for PFM might also be considered.
<b>Results Monitoring</b>	Results of public spending are measured annually through the GPRS Progress Report, are made available to the Parliament and general public and used by GoG to refine and improve sectoral policies and strategies.		GPRS Annual Progress Report; Reports of Annual Sectoral Reviews	GPRS Annual Progress Review; Annual Sectoral Reviews
<b>Governance assessment and reform</b>	GoG is committed to the continuous strengthening of the quality of governance and public administration, and to the undertaking of annual public assessments of progress.	Public Sector Reform; Governance (including decentralisation)	Annual Report of the Governance Working Group; Annual PSR progress report. Report of NEPAD Peer review mechanism	MDBS Annual Review; Annual Governance review (once established)

Table 7.2: - A "model" MDBS Assessment &amp; Budget Calendar

January	February	March	April	May	June	July	August	September	October	November	December
						MDBS REVIEWS					
						MDBS Annual Review					
						MDBS Semi-annual (Macro) Review					

### 7.3.4 Strengthening the assessment tools and review structures for the MDBS

388. At present, Ghana does not have the necessary analytical processes and procedures for the sort of assessment process we have described to work effectively. We are confident that they could be established during 2007 and 2008 by drawing on existing processes and on the sources of technical assistance currently available but, nevertheless, concerted efforts would be required. We recommend the following changes:

- A 3-year **Medium Term Fiscal Framework** needs to be developed and updated annually. Up to the end of 2006, this exercise has been undertaken in the context of the PRGF arrangement with the IMF. However, it needs to be based upon a broader set of consultations, which would consider the potential financing gaps in implementing the PRS and would be used to not only to set fiscal targets but also targets for future levels of budget support, debt relief and other forms of external assistance to the public sector. We would recommend that it should be presented at the annual Aid Consultative Group for discussion and considered again at the MDBS annual and semi—annual reviews. In this way, the MDBS partners would be given a clear view of how budget support was planned to affect fiscal aggregates – such as the levels of taxation and borrowing, the overall level of expenditure and its composition by sector and by economic classification.
- A **formal assessment of the anticipated macroeconomic effects of the MDBS** would need to be undertaken in parallel with the finalisation of the MTFF. This should be undertaken by the Bank of Ghana, perhaps with the technical assistance of the IMF. It would concentrate in particular on an analysis of potential effects of the MDBS on the real exchange rate and an assessment of short-term requirements for monetary sterilisation.
- **The assessment of the macro-economic programme of the Government** will probably be undertaken from 2007 onwards through an IMF PSI (Policy Support Instrument)<sup>53</sup>. This instrument is intended for countries classified as “good adjusters”, in which the basic concerns of macroeconomic stabilisation have been addressed and significant progress is being made in structural reforms. Thus, the PSI is in significant respects more ambitious than a PRGF and one could easily envisage a situation in which a nation might be off-track with a PSI but still managing to maintain a sound macroeconomic position. Consequently, within the context of a PSI programme, the MDBS partners would need to establish their own procedures - and staffing - to judge the due process condition that ‘fiscal and monetary policies are consistent with macroeconomic stability and growth’. We recommend that this should be done through a semi-annual MDBS review, at which macroeconomic aggregates would be considered and a dialogue over fiscal policy targets would take place.
- The **annual Budget and the annual expenditure report** need to be given a more prominent role in the overall MDBS assessment process. During the budget execution process, there should also be a regular dialogue between MDBS partners and MoFEP over the quarterly expenditure reports, as well as a fuller discussion over the annual audit report.

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<sup>53</sup> At the time of writing, a final decision on this has yet to be taken but the use of a PSI arrangement seems the most probable scenario.



- An annual **Public Expenditure Review** ought to be introduced as a method of assessing the operational and allocative efficiency of public spending. At present, there is no systematic assessment of efficiency issues, which is a major gap in the information available on the budget. Ideally a PER would include an overview of spending trends as a whole and a more detailed analysis of 2 – 3 sectors (with different sectors being chosen each year, so as to obtain a comprehensive coverage over the medium term). It ought to be led by MoFEP and NDPC, perhaps with technical support from the World Bank, but it would be important for it to be undertaken as an independent professional exercise, open to all stakeholders – not just the GoG and the DPs.
- The **annual GPRS Progress Review** needs be strengthened and needs to be given more weight within the MDBS assessment process. Ideally, this should provide a core set of annual output and outcome indicators showing key service delivery results. This would require some simplification and re-organisation of the core set of indicators currently used for assessing performance. At present, the timing of the review means that data sources are often incomplete. In order to avoid this, it would seem advisable to modify the calendar for the GPRS annual review and hence for the MDBS annual review. (See Table 7.2)
- **Annual Sectoral Reviews** should continue in the sectors where these already exist and over time should be expanded to ensure all key sectors are covered. It will be important to ensure that these sector reviews feed into the overall GPRS Progress Review. This implies firstly that they should be timetabled to precede the GPRS Progress Review and secondly that the content and focus of these annual sector reviews should be pre-agreed between sector ministries, NDPC and MoFEP so as to ensure coherence and avoid unnecessary duplication.
- **The strengthening of Sectoral and Thematic Working Groups** will be necessary in order for the annual sector reviews to operate effectively. In addition, these working groups could provide a useful consultative framework for the formulation of sector MTEFs and annual budgets. In most cases, this is likely to require some clarification of their roles and their modus operandi and some advisory support and training might be necessary in order to achieve this. It would also imply some deliberate limitation of DPs' roles within sector working groups and a greater emphasis on the roles of GoG and CSO stakeholders – the purpose being to convert these into GoG structures for sectoral budgetary and policy formulation and monitoring, in which DPs might act as observers rather than leading protagonists.
- **The role of Parliament in the process of MDBS monitoring would also need to be clarified.** We would recommend – in keeping with the need to maintain distinct roles for the Legislature and for the Executive – that the role of Parliament should be purely a consultative one, receiving regular information on the MDBS PAF and on performance against the PAF and providing commentary as appropriate but with no decision-making role outside of the roles already established within the Finance Administration Act and related legislation. The Parliamentary Committee which would appear to be most appropriate as the regular recipient of MDBS information would appear to be the Finance Committee.

### 7.3.5 Managing the transition to the new MDBS design

389. The new structure proposed for the MDBS could not possibly be put in place during 2007. Indeed, it would be disruptive to attempt to do so. A significant time period will be required for review of these recommendations at the headquarters of the different MDBS

Development Partners, for considering them together with Government and for reaching agreement on how to proceed. During this period, it would seem practical to work within existing arrangements and to utilise the existing PAF. However, for consistency with the proposed future framework for assessment of progress against due process conditions, we would recommend, in keeping with resolutions reached at the Akosombo workshop of October 2006 that the MDBS DPs should assess the value of the scheduled performance payment (for 2008) not against individual policy triggers but against an assessment of the full set of policy triggers taken together. This may require that the waiver clause, for which the existing Technical Annex makes provision, may need to be applied in the case of particular policy triggers.

390. In addition, there are a number of our recommendations, on which there has already been discussion and where a fair range of agreement has already been reached. For example, the development of a more formalised Medium Term Fiscal Framework, the strengthening of thematic and sector working groups and the strengthening of the GPRS Annual Progress Review are all initiatives which should attract a common consensual support. It would therefore be useful to start developing more specific proposals in these areas so that their implementation can proceed as soon as possible.

391. Regarding the remainder of the changes proposed, it would seem useful to aim to reach agreement on these before mid August 2007, when the budget preparation process will start to take up the time of the majority of the key Government interlocutors. It should then be possible, at the technical level, to develop more detailed proposals in the periods before and after the Government's 'quiet period' so as to ensure that procedures would be in place for the new calendar year 2008.

392. It should also be recognised that in the format here laid out the proposed assessment structure is presented as an ideal to which the MDBS DPs should strive over the medium term whilst accepting that there will be constraints in the short term. For several of the DPs – notably the European Commission and the World Bank, the current budget support arrangements laid out by their Headquarters will preclude the adoption in full of these recommendations. However, in so far as it proves possible for a majority of the DPs to adjust the structure of their disbursement conditions and so long as all are able to accept a re-organisation of the content of the PAF, then significant progress towards the "ideal" vision here presented ought to be possible.

### **7.3.6 International precedents for the proposed re-design of the MDBS**

393. Are there any established models for the budget support design which is here proposed? In the format here presented, there is no single model which captures all of the elements here proposed. However, there are several budget support recipients – notably Tanzania and Mozambique – where the assessment of the eligibility for annual disbursements is based on a holistic judgement about overall progress and where the assessment of what we have described as 'due process requirements' forms a significant part of this assessment. In the Framework Memoranda of each of these countries, these are described as "underlying principles", although neither is as explicit about the interpretation of these requirements as we have recommended.

394. There is general tendency in many budget support arrangements to avoid explicit specification of disbursement conditionalities and monitoring requirements. This tends to make it easier for rules to be interpreted flexibly, which is something which at the operational level, budget support managers often favour. It also has significant disadvantages, however. For example, Uganda, Rwanda and Ethiopia have all experienced in recent years suspensions or delays in budget support disbursements as a result of the application of what

were termed ‘political conditionalities.’ In several cases, these political conditionalities would have been akin to the due process requirement for continued respect for democracy and human rights which is here recommended. However, by not specifying this requirement clearly in advance, the budget support agencies invoking these ‘political conditionalities’ could with some reason be accused of “moving the goalposts” and failing to follow predictable and transparent rules for GBS disbursements. In each of these cases, these decisions proved awkward and perhaps generated more confrontation than was necessary.

395. Another key aspect of the re-design here proposed is the reliance on the GPRS annual review and on sectoral annual reviews in addition to the annual MDBS review. On the surface, this might look like an unnecessary duplication but what is intended is that over time the MDBS annual review should become an increasingly simple process, in which the results of other reviews are confirmed and acknowledged without aiming to repeat discussions. Such a structure has been adopted in Uganda and Tanzania and, in part, also in Rwanda and Mozambique. Personal communications with the evaluation team suggest that so far results have been quite encouraging because this has permitted more substantial discussions of sectoral issues to take place with a wider and more appropriate group of stakeholders, whilst simultaneously reducing the time and person-hours dedicated to the annual review.

## **7.4 Policy issues for consideration by the Government of Ghana**

396. The set of recommendations presented above on the design of the MDBS itself will already require significant technical and managerial inputs from GoG if they are to be implemented within the two year time frame we propose. We are also conscious that these come on top of a demanding ongoing programme of reforms. We are therefore reluctant to present further recommendations for reform actions. However, there are three particular areas which we believe are of considerable importance to the future success of budget support in Ghana:

- The preparation of a formal aid policy for the Government of Ghana.
- The re-organisation of the budget formulation process, so as to reduce the degree of fragmentation that currently exists in budget execution.
- The acceleration of measures aimed at improving the absorptive capacity of the public sector.

### **7.4.1 The preparation of a formal aid policy for the Government of Ghana**

397. We observed above that there is some evidence in support of the proposition that the MDBS is both more predictable than other aid flows and less transaction-cost intensive. We also noted that the use of budget support had the advantage of providing fungible resources for government whose use could be programmed directly by Government, using existing national procedures. In short, we identified a number of clear advantages from the use of budget support to finance public sector activities of a recurrent nature or small to medium scale investments of a repetitive nature (such as classroom building) where there already existed well established national management procedures.

398. On the other hand, we found no documented evidence of the Government trying to lay down consistent policies for the reduced use of project and common basket funding modalities so as to favour budget support. Nor did we identify any formal aid policy

presenting guidelines on the types of budget support or projects or common basket funds, which the Government might favour. There is a joint Government-DP policy on harmonisation and alignment and an associated H & A action plan but this does not provide clear guidance on the levels of external assistance desired nor on the balance of aid modalities and only rather limited guidance on the procedures and practices which the GoG would like to see followed.

399. Several DP representatives expressed surprise at this state of affairs and stressed that they would be willing to adapt their arrangements for aid provision to the stated policy of Government. We believe that the preparation of such a policy is well overdue and that it could contribute significantly to the overall effectiveness of external assistance. We would recommend that such a policy should have four key objectives:

- i. To reduce significantly the use of project and common basket funding modalities within the public sector.
- ii. To identify the areas or types of activity for which project and common basket funding is most likely to be appropriate and limit the use of these modalities as far as possible to those areas only.
- iii. To establish the principle that the MTEF should be the resource allocation tool through which advance approval should be provided for activities to be financed through projects or common basket funding<sup>54</sup>.
- iv. To establish a long-term policy for the use of budget support so that it remains within acceptable bounds of sustainability, does not generate macroeconomic disequilibria and does not generate disincentives to the collection of domestic revenue.

400. The point of such a policy would be for Government to change the rules of engagement for the allocation of external assistance by explicitly taking charge of the process and laying out its priorities clearly and explicitly. There are other elements that might be added to such a policy, such as guidelines on the use of technical assistance or instructions on the timing and structure of budget projections and expenditure reports for externally financed projects or common basket funds. However, we would recommend starting with a relatively short and simple statement of policy, laying out clear priorities for which more detailed procedures, timetables and formats could be developed at a later stage. Annex 5 provides a fuller note on the recommended content of an aid policy, drawing on experience in Tanzania and Rwanda

#### **7.4.2 The re-organisation of the budget formulation process**

401. In reviewing the current status of PFM systems (in section 4.4), and the quality of service delivery (in section 4.5), we noted two persistent problems which have significantly undermined the ability of the Government to control effectively the allocation of resources. Firstly, the budget has continued to suffer from a high degree of fragmentation, making it

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<sup>54</sup> We recognise that in order for this to be possible a significant improvement will be required in the quality of the MTEF – particularly in the projection of spending needs for the outer years. Nevertheless, it is an important point of principle that it should be the formally defined future priorities of Government which form the starting point for the identification of projects by DPs.

virtually impossible to have an overview of spending in any single sector and by implication very difficult to programme expenditures so as to avoid duplication and maximise complementarities between different sources of funding. Secondly the budget continues to suffer from a high level of deviation between budgeted allocations and actual expenditures, making it difficult for Parliament (and the MDBS DPs) to retain a real oversight over how resources are being spent and complicating the management tasks of front-line service managers because of the uncertainty of funding flows during the execution of the budget. To correct fully these problems will be difficult in the short to medium term, but there are actions which MoFEP could put in place relatively quickly, which would make a significant difference.

402. A big part of the fragmentation problem derives from the large number of aid-financed activities which are off-budget. Even if an aid policy could be established quickly and the active support of the Development Partners secured to support its implementation, it would take time to collect documentation on aid projects so as to bring them on budget. However, a second important source of the fragmentation problem derives from the methods which are used to budget for expenditures from the Government's own Statutory Funds. In several sectors – notably in education with the GET Fund and Health with the GHIF, these comprise a significant proportion of available funding. The general practice has been to delay the preparation of detailed budgets for the use of these funds until the outset of the fiscal year, when total resources to be allocated to these Funds have been approved by Parliament. As a result, the operational budgets for these Funds are rarely ready for implementation before the middle of the second quarter, in part because these operational budgets in several cases also require Parliamentary approval. By this stage, spending from the Consolidated Fund is well underway and the potential for ensuring complementary use of the different sources of funding available to a sector is considerably diminished.

403. However, this is quite an unusual way of budgeting for the use of Statutory Funds, especially because the total level of funding that must be approved by Parliament is in every case formula-based and is not subject to the discretion of the Legislature or the Executive. The more normal procedure, then, would be to allocate indicative budgets to the Statutory Funds at the time when the budget guidelines are issued, so that the detailed operational budgets can then be formalised simultaneously with the preparation of MDA budgets. These indicative budgets could be calculated from the various revenue-based formulas through which they are financed and from projections of anticipated revenues, drawn from the Medium Term Fiscal Framework. At the outset of the fiscal year, a balancing item could then be applied to the budgets of the Statutory Funds based upon the difference between original projected revenues (for the previous fiscal year) and actual revenue out-turns. In this way, the funding formulas would be fully respected without incurring any significant delays in the implementation of spending and while facilitating an exchange of information between the different entities responsible for budgeting sectoral allocations from different sources.

404. Changing the timing of budgeting decisions would also assist considerably in reducing the discrepancy between approved budgets and actual expenditures – a major budget weakness which was quite rightly criticised in the 2006 PEFA assessment. One of the major sources of these discrepancies is the fact that salary budgets are not finalised during the budget preparation process but left only as estimates, subject to final decisions on salary increases and on staff numbers. A contingency budget is set aside to cover the anticipated cost of these final salary adjustments but in recent years this contingency has been significantly underestimated, forcing MoFEP to find funding for the (unbudgeted) difference from either non-salary recurrent budgets or from development expenditures. These are exactly the items which are considered important for the quality of spending. They are also the sorts of items, where timely receipt of budgets can make a big difference to value for money – permitting stores to be purchased when they are at their cheapest and

maintenance to take place in the dry season, etc. In short, this budget re-allocation is a significant source of inefficiencies.

405. Yet again, it would appear that it could be avoidable if the timing of decisions on salary increases and on the approval of staff numbers could be synchronised so as to take place prior to the finalisation of the draft budget estimates. This is exactly what happened in relation to the budgeting of teachers' salaries for 2007 and we would recommend very strongly that efforts be made to put in place such a system for all MDAs in the preparation of the 2008 budget.

406. Taken together, these two changes can make a significant difference to the quality of budget formulation and we strongly recommend that they should be implemented during the preparation of the 2008 Budget. There are more substantial steps that can be taken to upgrade the MTEF and to improve the quality of scrutiny over budget proposals. The proposed introduction of a Public Expenditure Review system can contribute significantly to these objectives. In addition, we would recommend a systematic review of existing processes of planning and budgeting so as to up-date the PFM reform action plans in this area.

#### **7.4.3 Improving the absorptive capacity of the public sector**

407. In considering the impact of the MDBS to date, we noted that a significant proportion of the "new" financing it provided was in fact dedicated to the financing of reductions in the domestic debt stock. Its impact on the aggregate level of public expenditure was thus significantly less than it might have been. However, the case for further reductions in debt stock or for further accumulation in foreign exchange reserves is now much less than it was over 2003 to 2006. If budget support (and development assistance generally) is to have an impact, it ought logically to contribute to an expansion of public spending. Yet there are concerns over whether the Ghanaian public administration has the absorptive capacity to utilise significant levels of additional public spending in an effective manner.

408. There are three aspects of this problem. Firstly, weaknesses in budget allocation and execution often make it difficult to ensure that resources are allocated to the areas where they can be utilised most efficiently and effectively. The PFM reform programme is in part addressing this problem and with the changes to budget formulation processes proposed above may be able to make a greater contribution in future. Secondly, the Public Sector Reform process has for a variety of reasons proceeded relatively slowly. It is important that attention be given to accelerating its implementation if the civil service is to resolve its existing difficulties in the recruitment and retention of quality staff and if the managerial weaknesses which further undermine capacity are to be addressed. We cannot be specific about what exactly is required and precisely how implementation should proceed but we do underline the urgency of tackling this situation.

409. The third set of problems does perhaps lend itself more easily to short term solutions. This relates to the coordination and policy formulation capacity of the core central agencies – MoFEP and NDPC. We found anecdotal evidence that capacity in both these ministries is developing – in part in response to the increased responsibility and influence which the MDBS has brought, a factor which has in turn influenced positively the ability to retain young, well qualified staff. We also noticed an increased level of coordination between these two agencies – in relation to GPRS2, the MDBS and the budget preparation process.

410. At the same time these agencies do remain relatively weak in relation to the responsibilities which they have to discharge and taking account of the crucial roles that they play in guiding government business and in leading policy and institutional reforms. If it were possible to put in place some short to medium term measures to strengthen their capabilities, then this would have a significant 'multiplier' effect on the overall capacity of government. We recommend that the GoG should give serious consideration to this issue and that if necessary the MDBS partners should make available appropriate technical assistance to help formulate a capacity building plan for these central agencies.

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**CDD-GHANA**  
GHANA CENTER FOR DEMOCRATIC DEVELOPMENT

**Joint Evaluation of Multi-Donor Budget  
Support to Ghana**

**Based on OECD-DAC methodology**

**Final Report**

**Volume Two: Annexes**

---

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Kizilbash Agha and Tim Williamson**

**Report to the Government of Ghana  
and to the MDBS Partners**

**June 2007**

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## **Disclaimer**

This report has been prepared by a joint team from the Overseas Development Institute, UK (ODI) and the Centre for Democratic Development, Accra (CDD), who were commissioned to undertake an independent evaluation of the impact of Multi Donor Budget Support (MDBS) in Ghana. It comprises the final draft of the Final Report, which has been amended in the light of comments received by the Government of Ghana, the MDBS partners and other relevant stakeholders.

The evaluation was undertaken over August 2006 to May 2007. The bulk of field work was undertaken over August and September 2006, with preliminary observations presented at a retreat of the key MDBS stakeholders in Akosombo during October. Following a further brief field visit in November, conclusions were finalised in early 2007, amended in the light of comments received and then formally presented at two workshops held in Accra in April 2007. This final draft incorporates comments received at those workshops as well as further work on gender issues undertaken in May 2007. The participatory nature of the evaluation has allowed the Government of Ghana and the MDBS partners to incorporate ideas from the evaluation process both into aspects of Government policy and into the evolving design of the MDBS arrangements. This report may thus be said to capture a historical snapshot of a process which has been consistently progressing and developing.

Many people have assisted the evaluation team by compiling and making data available, by giving access to documentation and by offering their opinions and interpretations. These people are too numerous to mention individually but we nevertheless express our heartfelt thanks to them. We would like to express our particular gratitude to the honourable Deputy Minister Dr. Akoto Osei and to Mrs. Effie Simpson-Ekuban, Head of the MDBS Technical Secretariat who have coordinated inputs from the Government-side and to Dr. Christian Rogg of DFID and his fellow members of the MDBS Evaluation Steering Group.

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# **Joint Evaluation of Multi Donor Budget Support in Ghana**

## **Volume II: Annexes**

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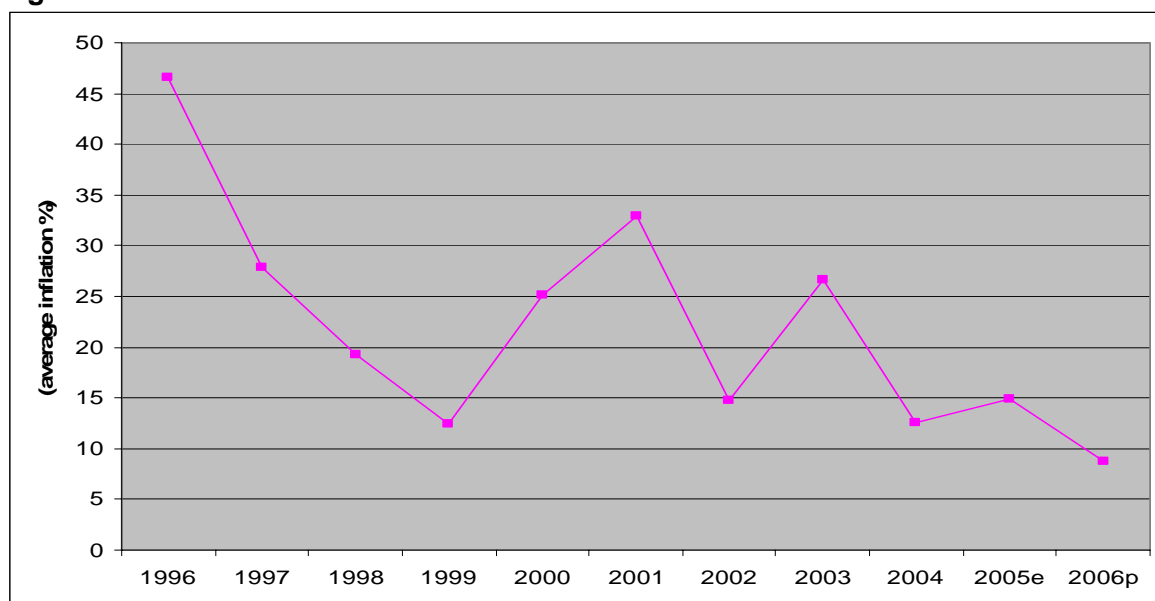
# Annex 1: Country Background and Statistics

## Annex 1A: Basic Country Data

### Introduction

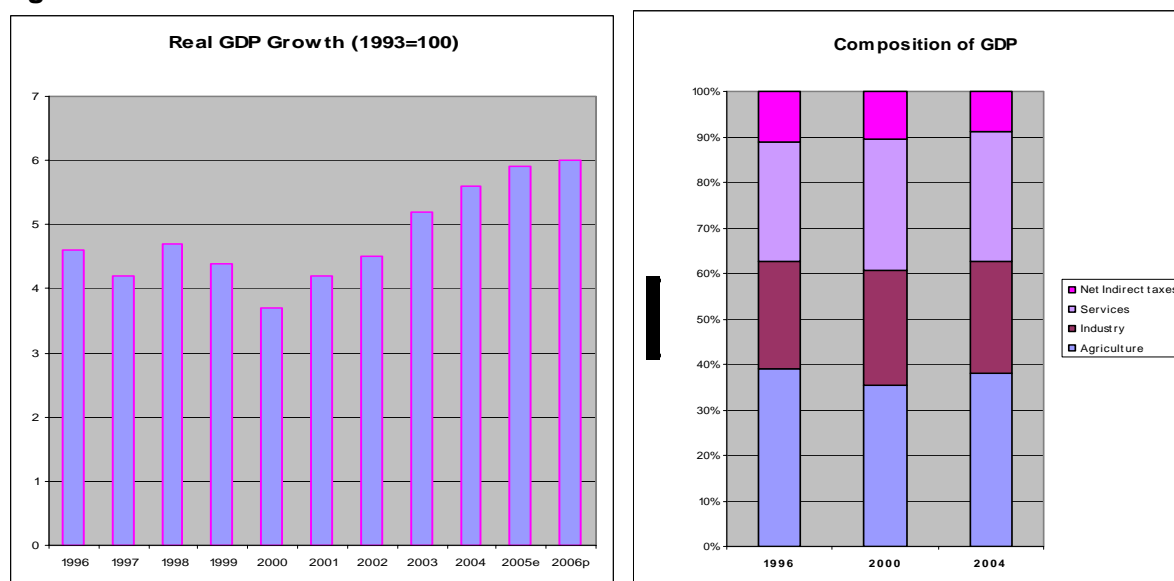
This annex provides background information on Ghana and its economic and social performance.

**Figure 1.1: Annual headline inflation 1996–2006**



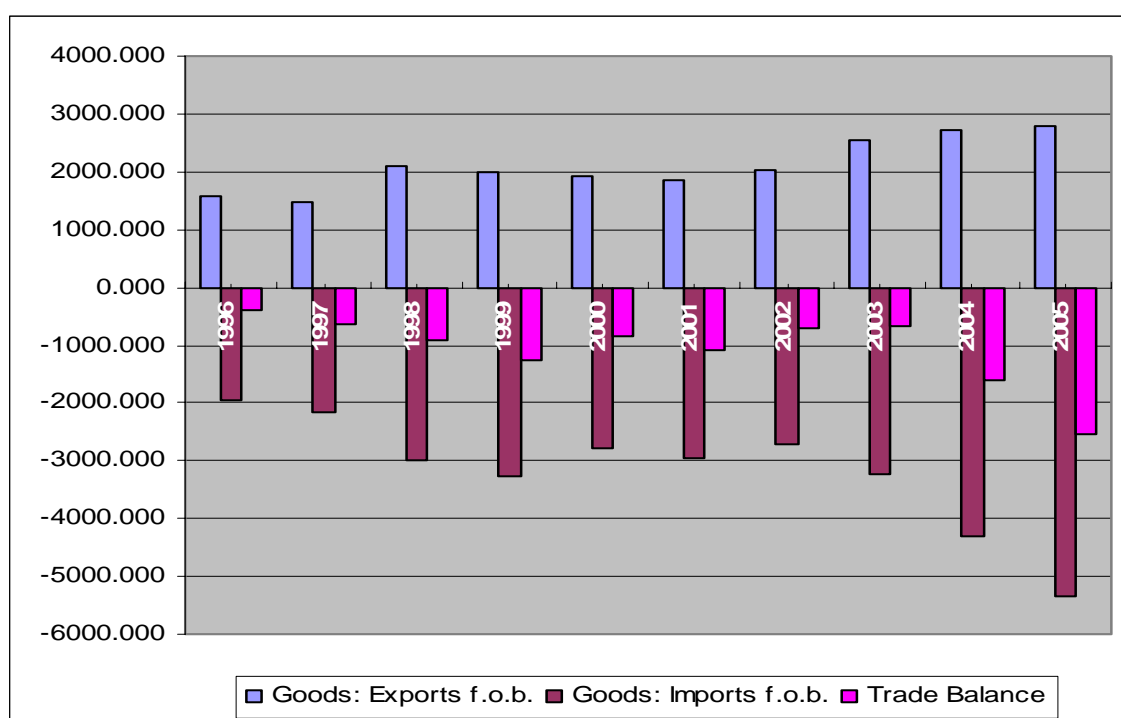
Source: IMF, 2000, 2005, 2006

**Figure 1.2 Growth and GDP Shares**



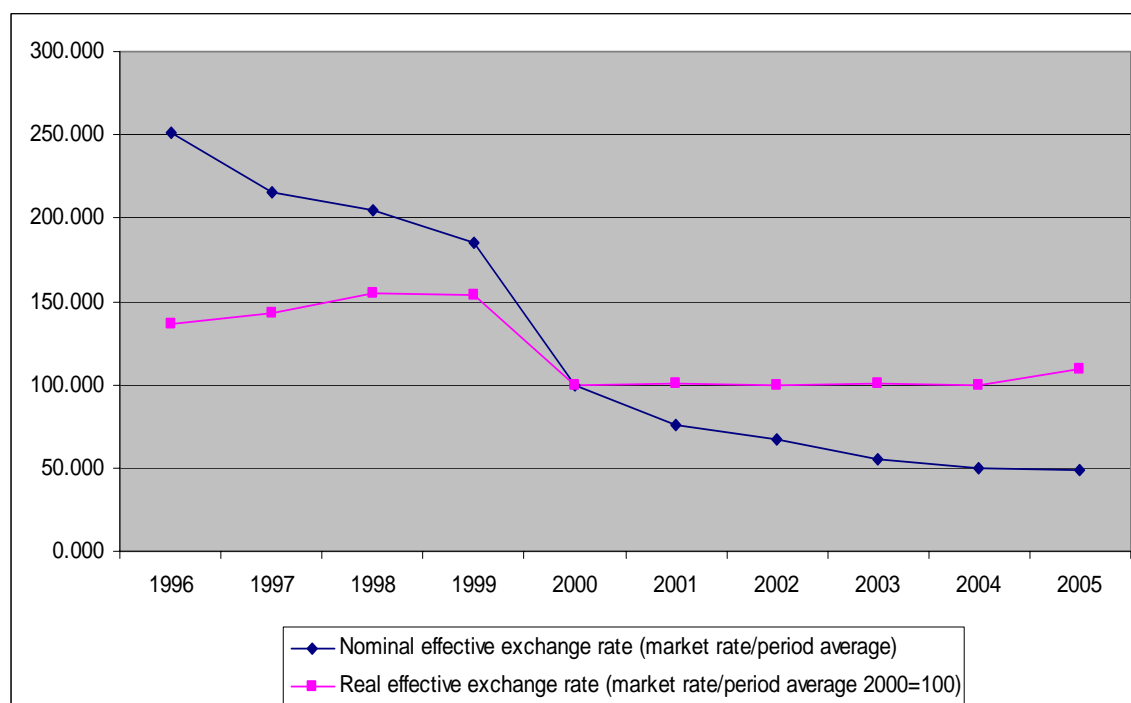
Source: 2000, 2005, 2006

**Figure 1.3: Ghana Trade Balance 1996–2005**



Source: IFS, 2006

**Figure 1.4: Exchange Rate Movements 1996-2005**



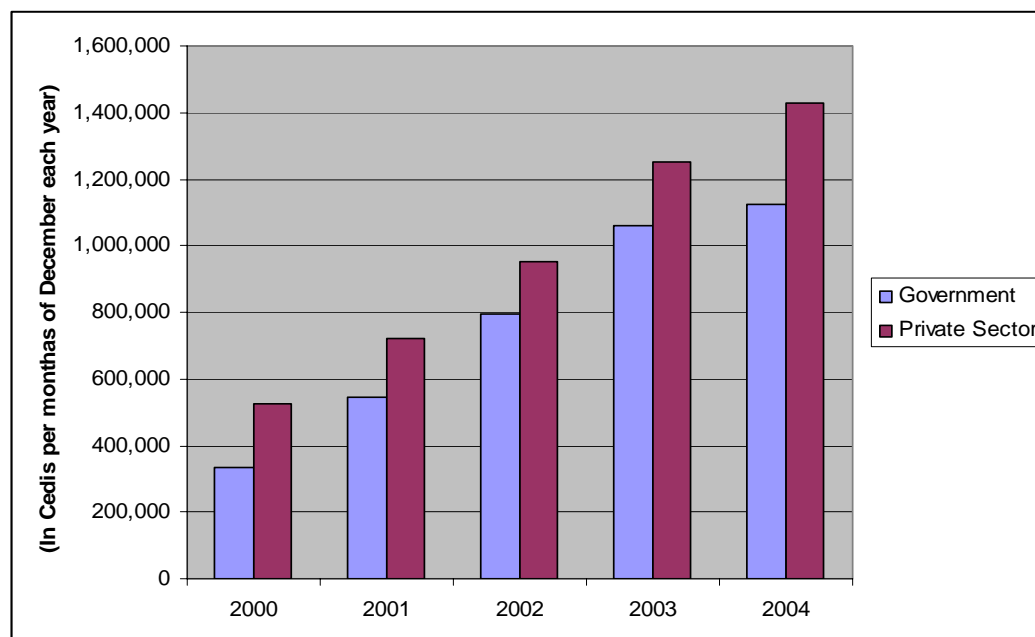
Source: IFS, 2006

**Figure 1.5: Public and Private Investment and Bank Loans**



Source: IMF, 2000, 2003, 2006

**Figure 1.6: Average Monthly Earning per Employee (Cedis per month)**



Source: IMF, 2005

**Table 1.1: Levels and Coverage of Service Delivery**

<b>Primary Education (Public)</b>				
	<b>1999/00</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>
Teachers on Payroll	61,927	64,631	66,812	
Numbers of Schools	11,961	12,451	12,571	
Pupil Teacher Ratio (Target 35:1)	34	34	34.9	33.1
Trained teachers (%)	80.4	73.8	72.2	70.80%
Core textbooks per learner		1.4	1	
Schools with drinking water (%)		37.3	42.00%	
Seating Places per pupil		0.8	0.9	
Total Enrolment	2,114,981	2,957,491	3,077,489	3,239,462
NER (Total)			59.1	69.2
Source: EMIS Reports 1999/2000, 2003/04, 2004/05, 2005/06				
<b>Healthcare</b>				
	<b>1999</b>	<b>2001</b>	<b>2003</b>	<b>2005</b>
Outpatient per capita	0.4	0.49	0.5	0.52
Hospital admission rates (per 1000 pop)	27.9	34.9	36	36.5
% supervised deliveries (skilled)	43.5	50.4	55	54.1
% of family planning acceptors	13.7	24.9	22.6	21.6
Doctor to population ratios by regions	-	1:20,036	1:16,759	1:17,929
Nurse to population ratios by regions	-	1:1,728	1:1,649	1:1,508
No of CHPS established	-	19	55	270
% of tracer drug availability	79	70	85	85.7
Source: MOH, 2006				
<b>Number of New and Renovated Water Facilities</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Facility				
New bore holes	622	1290	2098	1647
Bore holes renovated	407	115	85	49
New hand dug wells	65	61	64	35
Hand dug wells rehabilitated	2	6	...	...
Small community pipe systems completed	4	19	40	...
Small town pipe systems completed	25	46	57	28
Source: APR, 2005				

**Box 1.1: The Constraints to Private Sector Business in Ghana**

<b>Starting a Business</b>				
<b>Indicator</b>	<b>Ghana (04)</b>	<b>Ghana (06)</b>	<b>Region</b>	<b>OECD</b>
Procedures (number)	10	12	11.1	6.2
Time (days)	84	81	61.8	16.6
Min. capital (% of income per capita)	1.2	23.2	209.9	36.1
Cost (% of income per capita)	111.7	49.6	162.8	5.3

<b>Employing Workers (2006)</b>				
Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices.				
Indicator	Ghana (2004)	Ghana (2006)	Region	OECD
Difficulty of Hiring Index		11	44.3	27
Rigidity of Hours Index		40	52	45.2
Difficulty of Firing Index		50	44.9	27.4
Rigidity of Employment Index		34	47.1	33.3
Hiring cost (% of salary)		12.5	12.7	21.4
Firing costs (weeks of wages)		177.7	71.2	31.3
<b>Getting Credit</b>				
The Legal Rights Index ranges from 0-10, with higher scores indicating that those laws are better designed to expand access to credit. The Credit Information Index measures the scope, access and quality of credit information available through public registries or private bureaus. It ranges from 0-6, with higher values indicating that more credit information is available from a public registry or private bureau.				
Indicator	Ghana (2004)	Ghana (2006)	Region	OECD
Legal Rights Index		5	4.2	6.3
Credit Information Index		0	1.3	5
Public registry coverage (% adults)	0	0	1.5	8.4
Private bureau coverage (% adults)	less than 1	0	3.8	60.8
<b>Paying Taxes (2006)</b>				
Indicator	Ghana (2004)	Ghana (2006)	Region	OECD
Payments (number)		35	40.9	15.3
Time (hours spent preparing returns, filing & paying)		304	336.4	202.9
Total tax rate (% profit)		32.3	71.2	47.8
<b>Trading Across Borders</b>				
Indicator	Ghana (2004)	Ghana (2006)	Region	OECD
Documents for export (number)		5	8.2	4.8
Time for export (days)		21	40	10.5
Cost to export (US\$ per container)		822	1,561	811
Documents for import (number)		9	12.2	5.9
Time for import (days)		42	51.5	12.2
Cost to import (US\$ per container)		842	1,947	883
<b>Enforcing Contracts</b>				
The ease or difficulty of enforcing commercial contracts in is measured below. This is determined by following the evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment.				
Indicator	Ghana (2004)	Ghana (2006)	Region	OECD
Procedures (number)	21	29	38.1	22.2
Time (days)	90	552	581.1	351.2
Cost (% of debt)		13	42.2	11.2
<b>Registering Property</b>				
Indicator	Ghana (2004)	Ghana (2006)	Region	OECD
Procedures (number)		7	7	4.7
Time (days)		382	109.9	31.8
Cost (% of property value)		1.9	11.6	4.3
Source: World Bank 2006a				

**Table 1.2: Millennium Development Goals in Ghana**

	1990	1995	1998	2001	2005
<b>1 Eradicate extreme poverty and hunger</b> <b>2015 target = halve 1990 \$1 a day poverty &amp; malnutrition rates</b>					
Population below \$1 a day (%)	..	..	..		..
Poverty gap at \$1 a day (\$)	15	..	17		..
% share of income or consumption held by poorest 20%	..	..	6		..
Prevalence of child malnutrition (% of children under 5)	..	27	25		22
Population below minimum level of dietary energy consumption (%)	..	..	18	13	12
<b>2 Achieve universal primary education</b> <b>2015 target = net enrollment to 100</b>					
School enrollment, primary (% of relevant age group)	54	..	57	56	65
% of cohort reaching grade 5 (%)	80	..	..	63	..
Youth illiteracy rate (% ages 15-24)	18	..	..		29
<b>3 Promote gender equality</b> <b>2015 target = education ratio to 100</b>					
Ratio of girls to boys in primary and secondary education (%)	78.5	..	88.3	90.9	93
Ratio of young literate females to males (%ages 15-24)	85.5	..	..		86.2
Share of women employed in the non-agricultural sector (%)	57	..	..		..
Proportion of seats held by women in national parliament (%)	..	..	9	9	11
<b>4 Reduce child mortality</b> <b>2015 target = reduce 1990 under 5 mortality by two thirds</b>					
Under 5 mortality rate (per 1000)	122	110	..	112	112
Infant mortality rate (per 1000 live births)	75	67	..	68	68
Immunization, measles (% of children 12-23 months)	61	70	73	81	83
<b>5 Improve maternal health</b> <b>2015 target = reduce 1990 maternal mortality by three-fourths</b>					
Maternal mortality ratio (modelled estimate per 100,000 live births)	..	...	44.3	540	47
Births attended by skilled health staff (% of total)	..	..	..		..
<b>6 Combat HIV/AIDS malaria and other diseases</b> <b>2015 target=halt, and begin to reverse, AIDS etc</b>					
Prevalence of HIV, female (% ages 15-24)	..	..	..		1
Contraceptive prevalence rate (% of women ages 15-49)	..	..	22		25
Number of children orphaned by HIV and AIDS	..	..	..		170000
Incidence of tuberculosis (per 100,000 people)	222.6	..	..	..	206.5
Tuberculosis cases detected under DOTS (%)	..	15.6	32.4	41.2	36.9
<b>7 Ensure environmental sustainability</b> <b>2015 target=See Notes</b>					
Forest area (% of total land area)	33	..	..	27	24
Nationally protected areas (% of total land area)	..	..	..		5.6
GDP per unit of energy use (PPP \$ per kg oil equivalent)	5	5	5	5	5
CO2 emissions (metric tons per capita)	0.2	0.3	0.3	0.3	..
Access to an improved water source (% of population)	55	..	..		75
Access to improved sanitation (% of population)	15	..	..		18
Access to secure tenure (% of population)					
<b>8 Develop a Global Partnership for Development</b> <b>2015 target=See Notes</b>					
Youth unemployment rate (% of total labour force ages 15-24)	..	..	..	15.9	..
Fixed line and mobile telephones (per 1000 people)	2.9	3.9	9.2	24	92.7
Personal computers (per 1000 people)	0	1.1	2.1	3.4	5.2
<b>General Indicators</b>					
Population, total (millions)	15.50	17.70	19.00	20.30	22.10
Gross national income, Atlas method ( current US\$ billion)	5.8	6.3	7.1	5.8	9.98
GNI per capita (\$)	380	350	370	290	450
Adult literacy rate (5 of people aged 15 and over)	58.5	..	..		57.9

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*Annex 1: Country Background and Statistics*

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Total fertility rate (births per woman)	5.7	5.1	4.8	4.4	4.2
Life expectancy at birth (years)	56.2	56.8	56.8	56.6	57.2
Aid per capita (current US\$)	..	30	36	..	..
Investment (% of GDP)	14.4	20	23.1	26.6	30
Trade (% of GDP)	42.7	57.4	80.6	109.9	80





## Annex 1B: Public Expenditure Data

Table 1.3: Ghana Budget Framework 1999 TO 2006

Cedis Billions (2000=100)	1999	2000	2001		2002		2003		2004		2005		2006 <sup>p</sup>	
	Actual	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Revenue and Grants	4633	5385	6414	7172	7056	6765	8836	8723	9382	10995	11714	11275	12524	11979
Domestic Revenue	4254	4811	4970	5195	5757	5767	7184	7109	7979	8726	9472	9240	9700	9327
Direct taxes	1149	1409	1690	1598	1651	1832	1931	2117	2280	2455	2356	2640	2667	2660
Indirect taxes	1706	2019	2007	2155	2399	2462	2939	3170	3510	3789	4135	3757	4435	3997
Trade taxes	1011	987	1009	1180	1115	1307	1626	1635	1684	1749	1900	1641	1783	1899
Nontax revenue	388	396	263	262	592	165	689	188	505	733	1082	1202	816	771
Grants	379	574	1444	1977	1299	999	1651	1613	1403	2269	2242	2035	2824	2652
Project	191	337	532	1178	605	306	497	536	400	976	1146	1144	1101	979
Programme	188	238	912	799	386	366	775	655	546	810	638	508	509	460
HIPC Assistance	0	0	0	0	309	327	379	422	457	483	458	384	1214	1213
Total Expenditure	6216	8049	8860	9219	8971	8372	9817	9645	10047	11965	12246	11899	14202	13635
Recurrent expenditure	4245	5442	6276	6055	6236	6979	7791	7332	7782	8524	8673	8422	9225	9397
Wages and salaries	1897	1956	1971	2394	2046	2750	2885	2929	3046	3191	3465	3289	3669	4026
Goods and Services	484	700	676	648	731	952	1059	912	1256	1084	1030	1239	1272	1099
Subventions	207	480	727	695	758	566	1141	968	1240	1047	1786	1545	1909	1686
Subsidies and transfers	217	273	205	221	699	746	547	644	665	1607	971	937	1094	1381
Interest	1440	2033	2697	2097	2002	1965	2160	1880	1575	1595	1421	1413	1281	1205
Interest on external debt	349	587	702	359	602	517	438	438	446	426	401	340	890	315
Interest on domestic debt	1091	1446	1995	1738	1400	1448	1722	1442	1128	1169	1019	1073	390	890
Capital expenditure	1971	2606	2584	3164	2735	1393	2026	2313	2265	3441	3573	3477	4978	4237
Domestic	857	1261	361	506	194	196	264	272	567	464	609	328	1351	508
Donor Projects	1114	1346	2223	2658	2154	1082	1268	1594	1145	2118	2328	2373	2958	2507
HIPC financed expenditure	0	0	0	0	386	115	495	448	554	859	636	777	669	1222
Roads arrears (clearance)	-163	-328	-195	-33	-189	-137	-124	-116	-18	-33	-40	-40	-37	-37
Other domestic payments (clearance)	0	-156	-150	-333	-221	-442	-202	-204	-58	-92	-406	-405	-127	-129

Value added tax refunds	0	0	-66	-20	50	-36	-56	-25	-58	-25	-24	-47	-90	-90
<b>Deficit (including grants)</b>	<b>-1746</b>	<b>-3148</b>	<b>-2857</b>	<b>-2434</b>	<b>-2274</b>	<b>-2222</b>	<b>-1364</b>	<b>-1267</b>	<b>-800</b>	<b>-1119</b>	<b>-1001</b>	<b>-1116</b>	<b>-1932</b>	<b>-1911</b>
<b>Deficit (excluding grants)</b>	<b>-2125</b>	<b>-3722</b>	<b>-4301</b>	<b>-4411</b>	<b>-3573</b>	<b>-3221</b>	<b>-3015</b>	<b>-2881</b>	<b>-2202</b>	<b>-3388</b>	<b>-3243</b>	<b>-3151</b>	<b>-4756</b>	<b>-4563</b>
<b>Financing</b>	<b>1743</b>	<b>2664</b>	<b>2857</b>	<b>2078</b>	<b>2297</b>	<b>1833</b>	<b>1134</b>	<b>1333</b>	<b>717</b>	<b>1483</b>	<b>1048</b>	<b>917</b>	<b>2145</b>	<b>2080</b>
Divestiture Proceeds	66	323	294	8	254	3	222	218	196	131	155	93	247	2
Foreign	278	-56	2046	1421	1952	302	912	1233	1316	1171	1292	1452	1819	1638
Programme loans	295	802	922	794	475	105	404	568	450	423	539	584	601	586
Project loans	922	1009	1691	1479	1310	777	771	1057	745	1142	1182	1229	1858	1527
Amortization	-940	-1868	-566	-853	-1290	-1393	-1327	-1324	-1234	-882	-1044	-837	-1274	-1109
Exceptional financing	0	0	0	0	1457	814	1064	933	1355	489	614	476	634	634
Net savings due to inflation-indexed bonds	0	0	0	0	77	127	127	0	83	-321	-47	-39	-26	-26
Domestic (net)	1399	2397	516	649	91	1528	0	-118	-796	180	-398	-628	79	440

Source: Budget statements 1999-2007

**Table 1.4: Sector shares of total discretionary spending (total expenditure allocated to MDAs excluding donor funds)**

	2000		2001		2002		2003		2004		2005	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
<b>General Public Services</b>	24.63%	27.37%	21.80%	25.83%	29.16%	16.85%	17.47%	24.75%	17.63%	22.24%	18.92%	
<b>Defence</b>	5.65%	5.89%	6.08%	6.30%	4.28%	6.09%	6.22%	6.85%	5.25%	3.93%	4.67%	
<b>Public Order and Safety</b>	8.69%	8.19%	8.81%	8.97%	7.79%	10.29%	8.86%	9.36%	8.50%	8.59%	7.97%	
<b>Economic Services</b>	3.70%	6.55%	3.89%	4.80%	3.04%	4.31%	3.08%	4.15%	3.34%	4.44%	3.46%	
<b>Environmental Protection</b>	1.98%	1.83%	1.78%	2.06%	1.62%	1.84%	1.55%	1.70%	1.81%	1.23%	1.33%	
<b>Housing and Community Amenities</b>	7.60%	3.93%	4.82%	3.63%	2.63%	4.07%	3.41%	4.94%	4.09%	5.31%	4.21%	
<b>Health</b>	7.54%	8.15%	10.90%	10.30%	11.30%	12.96%	12.90%	11.07%	10.56%	14.94%	12.43%	
<b>Recreation and Culture</b>	0.99%	0.66%	0.93%	0.82%	0.66%	0.83%	0.65%	0.70%	0.51%	0.67%	0.77%	
<b>Education</b>	38.26%	36.72%	40.05%	35.71%	38.71%	36.40%	41.45%	35.82%	41.32%	37.80%	40.81%	
<b>Social Protection</b>	0.97%	0.71%	0.94%	0.57%	0.82%	0.67%	0.51%	0.66%	0.66%	0.84%	0.62%	

Source: Audited Statements 2000-2005

Table 1.5: Poverty reducing expenditures

	2002	2003	2003	2004	2004	2005	2005	2006	2006 <sup>a</sup>
(Billions cedis)	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<b>Education</b>									
Basic Education	1371.3	1911.3	2356.5	2605.4	2969.7	3029.8	3708.8	4187.7	3630
Education expenditure	2504.6	3300.6	4049.1	4512.7	5289.8	5331.9	6601.5	7357.8	6254
Basic education as a % of education exp	55%	58%	58%	58%	56%	57%	56%	57%	58%
% if Total Poverty Spending	59%	47%	55%	48%	49%	38%	45%	35%	43%
<b>Health</b>									
Primary Health Care	297.2	826.2	633.5	1205.3	1088.2	1988.8	1750.0	2664.5	1302
Health sector Expenditure	728.5	1125.0	1061.2	1550.9	1622.0	3203.6	2915.7	4019.8	2150
PHC as a % of health spending	41%	73%	60%	78%	67%	62%	60%	66%	61%
% of total poverty spending	13%	20%	15%	22%	18%	25%	21%	22%	15%
<b>Agriculture</b>									
Poverty focused agric	102.4	141.9	109.5	132.7	145.1	205.3	175.9	351.7	436
Agriculture expenditure	105.1	157.4	114.3	146.9	150.3	217.3	205.6	382.5	459
as a % of agriculture spending	97%	90%	96%	90%	96%	94%	86%	92%	95%
% of total poverty spending	4%	3%	3%	2%	2%	3%	2%	3%	5%
<b>Works &amp; Housing</b>									
Rural water	42.5	108.9	41.4	140.9	112.0	160.3	117.7	142.7	92
Works and housing exp	101.7	157.0	90.0	225.1	228.6	264.1	238.2	243.9	187
as a % of total works and housing expendiutre	42%	69%	46%	63%	49%	61%	49%	58%	49%
% of total poverty spending	2%	3%	1%	3%	2%	2%	1%	1%	1%
<b>Roads and Transport</b>									
Feeder Roads	160.0	228.0	306.4	296.5	338.0	395.6	410.2	875.1	286
Roads and transport expenditure	537.4	887.4	809.3	1039.7	1045.3	1424.7	1505.6	2214.6	1301
as a % of health spending	30%	26%	38%	29%	32%	28%	27%	40%	22%
% of total roads and transport expenditure	7%	6%	7%	5%	6%	5%	5%	7%	3%

<b>Energy Sector</b>									
Rural Electrification	32.5	91.9	58.2	156.2	187.8	644.9	381.9	825.0	800
Energy sector expenditure	45.0	111.0	69.2	193.8	216.4	656.0	385.9	853.6	802
as a % of total energy sector expenditure	72%	83%	84%	81%	87%	98%	99%	97%	100%
% of total poverty spending	1%	2%	1%	3%	3%	8%	5%	7%	9%
<b>Other</b>									
Other poverty spending	324.1	751.0	773.2	919.3	1281.8	1590.3	1711.5	2938.6	1943
% of total	7.9	18.6	18.1	16.8	20.9	6.4	19.8	10.2	8.2
<b>Total poverty reduction</b>	2330	4059.28	4278.7	5456.21	6122.61	8014.93	8256.01	11985.21	8488.55
<b>Total Government expenditure</b>	8101	15713	15744.1	19508	21765.1	25052.04	23,948.62	28901	23764.5
<b>Total poverty reduction as a % of expenditure</b>	<b>29%</b>	<b>26%</b>	<b>27%</b>	<b>28%</b>	<b>28%</b>	<b>32%</b>	<b>34%</b>	<b>41%</b>	36%

Source: APR, 2003, 2004 and 2005

## Annex 1C: Central Government PEFA Indicators

Table 1.6: Central Government PEFA Indicators

No	Subject	HIPC AAP Indicators Status 2001	HIPC AAP Indicators Status 2004	PEFA Indicators Status 2006	Comments & Analysis
<b>A. PFM OUT-TURNS: Credibility of the Budget</b>					
PI-1	Aggregate expenditure out-turn compared to original approved budget			B	
PI-2	Composition of expenditure out-turn compared to original approved budget			D	
3	<i>Reliability of budget as guide to outturn (Budget outturn data are quite close to the original budget)</i>	C	C		
PI-3	Aggregate revenue out-turn compared to original approved budget			A	
PI-4	Stock and monitoring of expenditure payment arrears			B+	
8	<i>Level of payment arrears (there exists a small stock of expenditure arrears, with little accumulation of areas over the previous year).</i>	C	A		
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>					
PI-5	Classification of the budget			B	
5	Classification of budget transactions (Budget expenditures are classified on an administrative, economic and detailed functional or programmatic basis)	C	B		
PI-6	Comprehensiveness of information included in budget documentation			C	

<b>1</b>	<i>Composition of the budget entity (Fiscal reporting adequately covers the Government Finance Statistics definition of general government sector)</i>	<b>C</b>	<b>B</b>		
<b>PI-7</b>	Extent of unreported government operations			<b>A</b>	
<b>2</b>	<i>Limitations to use of off-budget transactions (Government activities are not funded through inadequately reported extra budgetary sources to a significant degree)</i>	<b>B</b>	<b>B</b>		
<b>PI-8</b>	Transparency of inter-governmental fiscal relations			<b>C</b>	
<b>PI-9</b>	Oversight of aggregate fiscal risk from other public sector entities			<b>C</b>	
<b>PI-10</b>	Public access to key fiscal information			<b>B</b>	
<b>C. BUDGET CYCLE</b>					
<b>C(i) Policy-Based Budgeting</b>					
<b>6</b>	<i>Identification of poverty-reducing expenditure (Poverty reducing expenditure are clearly defined)</i>	<b>C</b>	<b>A</b>		
<b>PI-11</b>	Orderliness and participation in the annual budget process			<b>B</b>	
<b>PI-12</b>	Multi year perspective in fiscal planning, expenditure policy and budgeting			<b>C</b>	
<b>7</b>	<i>Quality of multiyear expenditure projections (Multi-year expenditure projections are integrated into the budget formulation process)</i>	<b>B</b>	<b>B</b>		
<b>C (ii) Predictability and Control in Budget Execution</b>					
<b>PI-13</b>	Transparency of taxpayer obligations and liabilities			<b>B</b>	
<b>PI-14</b>	Effectiveness of measures for taxpayers registration and tax assessment			<b>C</b>	
<b>PI-15</b>	Effectiveness in collection of tax payments			<b>C</b>	

*Annex 1: Country Background and Statistics*

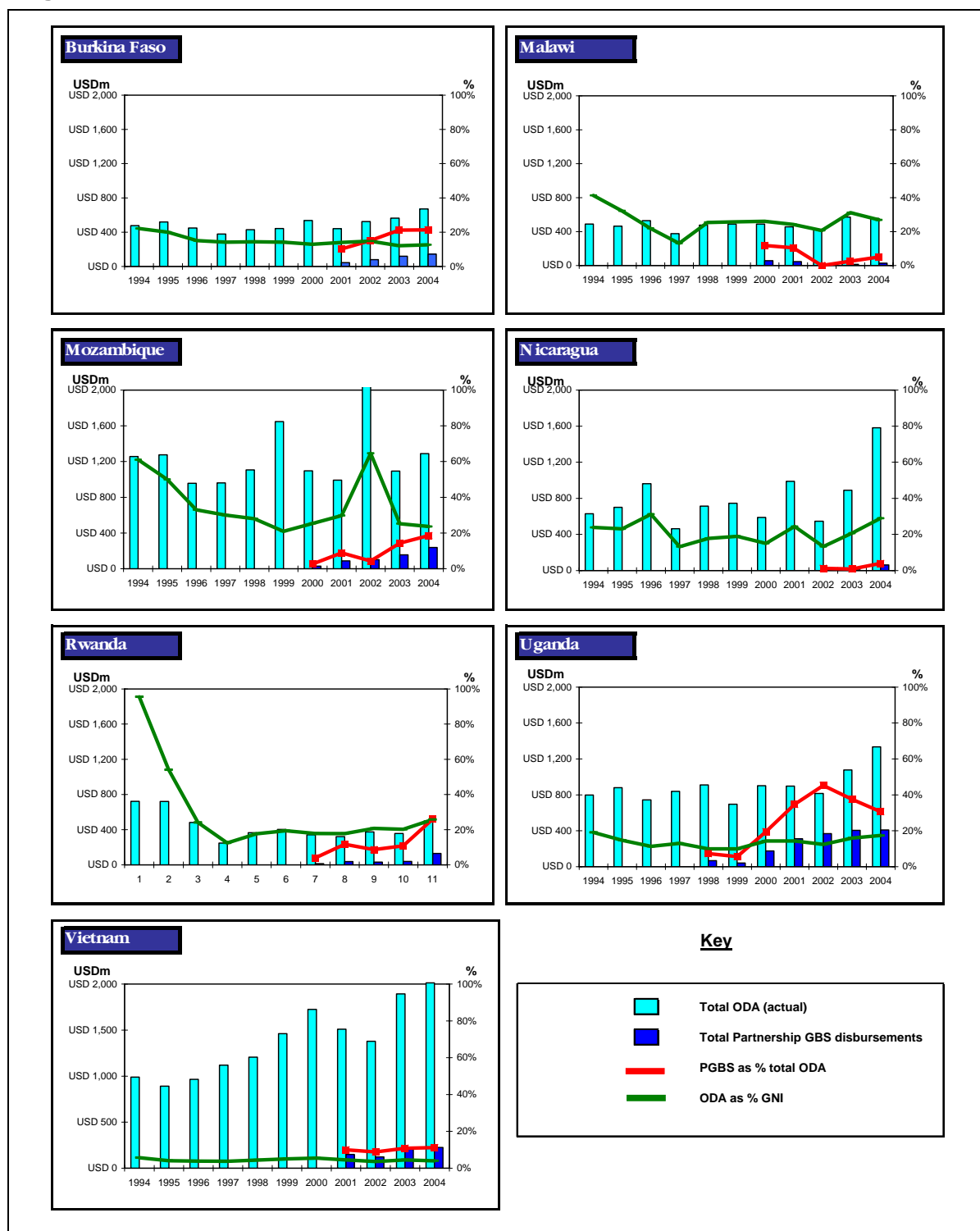
<b>P-16</b>	Predictability in the availability of funds for commitment of expenditures			<b>C</b>	
<b>PI-17</b>	Recording and management of cash balances, debt and guarantees			<b>B</b>	
<b>PI-18</b>	Effectiveness of payroll controls			<b>C+</b>	
<b>PI-19</b>	Competition, value for money and controls in procurement			<b>-</b>	
<b>16</b>	<i>Effective procurement (Procurement systems...promote competition, transparency and value for money)</i>	<b>N/A</b>	<b>B</b>		
<b>PI-20</b>	Effectiveness of internal controls for non-salary expenditure			<b>C</b>	
<b>PI-21</b>	Effectiveness of internal audit			<b>-</b>	
<b>9</b>	Quality of internal audit (Internal control is effective)	<b>C</b>	<b>B</b>		
<b>C(iii) Accounting, Recording and Reporting</b>					
<b>PI-22</b>	Timeliness and regularity of accounts reconciliation			<b>C</b>	
<b>11</b>	<i>Quality of fiscal/banking data reconciliation (Satisfactory reconciliation of fiscal and banking records is undertaken routinely)</i>	<b>C</b>	<b>A</b>		
<b>PI-23</b>	Availability of information on resources received by service delivery units			<b>D</b>	
<b>10</b>	<i>Use of expenditure tracking surveys (Tracking surveys are in use or are unnecessary)</i>	<b>B</b>	<b>B</b>		
<b>PI-24</b>	Quality and timeliness of in-year budget reports			<b>C+</b>	
<b>12</b>	<i>Timeliness of accounts closure (Internal fiscal reports are received within four weeks of the end of the relevant period)</i>	<b>C</b>	<b>C</b>		
<b>13</b>	<i>Classification used for tracking poverty-reducing expenditures (Good quality classification of poverty reducing spending is</i>	<b>C</b>	<b>A</b>		

	<i>reflected in the in year budget reports)</i>				
<b>PI-25</b>	Quality and timeliness of annual financial statements			<b>C+</b>	
<b>14</b>	<i>Timeliness of accounts closure (Routine transactions are entered into the main account system (s) within two months of the end of the fiscal year)</i>	<b>C</b>	<b>A</b>		
	<b>C(iv) External Scrutiny and Audit</b>				
<b>PI-26</b>	Scope, nature and follow up of external audit			<b>C+</b>	
<b>15</b>	<i>Timeliness of final audited accounts (An audited record of the financial outturn is presented to the legislature within twelve months of the end of the fiscal year)</i>	<b>C</b>	<b>C</b>		
<b>PI-27</b>	Legislative scrutiny of the annual budget law			<b>C+</b>	
<b>PI-28</b>	Legislative scrutiny of external audit reports			<b>C+</b>	
<b>D. DONOR PRACTICES</b>					
<b>D-1</b>	Predictability of Direct Budget Support			<b>C+</b>	
<b>D-2</b>	Financial information provided by donors for budgeting and reporting on project and programme aid			<b>C</b>	
<b>4</b>	<i>Data on donor financing (Donor-funding expenditures included in budget or reports)</i>	<b>B</b>	<b>B</b>		
<b>D-3</b>	Proportion of aid that is managed by use of national procedures			<b>D</b>	

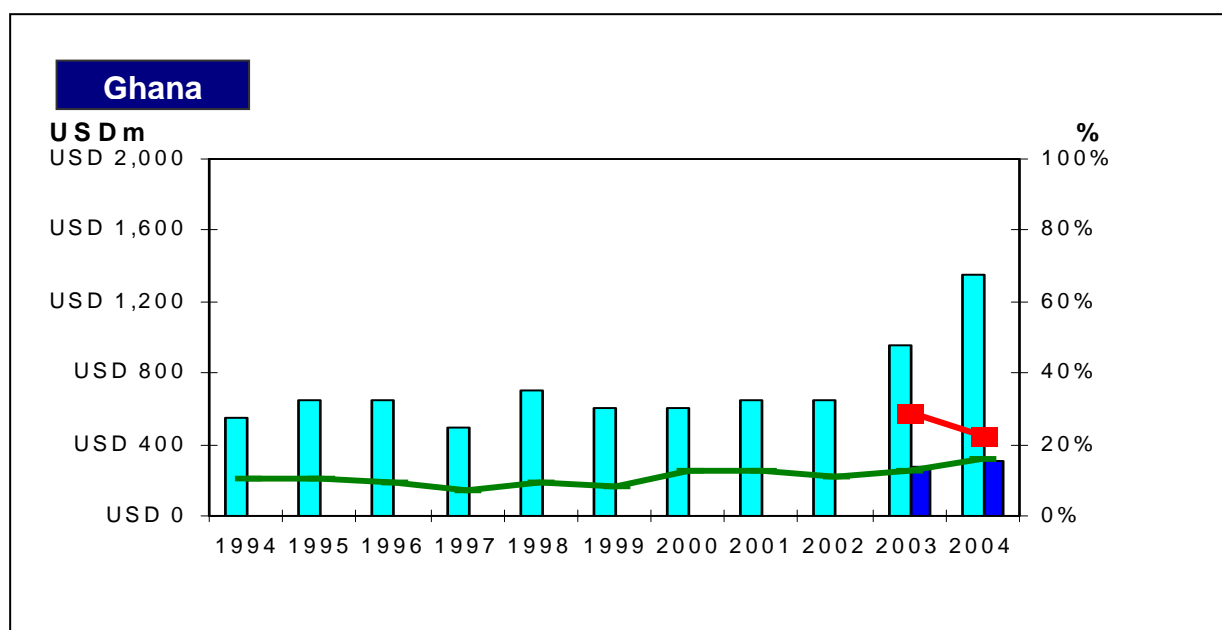


## Annex 1D: Aid Flows to Evaluation Countries

Figure 1.7: Aid and PGBS Flows to Evaluation Countries



Source: IDD & Associates, 2006



Source: OECD DAC database; 4<sup>th</sup> December, 2006

## Annex 2: Persons Interviewed in the Course of the Evaluation

Hon. Akoto Osei	Deputy Minister	MoFEP
Dr. Nana J.B. Siriboe	Chief Director	MoFEP
Mr. Kwabena Adjei-Mensah	Deputy Controller & Accountant General	Controller & Accountant General's Department
Mr. Christian Sottie	Controller & Accountant General	Controller & Accountant General's Department
Godwin Amuzu	Director, Economic Planning	MoFEP
Kwabena Boadu Oku-Afari	Ag. Director, Policy Analysis	MoFEP
Ms. Helen Allotey	Chief Economics Officer, Director, External Resource Mobilisation/Multilateral	Aid & Debt Management Unit, MOFEP
Angela Brown Farhat	Coordinator, Human Development	MOFEP
Mrs Effie Simpson-Ekuban	Director/Coordinator, MDBS Secretariat	MDBS Secretariat, MOFEP
Michael Ayesu	Head, World Bank Desk	MoFEP
Ms Asabea Gaisie	MDBS Secretariat	MoFEP
Sheila Naah	MDBS Secretariat	MoFEP
Nana Serwaa Baffour-Awuah	ADMU	ADMU, MoFEP
Atta Dabore	ADMU	ADMU, MoFEP
Mrs. Yvonne Quansah	Head, MDBS/ADMU	ADMU, MoFEP
Dr. Grace Bediako	Government Statistician	Ghana Statistical Service
Dr Regina Adutwum	Ag. Director-General	NDPC
Mr. Khan	Chief Director	NDPC
Mr. Owusu Nyantakyi	Budget Director	MOFEP
Mr. D.Domelewo	IPPD	Controller and Accountant-General's Department
Mr. Gyamfi	BEPMS	
Mr. Frederick Koranteng Ohene	Director of Audit	Auditor General's Department
Mr. Akowuah Kwadwo	Deputy Auditor General	Auditor General's Department
Mr. James Afranie	Director, PBME	Ministry of Education and Sports
Mr. Matthew Karikari-Ababio		Ministry of Education
Mr. Charles Otoo	Financial Controller	Ghana Education Services
Dr. K. Lawson Alorvor	Director	Ministry of Food and Agriculture
Mr. K. Amoako	Chief Director	Ministry of Women and Children's Affairs
Mr. Daniel Kattah	Chief Economics Officer	Ministry of Women and Children's Affairs
Mr. Albert Anthony Ampong	Director, Finance and Administration	Ministry of Women and Children's Affairs

Mr. Kwame H. Adorbor	Ag. Director, Adm	Ministry of Public Sector Reform
Mrs. Rebecca Amooh Aboagye	Chief Director	Ministry of Public Sector Reform
Ms Margaret Sekyere	Director	Ministry of Public Sector Reform
Mr. Kofi Afresah I. Nuhu	Dep. Chief Industrial Promotion Officer	Ministry of Trade, Industry & PSI
Mr. D. K. O. Hagan	Chief Commercial Officer/Director, PPMEPS	Ministry of Trade, Industry & PSI
Mr. Patrick Nimo	Programme Coordinator, Trade Sector Support Programme	Ministry of Trade, Industry & PSI
Dr. Eddie Addae	Director, PPMED	Ministry of Health
Mr. Kofi Adusey		Ministry of Health
Mr. George Darpkallah		Ministry of Health
Ms. Justina. E. Torjagbo	Regional Director	Regional Directorate, Ghana Education Service
Ms. Gertrude Dublin	Deputy Director, District Education Directorate	District Directorate, Ghana Education Service, Cape Coast
Ms Bridget Lamin	Public Relations Officer	District Directorate, Ghana Education Service, Cape Coast
Ms Rosemond Abra	District Director	District Directorate, Ghana Education Service, Cape Coast
Mrs. Florence Offei	Nurse, District Public Health Office	District Directorate, Ghana Health Service, Cape Coast
Ms Meena Nyapere Filistine	Field Officer	District Health Insurance Fund, Cape Coast
Mr. K. Owusu-Boampong	Deputy Director	Regional Health Directorate, Central Region
Dr. Aaron K. Offei	Regional Director	Regional Health Directorate, Central Region
Dr. Yaw Ofori-Yeboah	District Director	District Directorate, Ghana Health Service, KEEA
Ms Rose Taylor	Accountant	District Directorate, Ghana Health Service, KEEA
Dr. Don Taylor	Education Advisor	DFID
Mr. Kwasi Abbey Sam	Chairman	Public Procurement Board
	Chief Executive	Public Procurement Board
Mr. Arnold McIntyre	Resident Representative	IMF
Ms Monique Muller	First Secretary	Netherlands Embassy
Mr. Peter Jul Larsen		Danish Embassy/DANIDA
Jean-Francois Arnal	Resident Manager	Agence Francaise Developpement in Ghana
Maelis Borghese	Project Officer	Agence Francaise Developpement in Ghana
Caroline Piquet	Senior Investment Officer	Agence Francaise Developpement in Ghana
Dr. Wolfgang Weth	Director, KfW	KfW/German Development Coopreation

Joachim Schmitt	Counsellor, Development Cooperation	Embassy of the Federal Republic of Germany in Ghana
Mr. Filiberto Ceriani Sebregondi	Ambassador, Head of Delegation	European Union, Delegation of the European Commission in Ghana
Mr. Dick Neazer	First Counsellor, Head of Macro-Economic/Trade Section	European Union, Delegation of the European Commission in Ghana
Xavier Le Mounier	Programme Officer	European Union, Delegation of the European Commission in Ghana
Philippe Sas	Counsellor, Economic Advisor	Embassy of Switzerland in Ghana
Christophe Bahuet	Deputy Resident Representative	United Nations Development Programme, Ghana
Mr. Artemy Izmestiev	Programme Specialist, Aid Effectiveness	United Nations Development Programme, Ghana
Ms Simran Singh	Programme Officer (Economist)	United Nations Development Programme, Ghana
Ms Gwen Walmsley	First Secretary (Development), Senior Programme Analyst	High Commission of Canada in Ghana
Mr. Archie Book	Counsellor, Director of Development Cooperation	High Commission of Canada in Ghana
Ms Helen Fytche	Development Advisor	Programme Support Unit, CIDA-PSU, Canadian High Commission in Ghana
Mr. Jim Pietryk	Senior Policy Advisor	Programme Support Unit, CIDA-PSU, Canadian High Commission in Ghana
Dr. Evelyn Esi Awittor	Field Officer, Health, Nutrition and Population (HPN)/Poverty	World Bank, Ghana Office
Mr. Daniel K. Boakye	Economist	World Bank, Ghana Office
Tina Kimes	Senior Operations Officer/ Portfolio Manager	World Bank, Ghana Office
Mr. Chris Jackson	Economist	World Bank, Ghana Office
Mr. Phillip Brynnum Jespersen	Programme Officer	World Bank, Ghana Office
Ms Emmabel Hammond	Team Assistant	World Bank, Ghana Office
Mr. Christian Rogg	Economist	DFID, Ghana
Ms Ruby Adjaidoo Bentsi	Economist	DFID, Ghana
Dr. Daniel Aghiros	Governance Advisor	DFID, Ghana
Dr. Sonya M. Sultan	Social Development Adviser	DFID, Ghana
Ms Catherine Martin	Private Sector Development Adviser	DFID, Ghana
Dr. Peter Miovic	Economist	Consultant, PRSC Implementation Completion Report
Mr. Alotius-Ayete	Policy and Analysis Division,	Ministry of Finance & Economic Planning
Emilia Derkyi	Deputy Financial Controller	Ministry of Health
Herman Dusu	Financial Controller	Ministry of Health

Yvonne Kwansa	Head, Aid and Debt Management Unit	MOFEP
Joshua Magnus Nicol	Administrator	District Assembly Common Fund
Honourable Salas Mensah	Chairman	Public Accounts Committee
Dorkus Ewusi-Ansah	Programme Officer	Girls Education Unit, Ministry of Education
Daniel Osei	Deputy Director PPME	Ghana Health Service
Kwame Pianim	Chairman	Public Utilities Regulatory Commission
Paul Acquah	Governor	Bank of Ghana
M. Opoku-Afari	Special Assistance	Bank of Ghana
Emmanuel O. Akwetey	Executive Director	Institute for Democratic Governance
Yofi Grant	Executive Director	Databank
Mats Karlsson	Country Director	World Bank
Mavis McCarthy	Consultant	ex-Ministry of Private Sector Development
Samuel Itam	Mission Chief	IMF (telephone interview)

## Annex 3: Predictability of MDBS Flows

Development Partner	2003			2004			2005			2006		
	Total amount pledged for year 2003	Actual Disbursement (Millions (\$))	Variance (Millions (\$))	Total amount pledged for year 2004	Actual Disbursement (Millions (\$))	Variance (Millions (\$))	Total amount pledged for year 2005	Actual Disbursement (Millions (\$))	Variance (Millions (\$))	Total amount pledged for year 2006	Actual Disbursement (Millions (\$))	Variance (Millions (\$))
<b>African Dev't Bank</b>	32.000			14.000			30.000			31.900		
Fixed		32.000			15.770			31.510			16.100	
Variable		0.000			0.000			0.000			16.100	
Total		32.000	0.000		15.770	1.770		31.510	1.510		32.200	0.300
<b>Canada/CIDA</b>	12.535			11.740			13.426			15.014		
Fixed		3.581			5.776			6.403			7.507	
Variable		0.000			11.745			7.017			6.756	
Total		3.581	(8.954)		17.521	5.781		13.420	(0.006)		14.263	(0.751)
<b>Denmark/Danida</b>	1.500			2.530			3.500			4.120		
Fixed		1.500			1.250			1.750			2.160	
Variable		0.000			1.230			1.730			1.890	
Total		1.500	0.000		2.480	(0.050)		3.480	(0.020)		4.050	(0.070)
<b>DFID</b>	52.000			71.990			45.000			61.250		
Fixed		35.820			40.530			22.400			30.400	
Variable		16.180			37.850			21.550			29.961	
Total		52.000	0.000		78.380	6.390		43.950	(1.050)		60.361	(0.889)
<b>EU</b>	48.000			33.660			30.680			25.140		
Fixed		48.000			18.580			15.120			7.560	
Variable		0.000			15.920			14.180			4.530	
Total		48.000	0.000		34.500	0.840		29.300	(1.380)		12.090	(13.050)
<b>France</b>	0.000			0.000			8.670			8.400		
Fixed		0.000			0.000			4.250			4.410	
Variable		0.000			0.000			5.280			3.590	
Total		0.000	0.000		0.000	0.000		9.530	0.860		8.000	(0.400)
<b>Germany**</b>	0.000			7.590			8.520			12.000		
Fixed		0.000			3.600			6.830			6.000	
Variable		0.000			3.620			1.280			4.000	
Total		0.000	0.000		7.220	(0.370)		8.110	(0.410)		10.000	(2.000)
<b>Netherlands</b>	8.400			20.450			12.780			18.320		
Fixed		8.400			3.960			10.490			15.120	
Variable		0.000			16.430			2.150			3.470	
Total		8.400	0.000		20.390	(0.060)		12.640	(0.140)		18.590	0.270
<b>Switzerland</b>	5.000			7.140			7.900			7.200		
Fixed		5.000			7.630			3.450			4.500	
Variable		0.000			0.000			3.520			2.030	
Total		5.000	0.000		7.630	0.490		6.970	(0.930)		6.530	(0.670)
<b>World Bank</b>	128.000			127.500			125.000			140.000		
Fixed		128.000			127.500			123.000			143.100	
Variable		0.000			0.000			0.000			0.000	
Total		128.000	0.000		127.500	0.000		123.000	(2.000)		143.100	3.100
<b>TOTALS</b>	287.435			296.600			285.476			323.344		
Base		262.301			224.596			225.203			236.857	
Performance		16.180			86.795			56.707			72.327	
Totals		278.481	(8.954)		311.391	14.791		281.910	(3.566)		309.184	(14.160)

Variance as a percentage of Pledged figures: -3.115% 4.987% -1.249% -4.379%

	2003	2004	2005	2006
<b>Total MDBS Disbursement (US\$ millions)</b>	<b>278</b>	<b>311</b>	<b>282</b>	<b>309</b>
<i>of which</i>				
Base payment	262	225	225	237
Performance Payment	16	87	57	72
<b>MDBS disbursement as % Total ODA</b>	<b>39.4%</b>	<b>32.4%</b>	<b>27.0%</b>	<b>n.a.</b>
<b>MDBS disbursement as % Total Expenditure</b>	<b>12.7%</b>	<b>10.3%</b>	<b>8.9%</b>	<b>n.a.</b>





## Annex 4: Aid to Ghana – The Macroeconomic Story

(All figures in percentages of GDP, unless stated to contrary. 2002 excluded on grounds that it is an abnormal year - aid fell sharply but temporarily.)

The analysis compares 2003-05 with 1999-2001. First, mean annual totals of all forms of aid (net) as % GDP, including debt relief:

Total aid 1999-01	4.4
Total aid 2003-05	7.1
Increase in period	+2.7 or nearly two-thirds

To what extent was this absorbed (= change in before-aid balance of payments current account):

BoP current account deficits (mean annual values/GDP):

1999-01	- 9.8
2003-05	- 8.2

So the BoP deficit actually declined. None of the increase in aid was absorbed. In effect, it contributed to a re-building of international reserves, up from = 1.2 months of imports in end-2001 to 3.2 months end-2005.

What about 'spending' through budget?

Government overall budgetary balance, excluding aid (mean annual values/GDP):

1999-01	-11.5
2003-05	- 9.1

Again, none of the aid increase was 'spent', in that the budget deficit narrowed rather than widening to accommodate the rise in aid. In effect, the aid rise contributed to the government's policy of reducing its domestic debt obligations, which declined from 23.7% of GDP in end-2002 (end-01 not available) to 10.8%/GDP at end-2005.

There is thus a large discrepancy between the purposes for which donors provide assistance and the actual uses. This arises from (a) the fungibility of resources, (b) the parallel rise in domestic revenue mobilisation, (c) the limited growth in demand for imports and (d) the limited absorptive capacity of the GoG systems. No adverse judgement is implied, in that there was a strong case to be made at the beginning of the decade for a re-building of reserves and (especially) reductions in the domestic public debt. But, looking forward, there is a limit to the extent that continuation of the same policy stance could be justified, at which time issues of the absorptive capacity of the economy and the GoG will come to the fore. What this analysis shows is that capacity has not really been tested yet.

All the above refers to total net aid of all forms, including debt relief. What about budget support? The following figures refer to programme aid.

Total programme aid in period (mean annual values/GDP, gross):

1999-01	3.8
2003-05	3.3

So there was actually a small decline in programme aid. It did not contribute to the developments described above.

Sources for the above data are the IMF throughout.

## Annex 5: The Nature and Purpose of a Statement of Aid Policy

### **Purposes**

The overarching objective of an aid policy document (APD) is to increase the productivity of external assistance in pursuit of the GPRS and such other statement of the GoG's policy priorities as may be produced from time to time. Being directed to aid effectiveness, it should be closely related to the principles and commitments set out in the Paris Declaration; it can be understood as a local expression of how the Declaration should be implemented in Ghana.

The policy document also provides the GoG with a vehicle for expressing its own priorities and preferences, with a view to enhancing national ownership of aided activities, improved alignment with national systems, etc.

The policy is *not* intended as in any way to cover the same substantive ground as the GPRS. It is about how the resources coming from Development Partners (DPs) can best be utilised to promote GPRS objectives and programmes.

### **Coverage**

What the policy should say is for the GoG to determine, after consultation with its development partners. Not wishing to go into what the government should say, the following is simply offered as a check-list of items from which the coverage of an eventual APD could be drawn. It is based on the *Paris Declaration*, Rwandan, Ugandan and Tanzanian examples, and experiences elsewhere.

The check-list:

*Statement of purposes and general principles*

*Statement of GoG priorities and preferences as between alternative modalities of aid delivery (including technical assistance), and preferred donor comparative advantages.*

*Statement of the minimal levels of concessionality which will act as a criterion for the acceptability of a given offer of assistance.*

*Statement of GoG undertakings, relating to:*

*Pursuit of poverty reduction and other development goals*

*Leadership of the aid harmonisation processes*

*Channels and processes of dialogue; exchange of data and information; provision for the division of responsibilities for dealing with DPs within the GoG*

*Development of GoG systems and capacities, including public financial management*

*Development of an integrated approach to the provision and acceptance of technical assistance, necessary for movement towards a more demand-driven, Ghana-owned situation and linked to the GoG's existing Public Sector Reform strategy.*

*Other matters which are relevant to the Ghana situation*

*Statement of development partner undertakings, e.g. relating to:*

*Orienting their programmes around GPRS II and other agreed GoG statements of development policy*

*Systems alignment, through the utilisation of Ghanaian budgetary, auditing, procurement, monitoring and reporting systems and timetables (linked to improvement of PFM)*

*The pursuit of harmonisation, e.g. through use of common arrangements, mechanisms for donor division of labour and delegated co-operation, the simplification of procedures and the sharing of information, pooled supply of technical assistance, and use of common monitoring and reporting requirements*

*The untying of aid and reduction of other practices which reduce the developmental value of assistance; other measures to reduce the transactions costs of aid*

*The minimisation of conditionality and collective adherence to joint performance assessment frameworks. Institutional provisions for the conduct of dialogue between GoG and its DPs.*

*Provisions for the settlement of disputes, including safeguards against short-notice withholding of support*

*Provisions for monitoring and evaluation, based on the principle of mutual accountability*

### ***The process***

Experience elsewhere suggests that it is essential that a policy statement along the above lines should be worked out collaboratively and consensually with relevant stakeholders, most notably the MDAs which currently have direct dealings with DPs, as well as the donors themselves. While it is essential that the GoG should retain strong ownership of the policies set out, a process of consultation about successive drafts is thus envisaged, culminating in the publication of a policy statement approved by Cabinet.

### ***Implementation***

The APD should also include provisions for how it is to be implemented, and through what institutional arrangements, including an action plan for the initial steps of implementation.

TK

November 2006

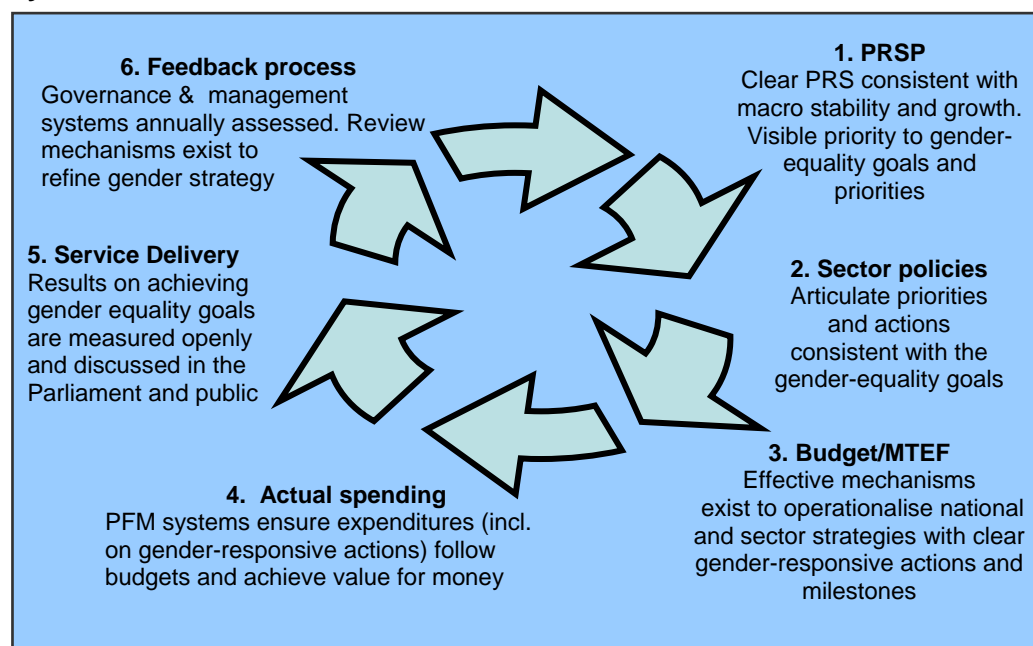
## Annex 6: Influence of the MDBS on Gender

### Background

The main objective of the evaluation has been to measure to what extent and under what circumstances; Multi-Donor Budget Support (MDBS) in Ghana has been relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. This annex has a narrower focus. Specifically, it assesses whether the MDBS process, in trying to achieve its goal of poverty reduction, has helped to create the conditions under which the implementation of policies aimed at narrowing the gender gap in Ghana is made easier, faster and more effective. In addition, it puts forward proposals on how a gender focus can be better locked-in to the design and operation of MDBS to add to its impact on achieving gender equity in Ghana.

The 'ideal' conditions for mainstreaming a gender focus in domestic policy and budget processes are presented in Figure 6.1. Under these conditions inequalities and forms of discrimination affecting women and men (directly and indirectly) are given visible priority in the formulation of national development strategies which, in turn, guide sector policies, priorities and programmes for tackling them. The quality of linkages between budgets, resources and results ensures that attention to gender is consistent and effective throughout the policy-budget cycle. This, in turn, depends on a public financial management system in which budgets reflect national and sectoral policies, expenditure follows the budget and expenditure management and procurement systems generate reasonable value for money in public spending. Implementation also demands strong domestic accountability systems, which are able to hold the government accountable for policy results.

**Figure 6.1: What is needed for effective gender mainstreaming in the policy-budget cycle?**



How far has the MDBS process contributed to the creation of these ‘ideal conditions’? This question requires an assessment of both the strength of the overall policy and budget framework in Ghana and the degree to which this policy and budget framework gives priority to gender issues. The main body of the evaluation report has comprehensively examined the extent to which MDBS inputs and its immediate effects have strengthened the overall policy and budget framework in Ghana. In this Annex we concentrate on gauging how far the MDBS process has sharpened the profile and responsiveness to gender issues.. We do this by focusing in on the effects that the MDBS has had on each stage of the policy budget cycle and ask whether and what gender issues have been identified and how these have been treated in MDBS dialogue and performance targets. Where this has not been possible, we explain why.

## **MDBS, Gender and the Policy-Budget Cycle**

**1. National policy:** the objective of the MDBS process is not to influence the content of domestic national development strategies but to create a harmonised mechanism for the disbursement of budget support to assist the implementation of an already existing national strategy. The MDBS design in Ghana does however deliberately use dialogue and conditionality as incentives to increase attention to reform by making use of a disbursement schedule linked to targets and triggers contained within a Performance Assessment Framework (PAF). The evaluation does not therefore contain a detailed assessment of the gender strategy content of the GPRS 1 (2003-2005) or GPRS 2 (2006-2009), which is technically outside the influence of the MDBS process, instead the focus is on the degree to which the donor group providing MDBS has looked to use targets or triggers in the PAF to specifically catalyse and incentivise reforms that have a significant bearing on gender inequalities.

The key evaluation findings here are that between 2003 and 2006 the PAF had two areas of focus most closely related to the achievement of gender equality: i) special programmes to support the vulnerable and excluded and ii) social protection. (Why not include the health and education PAF targets that looked at maternal mortality and gender equity in primary education?) Together these areas of focus accounted for no targets in 2003 and 2004, with 1 out of 16 targets in 2005 and 6 out of 25 targets in 2006. The implication is that more focus has been given to specifically targeted expenditure areas, with potentially clear and visible results for the key target groups (both male and female). On the other hand, only limited steps have been taken to actively influence the broad thrust of government expenditure in terms of its responsiveness to gender issues or its overall impact on gender equality outcomes (see Box 1).

**2. Sector Policies:** Has the MDBS process through its use of policy dialogue and conditionality encouraged and empowered government to mainstream gender through sector policies? The inception of a ministry dedicated to Women Affairs and Children pre-dates the MDBS period. At present MOWAC acts as both a coordinating and an implementing agency<sup>1</sup> although the bulk of policy related to gender is operationalised through sector policies. The evaluation team did not have the time or resources to undertake a comprehensive analysis of the gender focus of government policies. Instead, the team chose to focus on the health and education sectors.

The PAF targets in the education sector are linked to the MDG goals of achieving universal primary education by 2015 and of eliminating gender disparity in primary and secondary education preferably by 2005 and across all levels by 2015. Certainly, the documentation related to sector annual reviews suggests that the education sector regularly monitors and

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<sup>1</sup> The Department of Women acts as the implementing agency of MOWAC. Gender advocacy groups have argued that this dual role of MOWAC undermines its role as a coordinating body

reports on progress in these two areas. Moreover, an explicit policy goal of “providing girls with equal opportunity to access the full cycle of education” was added to the original eight goals of the Education Strategic Plan. More especially discussions with district and regional education offices visited in the Central Region highlighted a portfolio of activities explicitly aimed at getting more girls into school. Each district has a District Girls Education Officer who submits quarterly reports to the Girls Education Unit at the central level, which coordinates activities of all officers. This represents good progress. Yet the JAS and the APRM Report for Ghana also note that achievement of gender equality at secondary and tertiary levels of education is lagging behind. This, together with the severe under-representation of women in public life, is at odds with Ghana’s performance in other spheres and with its ratification of several international conventions and human rights instruments designed to close the gap between women and men in terms of economic and political opportunity.<sup>2</sup>

In health, the sector wide approach has provided a strong policy steer to MDDBS deliberations from the beginning. There has been active dialogue and close monitoring at both the sector and MDDBS levels of health sector outcomes. However, there is only anecdotal evidence to suggest that this tighter dialogue has given greater priority to gender concerns. There is some evidence to suggest that maternal health is given priority in the exemption of funds that are made. In addition, prevention costs of mother to child transmission of HIV and AIDS are available free. However, as discussed below there is, particularly in the areas of child and maternal health, a major gap between stated policy priorities and policy outcomes. Overall the experience of the health sector would seem to suggest significant weaknesses, which in turn raise questions over the ability of the central agencies of government – NDPC and MoFEP – to scrutinise on a systematic basis the pro-poor and gender-responsive nature of policy and to effect changes where necessary. This also challenges the effectiveness of DP-GoG dialogue to affect change at the sector and MDDBS level. In the case of the health sector, significant weaknesses in the ability of prevailing policy and institutional mechanisms to systematically generate and execute gender-responsive policies may be an important contributing factor behind continuing inequalities in health outcomes, suggesting that a key entry point for MDDBS partners in supporting gender equality goals may be in supporting the scrutiny role of central agencies during the policy-budget cycle (see recommendations).

**3. Budget/MTEF:** To what extent have policies intended to address gender gaps been given priority in resource allocation processes? The budget guidelines for the preparation of the 2003-2005 budget issued in late 2002 did not mention gender as a priority in budget preparation and this did not change for subsequent guidelines issued for 2005-07 and 2006-08. The guidelines for the preparation of the 2007-2009 budget issued in May 2006 do however mention the “promotion of gender equity” as one of the goals for GPRS II and advises MDAs to treat it as a crosscutting priority together with HIV/AIDS, environment and employment. However, we found no evidence that either the Ministry of Women and Children (MOWAC) or the National Development Planning Commission (NDPC) or MOFEP have effectively challenged “sector budgets” on their response to this requirement, or that Parliament is paying specific attention to this as a cross-cutting policy priority. Interviews during the evaluation with MOWAC officials suggested that although they had a formal role in advising on these issues, their input was given very little weight. The Gender Desks located in each Ministry since 1998 also do not seem to play a role in resource allocation processes beyond negotiations around their own resource requirements during the financial year.. This is further confirmed by the APRM report which notes the weak structural position of gender desks and their limited ability to advocate effectively for gender issues given weak sectoral capacities but also weak inter-sectoral challenge and coordination processes.

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<sup>2</sup> These include the Convention of the Elimination of All Forms of Discrimination Against Women (CEDAW) – Beijing Plan of Action (02/02/96).

The analysis contained in the evaluation is clearly limited because it excludes resource allocation processes within sectors and because of data shortcomings (see below) The education sector, where resource allocation to regions and districts is more transparent, is one of the few where we found that resources allocated to districts are driven by a pro-poor formula which includes a criteria on gender equity, in this case the level of the female Gross Enrolment Ratio. Other similar allocation formula were not identified.

**4. Actual spending:** Has actual expenditure on gender based activities increased? It is currently not possible to break down the government's aggregate budget according to its impact on men and women. This is because the current budget structure does not permit a direct tracking of expenditure against programmes (including those that affect gender equality). The chart of accounts in use in Ghana divides public expenditure into sectoral, organisational and economic categories. This means that actual public expenditure as reported in annual audited statements is presented by: i) sector e.g. economic services or infrastructure ii) organisation or "head" e.g. Ministry of Mines or Ministry of Interior and "sub heads" such as Ghana Refugee Board and iii) economic classification or "item" e.g. wages and salaries or administration. So even though individual ministries *budget* according to specific programmes and activities the actual expenditure on these activities is not reported in the final accounts (Box 6.1).

The implication is that although it is possible to track consistently the budget for and actual expenditure of the Ministry of Women and Children Affairs (since it is an individual "head" in the chart of accounts) it is not possible to identify, from the audited statements, the kinds of programmes the Ministry of Women and Children Affairs spends its resources on. Nor is it possible to assess what other MDAs are doing to specifically address closing the gap on gender inequality.

#### **Box 6.1: Making Gender Visible in the Budget**

It is widely acknowledged that the degree of visibility of gender issues in the budget is partly a function of how government expenditures are classified. For example, there are expenditures that are specifically targeted to women or men based on their particular needs (women's health programmes or domestic violence counselling for men). Then there is what are known as 'equal opportunity expenditures' by government agencies for their employees, such as special training for disadvantaged groups, disability allowances or paid parental leave. These two categories are important and can usually be easily identified from budget documents, but they also make up a very small percentage of total budget expenditure. The last and biggest category are what are generally known as general or mainstream budget expenditures by government agencies which make goods or services available to the whole community, for example, literacy classes or agricultural extension services. Ultimately making gender more visible in the budget requires a much more detailed analysis of the allocation and impact of these mainstream non-gender specific expenditures on different social groups, including women, men, youth and those experiencing specific vulnerabilities or disabilities. Doing so generally requires a programmatic breakdown specifying the type of activities to be funded, for example, primary health care, hospitals, medical research etc..

*Based on Budlender and Sharp 1998*

Certain individual ministries do try and generate such information internally. For instance Ministry of Education reports collect final expenditure by level of education. The Ministry of Health, in its Financial Reports for the year, presents use of donor funds (only) by programme (e.g. National Aids Control Programme or Child Health Programme). However, a review of these reports by the evaluation team found little information on the proportion of the sector's budget focused on gender-related activities i.e. this type of information is not internally generated nor systematically reported on by these ministries.



This is a serious shortcoming. A number of assessments of the public financial management system in Ghana have noted the chronic lack of consistency between approved budgets and actual expenditures (Booth et al., 2005; PEFA 2006). Our own analysis of actual audited expenditure show huge variations between budgets and actual expenditures on economic items for financial years 2001 and 2006 with non-personnel expenditures consistently under spent. These deviations between budgets and actual expenditure severely undermine policy implementation including implementation of those policies with significant and often different consequences for women and men. An example is the effect of fluctuating funds at district levels in the health sector on maternal mortality (Box 6.2).

**Box 6.2: Deviations in Budget and Actual Expenditure: Effect on Maternal Mortality**

The utilisation of public health services has been negatively influenced by the introduction in the mid-1990s of a “cash and carry” system, which is a front payment fee-for-service system. A mechanism of exemptions was designed to cover the costs of consumables and drugs for which patients would have been responsible. These exemption funds are budgeted as part of the central budget for the Ghana Health Service. As a result of significant delays between the utilisation of exemption services and receipt of compensation funds these “free services” are withheld. For example in 2006, GHS reported that 150 billion cedis had been budgeted for exemptions and up to the end of November (financial year runs from January to December) only 86 billion cedis (57%) have been disbursed. Regional and district health officials in the Central Region judged these inadequate and fluctuating exemption funds responsible for the rise in maternal mortality rates. These officials have noted a drop in the number of women choosing ante-natal care and supervised deliveries with the withdrawal of “free services” with consequent effects on maternal mortality rates.

Reasons why there might be greater deviations in gender-specific expenditures include a combination of last minute expenditure cutbacks that fall on areas perceived by budget agencies to be of a lesser priority than others; the relatively high local finance content of a lot of expenditures that affect women, and particularly women with children (primary health and maternal health services, local water and sanitation services etc) which do not always find their way to the point of service delivery or are not always met by local counterpart funds; and the fact that even if funding does get through there is no guarantee that services will be operated in ways that respect gender equity goals, especially when working with poor women and men. It is worth noting in this respect that the APRM report pointed to a lack of progress in gender mainstreaming in Ghana as a result of cultural and other impediments.

Allocations to MOWAC between 2000 and 2005 as a proportion of total domestic expenditure have also been the subject of some significant deviations. In absolute terms spending on MOWAC is low, although it has increased in real terms in line with overall budgetary resources. This in part, reflects MOWAC's poor capacity to spend allocated resources within the financial year. This may be a result of the severe unpredictability in its funding and in itself could and should be a key topic for dialogue between MDBS donors and GoG.

**5. Service Delivery:** The length of the MDBS experience limits the confidence with which we can assess the degree to which services are being delivered according to the GPRS II commitment to reduce gender inequalities and promote women's empowerment. In two sectors we looked at we found conflicting evidence. In education the Gross Enrolment Ratio Gender Parity Index has improved from 0.91 to 0.95 between 2000 and 2005. However this increase is not consistent across districts and the Northern Regions continue to rest at the bottom of parity rankings. There are also emerging issues of overcrowding and under-

resourcing in schools, in part because of the generally successfully Capitation Grants Scheme. Infrastructural deficiencies in schools, such as toilets, are also thought to affect girls' drop out rates more than boys.

But in health, there is a suspected deterioration in maternal health, and this is despite an overall improvement in budgetary allocations to health. The Ghana Statistical Survey estimated current figures of 214 per 100,000 in 1994. These are now suspected to be higher but a maternal mortality survey is yet to be implemented. Recorded maternal deaths for 2005 were 952 against 824 in 2004.

In the Police Service, also reviewed by the evaluation, there has been some progress in reorganising the Women and Juvenile Unit of the Police as the Domestic Violence and Victim Support Unit, and a stated increase in focus on the problem of Domestic Violence. Data to confirm the impact of these changes is lacking and it is too early to tell whether the Domestic Violence Bill approved by Parliament in early 2007 is leading to consistent funding of domestic violence initiatives and ultimately changes in behaviours and cultural practices. Noteworthy in this context is that despite putting in place an Affirmative Action Policy in 1998 requiring that women should provide 40 percent representation in decision-making and executive positions at all levels by 2006 only 25 out of 230 Members of Parliament were women.

Clearly the findings of the evaluation on whether the MDBS process has led to a greater emphasis on gender in policies and programmes are limited by the scope and size of the analysis. However, even with a focus on a few areas, we can assess that gender has not been given the weight it deserves in policy and budgeting process except perhaps in the few sectors where it is already deeply integrated within sector policies; and even here, the scorecard is mixed. **The conclusion of the evaluation is that even as gender issues have gained prominence in the guidelines for budget preparation, there is limited evidence that this has had a significant influence on the policy-budget cycle.** While there may be more recognition, at least at the technical level, of the relevance of reducing gender inequalities and that this is underpinned by a fairly extensive legal framework recognising the need to eliminate discrimination and provide for affirmative action, the results in terms of budget preparation, decision-making, outcomes and service delivery are hard to find. **Nevertheless, the gradually increasing recognition, backed up by the self-assessment within the 2006 APRM report, that women's empowerment is a priority for government provides a strong justification for the MDBS to give more prominence to the gender responsiveness of the policy and budgeting cycle.**

**6. Feedback and Result Monitoring:** The final stage in the cycle relates to whether domestic accountability mechanisms are strong enough to hold the Executive to account for its policies on gender equality? The evaluation indicates that the Parliament has begun to play a more visible role in policymaking and budget processes. The Finance Committee amongst its other responsibilities examines how far sector estimates reflect GPRS objectives. A Poverty Reduction Committee has been created to focus on the implementation of the government's growth strategy and GPRS and a special budget committee to handle the portion of the national budget on dealing with public state/governance institutions. The evaluation team did not have the opportunity to question the committees on their role in ensuring gender equality of government policies and budgets but their **ability** to do so has certainly grown over the past few years. A key next step will be encouraging sector ministries to gather more gender relevant input, output and outcome data to both justify future gender related priorities and budgets and make it possible to track performance in this area over time.. Box 3 gives the example of South Africa, where the Parliament is taking an active role in scrutinising budgets from a gender perspective to ensure full consideration of gender issues in line with the South African constitution.

The strength of civil society groups on gender issues, although starting from a very low base, is also growing. This was demonstrated by the degree of organisation of popular protest against domestic violence, which led to the presentation of a Bill on Domestic Violence in 1999 and its eventual passing into law in 2007 after a protracted process of consultation. The media also played a strong role in giving prominence to the problem of domestic violence. In our opinion there are few countries in sub-Saharan Africa where civil society could have had such an impact.

On budget monitoring, there remains some way to go, but experience from other countries confirms that well-informed advocacy from civil society groups on budget issues can be a positive and influential force in enhancing both the accountability and responsiveness of budget processes becoming a core component of effective public financial management (de Renzio and Krafchik 2007). Support for well-informed advocacy around the responsiveness of the budget to gender concerns could be an important complement to the donor-GoG dialogue within the framework of the MDBS itself.

#### **Box 6.3: Budgets Where Gender Matters – the South African experience**

The South African Women's Budget Initiative seeks to undertake a gender budget analysis to better inform parliamentarians so that they are able to understand better the gender implications of government budgets and to exercise their parliamentary scrutiny function more effectively. The standard method employed is to take the government's policy framework by sector and go through the following steps:

- Review gender issues in the sector
- Analyse the appropriateness of the policy framework
- Examine the extent to which the allocation of resources reflects a serious commitment to the policy goals
- Examine how the resources have actually been utilised (e.g. how many male (awkward) and female members of the population have benefited and at what cost)
- Assess the longer term impacts on male and female members of the population identifying to what extent their lives have improved.

As well as producing publications with technical analysis, the South African WBI produces popular handbooks in a number of local languages to support greater advocacy around budget issues. It is also involved in a long term process of capacity building to increased well-informed demand for better budgets that in turn meet the promises of the South African constitution.

*From Elson, D (2006) Budgeting for Women's Rights p41.*

### **Gender Equality and the New Aid Modalities**

The debate on how efforts to enhance development effectiveness through the improved delivery of aid, can be harnessed to speed up implementation of gender equality commitments has only just begun (UNIFEM 2006). In the case of the MDBS Ghana there is much learning still to be done. There are however a few key areas linked to generic experience that are worth highlighting before providing more specific recommendations for the MDBS partners. These are:

- The importance of attending to capacity deficiencies regarding gender equality: both the capacity of gender advocacy groups effectively to voice women's priorities in public decision-making and the capacity of public institutions to respond adequately to the differing needs of women and men at the point of service delivery. Women's participation in budget decision-making is particularly low in Ghana and, while no guarantee, is associated in other contexts with stronger support for gender equity and efficiency goals.
- High quality gender analysis and effective capacity building needs improved sex disaggregated data and a commitment to gender sensitive performance indicators that go beyond management processes to measure changes in gender equality at the output and

outcome level. This is necessary because of the simple fact that “what gets measured tends to get done” (UNIFEM 2006:10)

- Supporting civil society’s accountability function is also crucial. GBS should be supported with independent funding for civil society to ensure its continued role and relative autonomy in monitoring public policy, promoting accountability and advocating for social justice and inclusion. Supporting budget monitoring from a gender perspective may be a good place to start.
- Finally, donors and recipients have made domestic, regional and international commitments to promoting women’s rights. Accountability systems have to be refined to monitor their performance while a broader set of actors should be included in scrutinising policy and spending decisions. Mutual accountability systems as part of the Paris Declaration architecture provide one context in which domestic accountability systems can be supported, in this case to provide a stronger account of government actions in relation to its national development goals and priorities which include a strongly stated commitment to gender equality..

## **Recommendations**

### ***1. More visibility to gender issues in sector policy documents:***

While the evaluation warns that trying to engineer policy change through the application of more targets and triggers is ultimately self-defeating, as part of the ‘whole of government approach’ MDBS partners could find a way to engage more openly and directly with government (possibly through a clearer agenda with sector working groups) on the priorities of relieving key constraints to greater gender equity in policy formulation and implementation.

The consultative workshops held in April this year discussed how best to include ‘due process conditions’ in the design of budget support in Ghana. Feedback from workshop participants suggested that MDBS stakeholders saw a need to distinguish between ‘underlying principles’ which could be part of the revised Framework Memorandum e.g. democracy and human rights, and other budget-specific issues which should be part of the PAF and be assessed annually. It is not recommended here that additional gender-equality targets be included in the PAF. Instead it is suggested that the ‘underlying principles’, which include Ghana’s commitments to CEDAW as part of its wider human rights commitments, should be assessed by a broader group of donors in Ghana or by mechanisms which monitor compliance to international commitments. In this approach MDBS partners would be required to ensure that the budget process is compliant with Ghana’s international obligations of implementing CEDAW and similar rights conventions.

Improvements are also needed in the interaction between sector working groups and the MDBS core group and between each other. A ‘whole of government approach’ to gender inequity can be more easily operationalised at the sector policy level if gender related issues are communicated clearly and easily through sector working groups. This confirms a wider evaluation finding that there is a need to capitalise on the positive impact of MDBS on dialogue within government between central and sector ministries.

This further requires that the ‘challenge function’ of both the Ministry of Finance and the NDPC needs to be strengthened so that sector ministries can be held more responsible for government commitments, including the gender responsiveness of their ‘sector budgets’.

## **2. More active engagement in resource allocation issues:**

On the basis of suggestions made by MDBS stakeholders in the consultative workshops held in April 2007, the evaluation team recommended that the MDBS process needed to engage more actively with resource allocation issues. That is, not just over PFM systems issues but also over the appropriateness, efficiency and effectiveness of proposed and actual inter and intra-sectoral allocations. This ought to take place both at the aggregate level (where discussions might focus on the medium term fiscal framework) and at the sectoral level. Within these aggregate and sector level discussions, the MDBS process could create space for debate on the extent to which expenditure allocations adequately pick up gender equality commitments made by GoG and elaborated in GPRSII and related sector strategies. .

To improve the quality of resource allocation processes, the evaluation team has also recommended the use of traditional public expenditure reviews, of the type used in Ghana during the early 1990s which would scrutinise for instance the balance of capital and recurrent spending, of salary/ non-salary spending, and of spending between sub-sectors. These PERs could also be used to analyse the efficiency and equity of spending by examining units costs in key service delivery areas and this information could in turn be used to influence subsequent resource allocation. A PER can also usefully include some assessment of how far current public expenditure patterns accord with priorities around achieving greater gender equality, this can be done by including a PER module in which opinion polls, client surveys or citizen report cards are used to examine perceptions by women and men of how far current forms of service delivery, in one or more sectors, meet their needs (Commonwealth Secretariat 1999). More sophisticated beneficiary incidence analysis can also be used, but tend to have more sophisticated data requirements and can take time to process.

Related to the need to improve the quality of resource allocation processes is the strong need for a restructuring of the MTEF process so it can be better used to translate policies into budgets. The suggestion is for the MTEF to be based on programmes rather than activities and for actual spending to be tracked on this programme by programme basis. As far as it is possible to track the gender specificity of expenditure programmes, this will allow more regular monitoring of the magnitude and direction of spending to gender-related priorities. Programme monitoring should also allow for a regional breakdown. This is especially important in tracking progress towards eliminating gender inequities as the gender gap is more visible in some parts of the country than others.

## **3. Clearer results monitoring and stronger budget advocacy:**

There is a need to expand the 'space' within MDBS so that civil society, and in particular gender advocacy groups, can play a greater role. Recommendations made at the consultative workshops to do this include more concerted efforts to disseminate information about the MDBS process including making MDBS documentation more accessible. The need for expanding representation of domestic actors was also stressed by including more civil society organisations and representatives of parliamentary select committees within sector working groups.

As stated above supporting well-informed advocacy around the responsiveness of the Ghana budget to gender concerns could be an important complement to the donor-GoG dialogue around MDBS. Experience from OECD countries confirms that active engagement by non-governmental and Parliamentary groups, including holding events such as Budget Hearings, have been influential in both informing the general public about the centrality of the budget to many of the decisions and outcomes associated with government, and in maintaining upward, constructive pressure on budget decision-makers to attend to the implications of the national budget from a gender perspective.



## **Annex 7: MDBS Joint Evaluation Dissemination Workshop**

### **Discussion Summary**

*Tuesday, 24 April 2007*

#### **Introductory Remarks**

The workshop began with introductory comments by a panel of four speakers. Mr. Archie Book, Director of Development Cooperation and Acting Canadian High Commissioner initiated the workshop, welcoming participants and thanking the funders of the report and organisers of the workshop. This introduction was followed by comments by Daniel Boakye, MDBS Co- Chair, World Bank and Hon Dr Anthony Akoto Osei, Deputy Minister MOFEP, which guided workshop discussions.

Mr. Boakye highlighted the progress Ghana has made in implementing the harmonisation agenda relative to other countries. He felt that the authors had put together a comprehensive report, which has generated a lot of comments by donors and Government, signalling the interest of all stakeholders to move forward in achieving the objectives MDBS has set out for itself.

Hon. Dr Anthony Akoto Osei also felt that the Report had generated a good opportunity to assess the success and failure of this particular process. He invited all participants to be extremely frank and sincere in their comments and stressed the need to be prudent about MDBS achievements.

Professor Gyimah-Boadi acting as the Chairperson (and member of the ODI/CDD Evaluation Team) thanked all stakeholders involved in the MDBS process for their cooperation in providing information which went into the Report and comments on the various drafts produced. He advised workshop participants to focus their discussions on ways in which the recommendations made in the report could be operationalised.

## Comments on Presentation of the Report

Andrew Lawson, Evaluation Team Leader, presented the main findings of the MDBS report focussing on the areas, which had generated a lot of comments from Development Partners and the Government of Ghana. The presentation identified four main priorities for any process aimed at strengthening MDBS arrangements.

### Recommendations: how can things be improved?

- Sharpen up MDBS design to reduce transaction costs, strengthen the basis for constructive policy dialogue and focus more on the Budget.
- Develop a clear policy on the scale and scope of Budget Support within a formal Aid Policy.
- Address the procedural issues creating fragmentation in the Budget (Statutory Funds, timing of salary negotiations).
- Strengthen capacity in NDPC and MoFEP as part of wider enhancement of public sector incentives.

The presentation generated a number of comments, centred on the four prioritised recommendations presented at the workshop (See Box above). A number of participants, primarily development partners, registered surprise at the **balance between project and programme aid** reported in the Evaluation. A comment was made, that the figures for programme aid need to be disaggregated into MDBS flows and those arising from debt relief (MDRI, HIPC) in order to identify trends in MDBS flows only.<sup>3</sup> It was also felt that the relevance of the balance between project and programme aid needed to be placed within the context of other data such as the Strategic Partnership for Africa (SPA) data, which reports that Ghana has the second highest level of budget support in Africa<sup>4</sup>, an average budget support to GDP ratio, an above average budget support to total aid ratio and Government satisfaction with budget support is consistently high.

Nevertheless the discussion was focussed on how to increase the relative proportion of programme aid. From Government of Ghana, demands were made for a **formal aid policy**, which could guide the balance between project and programme support. GOG agreed with the need for such a policy but also pointed to the weak capacity present in the central finance and planning ministries (see bullet 4 on slide), which regulated the speed with which such a policy could be developed. A comment was made that while the report recommends a formal aid policy it does not discuss this in any amount of detail. Tony Killick, one of the evaluation team members, has put together a note on the development of an aid policy, which will be included as an Annex to the Final Evaluation Report.

Questions were also asked about what development partners could do to **reduce resource fragmentation and increase overall development assistance**. Responses from workshop participants on this issue ranged from advocating 100% use of budget support to the continued use of project assistance in some areas. A suggestion was made that development partners should target to give maximum budget support and then find reasons for project aid in specific circumstances. One perspective was that there could still be a role for project based assistance for instance in targeting service delivery to marginalized groups or to geographical areas. Suggestions were also made that donors should also focus more on transaction costs than accountability issues in their home countries. Development

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<sup>3</sup> See Figure 3.2 of the Final Evaluation Report for this disaggregation

<sup>4</sup> Comparative aid data based on OECD-DAC statistics is presented in Annex 1.



partners need to be held accountable for their behaviour by establishing a process such as the **mutual accountability** framework used in Mozambique.

The Evaluation Report was criticised for failing to see budget support as just one tool used by donors to achieve their development objectives, at various points in the report. There were inter-linkages between budget support and other forms of assistance. Development partners reported that efforts were underway to give more aid to sectors through pooled funds and sector budget support by substituting away from project assistance. The evaluation team, when responding to these comments, stressed that the Report was not advocating a hegemony of MDBS and in the course of its evaluation it found a number of examples of technical assistance provided through projects which worked quite efficiently so there was space for use of complementary aid modalities. At the same time, in two of three criteria, used by the Public Expenditure and Financial Accountability study (PEFA) carried out in Ghana last year, looking at the number of projects on budget and the level of aid using government systems, Ghana scored a C and a D. The reasons for this lie in the incentive structure that other levels of government face (e.g. sector ministries), which encourage the maintenance of off-budget aid modalities (e.g. projects, common basket funds). Therefore there is a need to accelerate implementation of the aid agenda, which Ghana set out itself in the 1990s, which the Evaluation is simply reiterating.

The evaluation team also commented on the incentives donors have in scaling up **sector budget support**, planned by some development partners in Ghana, as was reported in the workshop. It is easier to increase sector budget support compared to general budget support because the use of sector budget support can be justified with less difficulty to constituencies in donor home countries. Sector budget support is (apparently) less risky and its effects more visible than general budget support. Targeting budget support to specific sectors need not be a problem so long as the process of budget formulation and approval, fund release, budget execution, accounting and audit is integrated into the national budgeting process. However, the evaluation team questioned the reasons behind the need to target resources to a sector. Was it because donors have a set of preferences different to that of government, which they try to impose on resource allocation processes, by providing sector specific resources? Or is it because donors do not trust national budget systems? If it is the former, then more dialogue is needed over budgetary allocation patterns. If it is the latter, then efforts need to be made to strengthen the budgeting process. In both cases, providing sector –specific aid simply by-passes the problem.

A question was asked of the Evaluation Team about how they saw the role of the **national development strategy (GPRS)**. When budget support began in 2003, MDBS saw itself as supporting the reform agenda contained within the GPRS. However, the focus upon the GPRS seems to have weakened and the evaluation team were asked whether they saw the GPRS as important, given that a focus on the annual budget could not provide a long term strategic overview. The evaluation team responded that the GPRS is meant to provide a strategic framework for the budget. Currently this process does not work primarily because the GPRS is not properly prioritised. This is why a Performance Assessment Framework (PAF) is needed in the first place, to extract priorities from the national development strategy. The GPRS process should be strengthened so that ultimately the GPRS Action Matrix has the same content as the PAF. Till such a time, the PAF will continue to play a strong role.

Attention was drawn to the following comment made in the report: “.... *although there is evidence of the MDBS having a positive influence on pro-poor policies an spending, the institutional environment displays too many significant weaknesses to be confident about the final impact on poverty.*” The point was made that although MDBS may not have played a strong role, latest data from the GLSS suggests that **poverty** has gone down from 39% to 28% during the MDBS period. The evaluation team said that their analysis did not include

the latest GLSS data. It will be interesting to look at these figures once the data is released. However, the Team can still not be confident that such trends are sustainable and have happened as a consequence of the budget process. The main point behind the comment made in the report is that serious issues remain to be addressed such as fragmentation of the budget, civil service reform. Without addressing them, adding more resources to the budget remains risky. The Evaluation Team was also questioned about not including in their report an analysis on whether MDBS has helped in accelerating growth (pro-growth vs. pro-poor). The GPRS has moved from a poverty focussed agenda to a growth focussed one. The team responded that once the GLSS data is available, it will be interesting for those involved in the MDBS process to do further analysis on the sources of growth in Ghana and the role budget support plays in enhancing growth.

A comment was made on the **timing** of the evaluation whether it has not taken place too soon. It took place at a time when government and donors were just endorsing the Paris Declaration; sector group dialogue was being strengthened and stronger commitments were being made on both sides. Since the time of the evaluation, progress has been made on a number of MDBS priorities and this needs to be taken into account when workshop participants are discussing recommendations. Others felt that the evaluation has not taken place too early. One point made was made that donors usually adopt a 'wait and see' approach and evaluation findings can help to inform their decisions.

On the point of improving government **capacity**, GOG said that it differed from donors on how technical assistance should be funded. GOG feels that the working conditions of the civil service should be enhanced so it can deliver more. The public sector wage bill needs to be higher if capacity needs to be increased. These issues need to be discussed with donors so a development policy can be formulated in the medium term.

## Taking Report Recommendations Forward

Andrew Lawson presented the main recommendations of the report.

### Recommendations for improved design of the MDBS

- The MDBS needs to be re-conceived as a method of budget financing and not a tool of policy leverage.
- The MDBS needs to be re-designed as a sustainable mechanism for enhancing internal accountability rather than external accountability.
- Greater attention needs to be focussed on the results of enhanced budget spending- in terms of pro-poor service delivery and improvement of the business climate, as the basis for judging MDBS progress over the medium term.
- MDBS does have a role in promoting more effective institutional and policy reforms but should do this through open and unconditional dialogue, not through conditional disbursements.
- By implication, annual disbursements should not be conditioned upon completion of reforms but upon the maintenance of the due processes of public spending.
- Finally, the original objective of reducing transaction costs needs to be re-iterated and re-enforced.

A key objective of the workshop was to develop a clearer idea of what a strengthened set of arrangements for MDBS monitoring and management might look like. The recommendations as presented in the evaluation report were necessarily brief. Thus, a necessary first step prior to any decision on how far the recommendations could be adopted was to go through a process of fleshing out the detail of what these recommendations might mean in practise. The working group discussions were therefore envisaged as a “visioning exercise”, answering the question: *“if we were to adopt these recommendations, how would we do it and what would it imply?”*

Each working group came up with suggestions on how to improve on a specific area of the MDBS process. The participants in the working group deliberated three broad questions: *How can existing processes in this area be strengthened? Which new procedures or analytical processes are needed? How can the change process be managed?* Their suggestions, presented in a ‘poster show’ as well as the comments these generated in the plenary session are discussed below.

In the summary of proceedings presented here, the evaluation team have provided further comments on the results of these working group deliberations, in order to clarify for the reader the links to the main evaluation report and its recommendations. It should be stressed that these comments were not discussed at the workshop itself.

**Group 1: Budget Monitoring Group; how to strengthen mechanisms for dialogue over budget formulation and execution.**

The perception of the evaluation team was that such issues are insufficiently covered within the existing processes of MDBS monitoring and dialogue. If one was to attempt to strengthen this aspect of MDBS monitoring how could this be done?

*How can existing processes in this area be strengthened?*

What are the key aspects of existing processes (discussions over spending in aggregate, both planned (eg ceilings) and actual; discussions over planned budgets at sector level; review of quarterly budget execution reports, review of 'poverty-reducing' spending, etc)? Which work best? Which work least well? What is missing? Where then should priority be placed in terms of introducing improvements?

What sort of changes should be envisaged?

What would be the key constraints to be overcome?

*Which new procedures or analytical processes are needed?*

The recommendations suggest: i) a more formal review/ discussion of the Medium Term Fiscal framework; ii) More detailed discussions of quarterly budget execution reports; iii) introduction of an annual Public Expenditure Review. Do you agree with these suggestions? Do you believe other initiatives should be considered? What should be the highest priority?

What sort of changes should be envisaged in order to put these processes in place?

What would be the key constraints to be overcome?

*How can the change process be managed?*

What is the next step in starting the change process?

How can the biggest stumbling blocks be overcome?

What is a feasible timeline to introduce these changes?

The working group recommended that MDBS be used **to strengthen budget financing and (still be) used as a tool for policy leverage over critical and cross cutting issues only**. In order to strengthen existing processes, the group recommended that the MDBS group should:

- Broaden scope of PFM and core group dialogue (e.g. utilise semi annual reviews of budget execution and other strategic reports from the budget division to monitor the budget and as a basis for dialogue).
- Focus on key sectors (for e.g. key spenders).
- Revisit provisions on budget reporting in the Technical Annex of the Framework Memorandum.

The group felt that new processes, which needed to be initiated, include:

- A review of the MTEF and MTEF processes (possible inclusion of Item 2 (Administration) and Item 1 (salaries and wages) in the MTEF.
- Use of the External Review of Public Financial Management (ERPFM) as an Annual Public Expenditure Review.
- Semi-annual strategic discussion of budget execution.

The main constraints foreseen of this process include: timing, and weak capacity within MOFEP, NDPC and other MDAs in terms of budget preparation, use of MTEF etc.

Next steps needed to operationalise this process would be for:

- The PFM and core group to meet and discuss the operationalisation of the process;
- Identification of pilot sector groups
- Discussion of capacity building needs.

At the Plenary, concern was expressed that improvements in budget monitoring processes may increase transaction costs. However, it was pointed out that the change in dialogue between development partners and the budget office is already taking place so which will not necessarily translate into additional transaction costs. It was also argued that GOG already does a lot of budget monitoring and perhaps there was only a need to communicate this better to MDBS partners in summary form. The suggestion that ERPFM assessments should be used as a budget-monitoring tool was endorsed.

Currently, these assessments were not well owned by GOG. The use of an annual Public Expenditure Review was thought to be unnecessary especially if PER on a ministry-by-ministry basis was being proposed. It was felt that bringing it together in one report was unnecessary.

#### EXPLANATORY COMMENTS FROM THE EVALUATION TEAM:

*The concerns underlying this group of recommendations related firstly to the lack of systematic attention to quarterly budget execution reports, as a standard element of the monitoring of spending by the MDBS DPs. All that would be required is for the standard QBER (and the related report on poverty-focused spending) to be made available to MDBS DPs on a regular and timely basis and for the DPs to provide commentary/ ask questions on its completeness/ coverage, on the consistency of spending with budgets and any trends that might be considered unusual or of note. Both these QBER and the resulting comments by the MDBS DPs should be made publicly available as part of a normal budget review process. Thus, this process would generate transaction costs for DPs in having to produce comments but would draw on regular budget monitoring data and thus have minimal transaction costs for Government. The team's understanding is that this process is foreseen in the FM but does not occur as a systematic quarterly event.*

*Secondly, it was felt that there was a need for the MDBS process to include space for strategic dialogue over resource allocation issues, ie not just over PFM systems issues but also over the appropriateness, efficiency and effectiveness of proposed and actual inter and intra-sectoral allocations. This ought to take place both at the aggregate level (where discussions might focus on the medium term fiscal framework) and at the sectoral level. The current ToR of the external review of PFM do cover allocation questions at the aggregate level but do not address efficiency questions at the sectoral level. A traditional public expenditure review would look at such questions, considering for example the balance of capital and recurrent spending, of salary/ non-salary spending, and of spending between sub-sectors as well the analysis of efficiency and equity issues through an examination of units costs in key service delivery areas.*

*Ghana used to undertake regular PERs in the early 1990s but this practise has lapsed and it does not appear that either MoFEP or NDPC undertake systematic analysis of the efficiency of spending – a serious gap, which ought to be filled. By initiating annual PER work which would cover only one or two sectors per year, this gap could be gradually filled whilst also providing useful data to the MDBs DPs on allocative and operational efficiency.*

*We agree that a thorough review of the MTEF is needed in order to make it a document with a comprehensive coverage (including items 1 & 2 within the Consolidated Fund but also ideally presenting planned spending from Statutory Funds) and in order to make it more of a*

*policy tool and less of an activity planning tool. This is a substantial piece of work and we would strongly advise that the advice of an experienced consultant is sought to support it.*

**Group 2: Domestic Accountability; how to strengthen the impact of the MDBS process on the dissemination of information and the promotion of dialogue amongst domestic stakeholders.**

The evaluators acknowledge the contribution the MDBS process has made to strengthen the framework for the definition of priorities and targets but suggest that more could be done to involve domestic stakeholders, make public the results of these processes and move away from predominantly bilateral structures (GoG and DPs) to structures where domestic stakeholders are more present. How should this be taken forward?

*How can the breadth of representation in existing dialogue structures be broadened?*

Which are the most important changes to make, if any?

Are there any risks to bear in mind, eg increased transaction costs, potential blurring of responsibilities between the Executive and other stakeholders?

What actions are therefore recommended?

*How can the mechanisms for publicising the conclusions of MDBS review processes be improved?*

What is the dissemination process currently? What are its strengths and weaknesses, in terms of timeliness of dissemination, coverage and accessibility, ie. User-friendliness?

Where then should be the focus for attention?

What new initiatives are needed?

*How can better use be made of existing domestic structures for deliberating policy and evaluating progress in key areas of government activity?*

Can more be done in annual sector reviews and in the GPRS annual review?

Which other structures might be linked into the MDBS process?

What are the key constraints and risks?

*How can the change process be managed?*

What is the next step in starting the change process?

How can the biggest stumbling blocks be overcome?

What is a feasible timeline to introduce these changes?

The working group identified *stakeholders* of the MDBS process as: parliamentarians, civil society organisations, non-government organisation, think thanks/academic, media agencies, governance institutions and sector ministries. The working group felt that *information* on policy planning, budgeting, implementation and results should be provided.

To publicise information about MDBS review processes the group had the following suggestions:

- Share PAF, results and aide memoire wherever possible.
- Improve timeliness, frequency and objectivity of MDBS newsletter
- Use more web-based resources.

To make better use of existing **domestic structures** the working group felt that budget planning and review processes needed to be integrated more closely with MDBS processes and N.E (?) dialogue needed to be reinstated. The group felt, that in addition to this, other domestic structures were linked already. The main constraints foreseen to this process were

cost, time, political considerations and that external accounts of processes usually took precedence.

Important changes were needed however, within the **MDBS structure**. Representation in existing MDBS dialogue structures needs to be expanded: public interest group representative should be included in sector dialogue and opportunities should be expanded for joint dialogue and learning between core group and other stakeholders for e.g. around the budget. Risks of this include the enlargement of the group and increased transaction costs.

How can the process of change be managed? The group had the following suggestions:

- Expand sector-working groups immediately: include CSOs, (especially private sector organisations, think tanks) and parliamentary select committees.
- Improve dissemination: immediately through website; improve frequency of MDBS newsletter and improve knowledge management.
- Integrate MDBS and budget planning and reporting processes.

At the Plenary concerns were raised about the recommendation that MPs should sit in on sector working groups. The question then became, what other instruments could be used by Parliament to perform their role. GOG representatives responded that information is provided to Parliamentary Select Committees but the issue was these Committees were not well resourced. It was also felt by some, that processes for the public to participate are already in place so are additional platforms actually necessary? Questions were raised on using the web as a dissemination resource because of connectivity issues.

#### **EXPLANATORY COMMENTS FROM THE EVALUATION TEAM:**

*We agree that there is a need for caution in expanding the representation of sector working groups and of the core MDBS group. Excessive numbers of people make decision-making difficult. There is also a potential problem of confusing the roles of the Executive and the Legislature.*

*Thus, although there may be a case for some modest expansion of the membership of certain sector working groups, the primary thrust of the recommendation was to ensure that the PAF and the results of the various reviews of the PAF at sectoral and central levels should be made available systematically and as widely and accessibly as possible.*

*In addition to ensuring systematic information dissemination, it may be useful – in parallel to the MDBS arrangements- to provide analytical support to the Parliament and to CSOs so as to improve their ability to use and understand the information provided.*

*While it is recognised that access to the Internet is relatively restricted in Ghana, systematic posting of information onto an MDBS web-site could still have a big impact if this served to facilitate analysis and interpretation of MDBS information by CSOs and Parliament, who could in turn take on the responsibility of broadening the dissemination of information in more simple and more accessible forms.*

**Group 3: Results Monitoring Group; consider how to strengthen mechanisms for monitoring the results of budget spending – in terms of pro-poor service delivery and the changing business climate.**

The evaluators have assessed that to date, the focus in this area has been predominantly on the outputs and outcomes of pro-poor service delivery but the quality and coverage of targets and indicators has been weak. They suggest this process needs to be strengthened. In addition, in keeping with one of the strategic objectives of the Government, attention should also be paid to setting targets and measuring progress in relation to the improvement of the business climate. How can progress be made in these areas?

*How can improvements in pro-poor service delivery be more effectively monitored?*

What are the key aspects of existing processes (the GPRS annual review, the sectoral annual reviews and their links to the MTEF/ Budget and to the MDBS PAF) ? Which work best? Which work least well? What is missing? Where then should priority be placed in terms of introducing improvements?

What sort of changes should be envisaged to these results monitoring processes and to the PAF? What would be the key constraints to be overcome?

*How can improvements to the business climate be effectively tracked?*

What are the key aspects of existing processes (the PSD strategic framework and related target-setting and monitoring processes, data on electrification and access to energy, data on access to finance, data on roads access, independent WB-sponsored “Doing Business” survey)? Which work best? Which work least well? What is missing? Where then should priority be placed in terms of introducing improvements?

What sort of changes should be envisaged to these results monitoring processes and to the PAF? What would be the key constraints to be overcome?

*How can the change process be managed?*

What is the next step in starting the change process?

How can the biggest stumbling blocks be overcome?

What is a feasible timeline to introduce these changes?

The group felt that the question, which needed to be addressed, was not only how improvements in pro-poor service delivery could be monitored but also how pro-growth activities could be tracked. The group felt that the GPRS already contained a fair number of existing indicators to improve pro-poor service delivery. The improvements suggested by the group included:

- Ownership by MDAs and MMDAs of indicators in the GPRS needs to be strengthened.
- Targets in sector plans and result statements need to be improved
- All MDAs and MMDA should have result based plans.
- Clear result expectations should be linked to resources required.
- Role of civil society and Parliament in the monitoring process needs to be enhanced.

Weak capacity (human and institutional) and lack of resources were seen as the main constraints to improvements in results monitoring.



The group recommended that improvements to the business climate should be effectively tracked through:

- Improvements in data collection;
- Improvements in analysis and utilisation of the data,
- The ministry responsible for the private sector business climate to determine its indicators from the GPRS, which can form the basis for tracking results.
- The group felt that the PAF should not create a separate monitoring system to track the business climate.

The group identified the biggest constraints in affecting this change as: resource constraints, capacity building and donor conditionality. The timeline to improve result monitoring should closely follow the GPRS timeline.

The Plenary discussion reiterated the need to recognise that the government agenda has moved away from only pro-poor policies to pro-growth and pro-poor ones. Some participants felt that an additional process of monitoring the business climate is needed.

**Group 4: Policy Dialogue Group; how to promote more effective dialogue over institutional and policy reforms, particularly through adjustments to annual disbursement conditionalities.**

The evaluation team judged that although the MDBS framework of policy dialogue had assisted the implementation of reforms by helping to prioritise reform efforts, they also judged that the quality of this process and of the related policy dialogue had been seriously compromised by the use of a performance payment, linked to the achievement of specific policy triggers. This had created incentives to identify the simplest reforms rather than the most important ones, to choose easily achievable targets and to avoid highlighting problems. As a result, the MDBS dialogue was becoming increasingly closed, confrontational and superficial rather than open, incisive and strategic. The MDBS needs to restore a positive framework for dialogue by avoiding conditionality over policy and institutional reforms, and by relying on joint monitoring and discussion of policy progress within the framework of a partnership approach.

*How can the progressive elimination of the Performance Payment be initiated and what might this imply?*

What would be the best way of initiating the progressive elimination of the performance payment? Should it be a collective consensus decision by the Government and the MDBS partners or the result of a series of bi-lateral negotiations between Government and each partner?

Some partners might be pressed by their Headquarters to seek a compromise position of some kind, for example a move away from individual triggers but continuation of a (perhaps smaller) performance payment linked to a holistic assessment of overall progress on the PAF. If compromise was necessary, what would be the best solution?

If Government did want to be certain of the eventual elimination of the performance tranche, what would be a reasonable time-line for this and how could it be enforced?

*How can the value of the PAF as a “signalling device” be preserved and improved?*

Some partners worry that if resources were not attached (on an annual basis) to policy commitments in the PAF, then the commitments would not be taken seriously: what can be done to ensure this is not the case?

How far should the scope of the PAF be changed? Is it sensible to combine in one PAF concerns of ‘due process’, policy progress and service delivery results or is these better kept separate? What then should the PAF look like?

*Where is the best place for policy dialogue?*

Should the accent be mainly on annual sectoral review processes or on the annual PAF review?

Should the annual PAF review be reduced in importance as proposed in the evaluation report?

Under what conditions could a simpler and less staff-intensive annual PAF review be contemplated?

What is a feasible timeline to introduce these changes?

The working group reported that there was no consensus amongst the group that the performance payment needed to be eliminated. Donor positions on the weight attached to the base and performance tranches do vary. In the working group discussion of the need to decrease the performance tranche, there were different views amongst development partners on the merits of phasing out the performance payment or using it as an incentive. From GOG point of view, before any restructuring of the basis on which tranches are released, GOG needs to be consulted. The objective is to maintain consensus between both DPs and GOG.

In order to use performance payment as a useful incentive and not one which focuses on detail the group had the following suggestions:

- Rely on Sector Working Groups to identify the strategic issues as triggers
- Move towards a holistic assessment
- Reduce the number of triggers which should focus only on strategic areas

The group felt that at the time when the evaluation was conducted, there was dissatisfaction amongst GOG because of the lack of consensus amongst development partners. The GOG member in the working group felt that there was no disagreement about the rationale for having a performance tranche, which is the spirit of MDBS but a variation in the weight attached to the performance tranche, could be considered. Some members in the working group felt that there was no evidence that the performance payment was not efficient.

The group felt that the best place for policy dialogue was in Accra (as opposed to where donor headquarters are located). From the working group's perspective, sectors needed to be heavily involved in the preparation and evaluation of the PAF. In addition, it was felt that complementarity is needed between sector and MDBS reviews, - a process which is already on track.

Recommendations made by this group generated a lot of discussion during the Plenary Session. Members of the working group explained that the question presented to them at the workshop assumed that elimination of the performance-based tranche was the 'right' solution. The members challenged this assumption made by the evaluation team.

Various workshop participants pointed out that the recently completed negotiation on the PAF matrix (2007/09) was a result of more fruitful dialogue between stakeholders, based upon a more substantive process of discussions at sector level. It was agreed that the new triggers constituted mutually agreed actions and that there had been more consensus amongst development partners and government. The context within which the evaluation was conducted (last year) may not be reflective of the current situation.

#### EXPLANATORY COMMENTS FROM THE EVALUATION TEAM:

*The Evaluation report presents four principal arguments concerning the use of the Performance Payment and its effects:*

- *Firstly, that it had generated a relatively confrontational style of policy dialogue, which did not promote the free exchange of views and a dispassionate consideration of policy problems and potential solutions. The evidence for this was drawn from interviews undertaken over August and September 2006 with the Deputy Minister and with MoFEP, NDPC and sector ministry staff, who had been involved in the annual assessment process and in the negotiation of the new PAF. All these staff expressed a strong level of dis-satisfaction with the nature of the dialogue. (See section 3.2 of the report, especially the paragraphs beneath the heading, "Has the nature of dialogue maximised the new opportunities emerging?") All of the MDBS DPs were also interviewed at this time and the majority agreed that the nature of the dialogue had been less than satisfactory, although there were differing views as to whether this should be a cause for concern.*
- *Secondly, that the use of a performance payment had served to undermine the strategic content of dialogue, with a good proportion of discussion time being dedicated to the definition of the means of verification of progress and with Government naturally avoiding discussion of difficult issues and generally*

*favouring 'easier' triggers. In part this evidence is drawn from the same interviews (results presented in section 3.2), in part from an examination of the PAF and in part from the detailed consideration of three policy areas – public sector reform (section 4.3), public finance management (4.4) and health (4.5), where the evaluation team identified important omissions or mistakes in GoG policy, which had been absent from the dialogue around the MDBS PAF.*

- *Thirdly, that the use of the performance payment had generated high transaction costs, particularly in the negotiation of the new PAF over May – September 2006, and that it was likely to continue to generate high transaction costs in the process of negotiation.*
  
- *Fourthly, that there was no evidence that the performance payment had led to the adoption of reforms, which would not have taken place in its absence or to the acceleration of reforms, which would have been implemented more slowly in its absence. The evidence for this conclusion is presented in Chapter 4 and is drawn from a range of interviews with the different parts of Government responsible for actually implementing the policy triggers in the PAF (notably in relation to PSD, PSR, PFM, health, education and governance). Whilst several of these attested to the importance of setting targets through the PAF mechanism and making them public, none of them identified any changes in behaviour emerging from the existence of a performance payment.*

*Thus, although opinions may differ over the interpretation of this evidence, we would strongly dispute the assertion that there is no evidence to back the team's conclusions regarding the effectiveness of the performance tranche. We understand that the more recent negotiations of the new PAF, which started in late November 2006 and concluded in March 2007, have been considerably more harmonious and constructive. We would nevertheless stand by our analysis (in 3.2.2) of the sorts of perverse incentives likely to be created by the existence of a relatively large performance payment, tied directly to specific triggers, which have historically been interpreted in a relatively strict and literal manner. We believe that it is the very structure of the arrangement (rather than the personalities) which generate the problems in the quality of the dialogue identified in the report and that, almost inevitably there will be a resurgence of these problems.*

*There are other changes which fall short of our recommendations but which are also likely to improve the situation. For example, if performance was interpreted not only in relation to pre-specified triggers but also with regard to broader improvements within a policy area (ie. a 'holistic' interpretation) and if there was a greater willingness to consider waivers where general progress had been made but a trigger had not been met, then the sensitivity currently surrounding the definition and assessment of policy triggers could be eased, permitting more truly strategic issues to be put on the table for discussion and for potential inclusion in the PAF. We would strongly advise the MDBS stakeholders to keep this debate open and to explore the range of improvements which might be introduced.*

**Group 5: Due Processes; how to ensure effective annual review of the due processes of public spending, including monitoring of the macroeconomic situation.**

The evaluation team recommend the definition and monitoring of some basic 'due process' requirements to ensure an adequate level of protection against fiduciary risks. These requirements would be monitored simply as a way of ensuring continued eligibility for annual disbursements. As defined by the evaluation team, these requirements have been continuously fulfilled during the MDBS period but defining these requirements in a more formal way helps to signal their importance to potential new stakeholders within the MDBS partnership (including potentially a new government) and also to give assurance to the Headquarters, Parliaments and voters of MDBS partners. They will also help to reduce transaction costs and maintain better quality dialogue with government.

**Dimension of 'Due Process'**

It is recommended that annual disbursements of MDBS 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.

The group felt that due process requirements were important and useful. All dimensions of 'due process' mentioned in the report were appropriate but should include 'resource mobilisation'. The group distinguished between 'underlying principles' which need to be part of the revised Framework Memorandum e.g. democracy, human rights and other conditions which should be part of the Performance Assessment Framework and assessed annually. Those in the PAF should be monitored through a holistic assessment, while others should be addressed by the CG (in Plenary discussions it was felt that mechanisms such as NEPAD and APRM could fulfil this function instead. See comment later).

To monitor macroeconomic due process requirements the group felt that no separate forum should be established, as this would unduly increase transaction costs. The group felt that the MDBS should continue to rely on the IMF assessment and that there was room for discussion on agreements reached between GOG and IMF to enable MDBS partners to assess fulfilment of due process requirements if needed.

The working group also felt that the existing undertakings of the MDBS partners should be formalised into a set of 'due process' requirements and this should be part of the Framework Memorandum e.g. predictability, alignment. This is best monitored by an independent agency.

How should change in this area be managed? The group recommended that a small working group be set up to revise the Framework Memorandum. This group should be led by high level officials from both GOG and from amongst the DPs. The deadline set to affect these changes was the end of 2007.

At the plenary session group recommendations were reiterated. It was stressed that work should not be duplicated where possible, and existing mechanisms should be used to monitor compliance to due process conditions. Some participants on the DP and GOG sides felt that 'due process' conditions should not form the basis of disbursement.

**Group 6: Transaction Costs; how to strengthen the effects of MDBS on reduced transaction costs and how to track these effects cost-effectively.**

The MDBS Framework Memorandum describes the minimisation of transactions costs to the GoG as an overarching objective. Having recently concluded a negotiation process for the new PAF, which began in May 2006 and ended in October 2006, both the GoG and the MDBS partners are conscious that this objective is not being achieved. The changes proposed to the design of annual disbursement conditions should lead to reductions in transaction costs but it would be useful to restore the attention given to this objective in the past and monitor its achievement on a continuous basis. The proposed re-design also presents a risk of high transaction costs. Regular monitoring of these costs and regular 'reminders' of their importance seem to provide a sensible way of avoiding these risks.

*How can this change be introduced?*

Is it enough to have a 'simple re-statement of the importance of controlling transaction costs' as the Report suggests or is something more required?  
Should the Framework Memorandum be changed?

*How could transaction costs be monitored in a cost-effective way?*

Is there some simple mechanism by which the MDBS secretariat could monitor the number of person-hours spent in MDBS meetings?  
Or is there an alternative mechanism (which would not itself generate transaction costs) which would serve to provide a barometer of whether transaction costs were being properly contained?

*Which are the greatest risks to new transaction costs?*

Which aspects of the proposed re-design of the MDBS management system seem to present the greatest risks of high transaction costs?  
How could these be minimised?  
How could the transaction costs in the transition to the new system be kept under control?

*How can the change process be managed?*

What is the next step in starting the change process?  
How can the biggest stumbling blocks be overcome?  
What is a feasible timeline to introduce these changes?

The group made the following recommendations:

- Development of annual sector and MDBS core group work plans, which are aligned with the budget cycle and can be costed.
- The Framework Memorandum should not be changed.
- To monitor transaction costs in a cost effective way, the MDBS secretariat should monitor sector and core group meetings to ensure effective control measures in line with the work programmes.

The greatest risk to transaction costs identified by the working group was the idea of a holistic assessment. The group recommended that existing reports should be used for assessment but they should be synchronised with the assessment required by the MDBS

and vice versa. Instead of creating additional reports and process, shortcomings in existing reports should be identified and addressed.

Suggestions on how to initiate change include: improved timing of budgetary releases for preparation of reports; delay of MDBS assessment; sharing of minutes of sector and MDBS core group meetings with NDPC and secretariat (including time taken and number of participants). These changes need to be addressed immediately.

## Wrap up

After the presentation of the working group and discussion in the Plenary a quick vote was taken of which group finding workshop participants most agreed with. The vote found that a maximum number of participants agreed with the conclusions reached by the working group on domestic accountability closely followed by the suggestions made by the budget monitoring group and then the suggestions on how to operationalise 'due process' conditions.

### The Vote

- Domestic Accountability (15)
- Budget monitoring (14)
- Due process (13)
- Results monitoring (10)
- Policy Dialogue (8)
- Transaction costs (7)

The evaluation team thanked the participants for their critique, comments and insight, which will help to refine the analysis and take the relevant recommendations forward.

Mr Jean Francois Arnal, MDBS co-chair and Head, AFD, gave some concluding remarks. From the recommendations made by the various groups, he judged that progress in MDBS processes has been moving in the right direction since October last year. The need for more planning at the sector level, and the best use of such plans recommended by Group 3 he felt was very important. The MDBS matrix provided an overarching framework but did not substitute away from work at the sector. The MDBS process was helping to transform dialogue at the sector level through sector working groups. It was important that the MDBS process should draw on discussions within the sector working groups as has been done during the recently completed negotiations on the PAF (2007-2009). He commented that suggestions made by Group 1 that better budget monitoring does not require additional processes but better dialogue between the MDBS core group and the Budget Office, with the use of deeper analysis in certain key sectors is in line with present strategy. The MDBS process has also been better aligned with the budget cycle since late last year and the group should be better prepared to take part in budget preparation next year.

The outcomes of Group 4 indicate that there was need for further discussion on the management of the performance tranche. From his personal point of view as long as GOG clearly owns the process (great progress has been made in this area since last year) and triggers are not externally imposed then there is no problem in using performance payment in releasing payment. There is also clear consensus on the recommendations made by Group 5 that work needs to be done to revise the Framework Memorandum. This should try to minimise creation of additional processes and instead use for instance APR/NEPAD mechanisms to evaluate certain 'due process' conditions.

Hon Dr Anthony Akoto Osei, Deputy Minister, MOFEP also thanked the evaluation team for their work. He felt that the MDBS process had come a long way since 2003. Some areas, however, need further improvement. Whereas in some areas of the process GOG and DPs have 'agreed to disagree', in others more debate should be required. He felt that the concept that Development Partners should also commit to certain undertakings was important especially for the sake of mutual accountability. He also commented that both parties were working towards one objective: enhancing the lives of Ghanaian people. Reform was important, but the timing of these reforms should be left to the discretion of the government who understand the political context within which they operate. Reform in Ghana will continue to take place with or without development assistance otherwise progress will not be made and GOG reserve the right to access private capital. Overall, Dr. Osei felt that a lot of progress has been made in the MDBS process over the last 6 months, which suggests that if dialogue continues, things can continue to be done better.



## Annex 8: Consultative Workshop

### Key Discussion Points

*Wednesday, 25 April 2007*

*Kofi Annan International Peace-keeping Training Centre, Accra*

The workshop of the 24<sup>th</sup> was followed by a broader consultative workshop held on the 25<sup>th</sup> of April 2007 at the Kofi Annan International Peace-Keeping Centre. The broader workshop was well attended by civil society organisations, parliamentarians, media, senior government officials from central and sector ministries and other government agencies. Discussion, which followed presentation of the Evaluation Report at this workshop, was rich and analytical signalling the interest MDBS has generated since 2003. The intention of this Annex is not to summarise the discussions, some of which were not directly related to the management of MDBS but to broader questions of aid effectiveness in Ghana. However, a summary of key discussion points is provided.

**Role of the Executive:** Executive dominance on the MDBS process was questioned and its exclusion of other government organs. The response made by the panel was that the MDBS was indeed a process driven by the Executive, just as the national budget was. This should not exclude other parties being involved both in a consultative role and a monitoring role. However, if the MDBS process was a shared decision-making process involving many stakeholders, then no single stakeholder could be held responsible for its implementation. What is important is that the Executive through the MDBS process is clearly stating its objectives and can be held accountable for these objectives by the Legislature, and indeed by the electorate. So for example, if there were a concern over the lack of resources for judicial reform, the legislature (or the concerned CSOs) should question the Executive on its allocation of budgetary resources.

**Gender:** The audience asked for further explanations of the observations made in the Evaluation Report on gender equality in Ghana. The Evaluation Team agreed that more could be done to raise the profile of gender in national spending but found that some attention had been given to this issue for instance in the Budget Guidelines, which is more than in any comparable countries. The point the Evaluation Report was making was that there are some systemic weaknesses in the way budgets are formulated in Ghana. Without addressing these weaknesses, any gender budgeting framework imposed onto public financial management systems would be unlikely to generate results. This is not to undermine the importance of processes aimed at enhancing attention to gender but to caution that other improvements have to take place, before significant benefits will be gained from introducing such processes.

**Budget Fragmentation:** The evaluation report's conclusion that budget fragmentation should be reduced was endorsed at the workshop.

**Employment and Growth:** The evaluation team was questioned as to whether it included in its analysis a review of employment trends in Ghana and inequities in salaries and wages between groups. This was not assessed in the report and the team acknowledged that with the latest GLSS results due to be published very shortly, there would be scope for further analysis of links between growth, poverty reduction and public spending.

**Use of policy triggers:** The Report was questioned on its assumption that triggers did not accelerate reform. One participant expressed the view that not all, but some triggers did lead to faster reform in certain areas.

**Democratic accountability:** The recommendation in the report for enhancing democratic accountability was endorsed by several participants including civil society organisations and GOG representatives. It was acknowledged that the MDBS process will not work well if the processes through which it is held accountable are weak.

**Equity:** The role of MDBS in improving equity was questioned. What safeguards were in place in the MDBS process to give resources to marginalized areas, which are more easily targeted through projects and other direct support? The panel responded that the role of projects to improve equity was complementary to MDBS processes. Projects could make a difference in the short term but were inherently unsustainable in the longer run, in the absence of conscious changes to budgetary processes to give more attention to equity. There are already some processes within the budget which target marginalized groups (such as the pro-poor formula adopted for the implementation of the DACF, and the formulae for allocation of education and health budgets to districts) and these need to be strengthened.

**Decentralisation:** Various participants discussed the reasons behind why decentralisation “has stalled on all fronts” as assessed in the Report. There was agreement that decentralisation was not progressing smoothly and there was some debate as to whether this was because of limited capacity or other factors.

**Evidence and attribution:** The evaluation team’s attribution of certain results to the MDBS process was questioned for instance its assessment that MDBS had contributed to the reduction in the stock of domestic debt. The use of different sources of data to compare the status of PFM status in Ghana over time was also questioned. The evaluation team explained that there was no certainty in such attribution but the team had attempted to triangulate evidence through examining the data, materials related to the MDBS process and interviews with various stakeholders. In claiming attribution the team had examined what changes had taken place at the margin (i.e. the additional 10% that MDBS contributed to the government budget generated X additional activities). The team also explained that using different sources of PFM data, across time and across countries was perfectly legitimate as the methodology was fairly standard and these comparisons have been made elsewhere in the literature. A workshop participant also endorsed this approach reiterating that by triangulation of evidence, cause and effect could be established with reasonable certainty.

