

Ghana

Poverty Reduction Budget Support 2006-2008

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Programme Memorandum

SECTION 1: GENERAL RATIONALE AND EXTENDED SUMMARY

Introduction

- 1) This paper makes a case for granting £120 Million of UK funds to the Government of Ghana (GoG) in the form of Poverty Reduction Budget Support (PRBS) for the next three years. This support is to be provided on a rolling basis for the period 2006/07 to 2008/09. Its aim is to contribute to the Multi-Donor Budget Support (MDBS) programme, which DFID is currently supporting with nine other external donors (including the World Bank). Since the start of the MDBS programme in 2003, DFID has contributed £85 million, which represents approximately 20 percent of total MDBS funds received by the GoG.¹ The paper also proposes the provision of £6 million in PRBS-related technical assistance over three years, focused on capacity development in public financial management (£5 million) and PRBS related studies and evaluation (£1 million).

- 2) Further DFID support to the MDBS should allow the GoG to implement its objective of reducing poverty. This is elaborated in its poverty reduction strategy (i.e. Ghana's Poverty Reduction Strategy – GPRS). The aim of this strategy is to enable government to: (a) accelerate economic growth; (b) raise the amount of poverty-reducing public expenditure; (c) expand the range and quality of public services and improve efficiency levels; (d) strengthen public financial management and other government systems, and; (e) improve human development outcomes. Taken together, the GPRS, its Annual Progress Report and supporting sector strategies provide a coherent planning and monitoring framework. Sound strategies have been developed by government and these are being implemented in key sectors.

Good economic and social progress, and a successful reform experience

- 3) Over the past four years, Ghana's macro-economy has stabilised steadily. Government has implemented a number of reform programmes, and this has helped to create a better environment for investment and private sector development. As a result, higher economic growth has been possible. In turn, this has increased government's access to public revenues, which – together with rising aid levels – have allowed public services to be expanded.

- 4) Steady economic growth over the past four years has led to a doubling of poverty-related expenditure. Headcount-poverty has fallen to 35%, from being over 50% in the early 1990s. A new Ministry has been established to take

¹ Contributors to the MDBS are: African Development Bank, Canada, DFID, Denmark, EC, France, Germany, Netherlands, Switzerland, and the World Bank. Japan, US and UNDP act as observers.

forward a comprehensive public reform agenda, which has since produced a clear strategy for implementing far-reaching changes in management across the public sector. Capacity strengthening in the Ministry of Finance and Economic Planning (MoFEP) is progressing. Among other measures, a number of new staff appointments have been made to key senior positions for strengthening financial and economic management. This gives a measure of confidence that planned improvements in public financial management (PFM) will be implemented in the short-to-medium term.

- 5) Some actions to control corruption are evident. In recent months the Controller and Accountant General has tackled payroll fraud in his department and taken steps to remedy the weaknesses that permitted fraud. Parliament's Public Accounts committee has brought the threat of prosecution to civil servants suspected of corruption, requiring the Serious Fraud Office to attend hearings. It is likely that, with the implementation of new procurement legislation, public procurement practices are improving. Data on the extent of competitive tendering across government is not yet available.
- 6) Positive institutional developments and good economic and social outcomes in Ghana have also come about as a result of a transformation of government's relationship with external development partners (DPs). Donors have encouraged, and have actively supported, the implementation of GPRS-priorities. This is most evident in the MDDBS programme. Other interventions (e.g. HIPC debt relief, the IMF's PRGF, and donors' sector support mechanisms) have also worked to support national development priorities. Donor harmonisation, which has taken many forms (including common donor assessments and reviews), has advanced considerably in recent years. This, together with the better alignment of donor procedures and practices with those of government, has helped to catalyse many positive developments. Moreover, the focus on achieving results is much stronger now than it was three years ago.²

Harmonisation and alignment of aid is reinforcing ownership by Ghana

- 7) Improvements in the quality of aid provided by donors, and the shifts made by government in tackling programmatically institutional and development problems, have been mutually reinforcing. DFID-Ghana has worked actively, alongside the World Bank, the EC and a range of bilateral partners, in focusing policy discussions with the GoG towards addressing key institutional reforms and reducing poverty. A range of beneficial, and mutually reinforcing, changes are evident as a result of the stronger quality of partnership between donors and the GoG – see Box 1 below.

² (The extent to which PRBS support from 10 donors has helped to transform development processes and outcomes will be evaluated comprehensively during 2006.)

Efforts to support Ghana by the international community need to be stepped up

- 8) The considerable progress made in recent years in the effectiveness of aid to Ghana requires consolidation. Further efforts are required from both external DPs and the GoG to ensure progress is sustained and living standards in Ghana continue to improve. Practical measures are now required for ensuring that the obstacles blocking progress are addressed comprehensively. Solid external support for Ghana's second PRS by the international community should help Ghanaian efforts in increasing economic growth, improving institutional efficiency, and reducing social disparities and poverty.
- 9) Ghana's economy has reached a critical stage in its development history. Prospects for enhancing growth and reducing poverty further are highly favourable, as recently concluded by an IMF PRGF-Review Mission. With additional support, which is sustained for period of time, it should be possible to make rapid progress towards Government's ambition for Ghana to reach the status of middle-income country by 2015.

Box 1: The Benefits of PRBS in Ghana

Macroeconomic management has been strengthened. Economic growth in excess of 5 percent has been achieved. Inflation has been brought down to around 10 percent, thus halving the end-2003 amount. From being around 35 percent in 2003, interest rates have halved. The domestic debt stock has fallen from 24% of GDP in 2002 to 11.4%.

In real terms, spending on poverty related expenditures has almost doubled since 2002; rising from 4.8% to 8.3% of GDP. This has allowed:

- The employment of around 10,000 new teachers a year, the building of 440 new classroom blocks for basic level schools, and the removal of school fees for pupils in deprived areas-this will be expanded nationwide in September. As a result gross primary enrolment has increased from 81% to 87%;
- Provision of fee exemptions for maternal deliveries. Supervised maternal deliveries have increased from 49% to 53% for the three most deprived regions. However there is concern around the slow reduction in maternal mortality and stagnation in the outcomes for infant mortality and child malnutrition.
- Increased action to halt the spread of HIV/AIDS concentrating on support to 34 NGOs working in high prevalence areas. This approach has maintained one of the lowest prevalence rates in Africa at around 3%.
- 2100 boreholes were drilled in 2004, helping to increase the percent of rural population with access to safe water from 40 to 52% since 2002.
- The timely release of the District Assembly Common Fund, the main form of transfer from the centre to districts which is used for small scale development

projects. From being up to three quarters in arrears in 2002, the Fund has moved to being more or less current in its releases.

- Many more poor communities in the northern and remote areas of Ghana now have access to health facilities, schools, water schemes and road networks.
- Continuous improvement in public financial management, with greater government ownership and coherent donor support. There have been improvements in the quality of expenditure reporting, tracking poverty expenditures as well as the timeliness and depth of external auditing.

Implementation to improve the business environment and promote private investment has accelerated. Government of Ghana through the Ministries of Private Sector Development (MPSD) and Trade and Industry (MOTI) is focusing efforts in improving doing business in Ghana. For instance the number of days of registering a business in Ghana has reduced from 90 to 81 days.

The role of the Ministry of Finance in exercising central authority and control within government has strengthened directly from having to take to take responsibility for administering \$280m of PRBS funds and savings of \$200m per year from the enhanced HIPC initiative. The Finance Ministry's assertiveness in ensuring fiscal planning by sectoral ministries is sound and sustainable has increased.

Increasingly, the Government has set the agenda and has led the common reviews for assessing progress in meeting targets set within the Performance Assessment Framework (PAF). Co-ordination across key Ministries has strengthened as a result of Government's lead, and as more central responsibility has been assumed by the ministry of Finance. Government officials have been able to set clearer priorities and manage the implementation of GPRS-priorities much better.

Budget support flows have become more predictable and less volatile. Whereas in 2002 disbursement was less than 50% of the planned amount, since the start of the MDBS programme in 2003, disbursement has been to over 90%, with flows representing around 4% of GDP.

Additional Support can Accelerate Development

Box 2: What PRBS dialogue, financing, conditionality and technical assistance can help Government achieve over the next 3 years

Growth

- Increase domestic credit to the private sector by 10% of GDP
- Increase access to electricity from 47% in 2005 to 50% -
- Reduce time needed to register (i) land title from 365 days (ii) a business from 81 days to 20 days
- 2% annual rise in real food production per capita

Human development

- increase primary enrolment ratio to 95.6% (from 87.5% in 2005)
- 10% increase in trained teachers in primary and junior secondary
- 68% of schools with drinkable water (58% in 2005)
- gender parity index of 1
- HIV/AIDS prevalence kept below 4% (3.6% in 2003)
- exempting at least 0.5% of population from contributions in a fiscally sustainable national health insurance scheme
- Increase in coverage of ITNs to 55%
- Increase in percentage of skilled deliveries to 65%
- Increase in contraceptive prevalence rate from 28% to 40%

Good governance

- increase in budgetary allocation to Parliament
- Enactment of Freedom of Information legislation
- Improved budget execution (deviation index 18% in 2004)
- Legal and institutional framework to reduce fraud and corruption strengthened significantly
- Transparency of revenues earned from forestry increased

Ghana's propitious circumstances deserve recognition and support

10) The next three years present the government and people of Ghana, and the international community, with a major opportunity to consolidate progress, and to build on successes. There are good prospects for laying even firmer foundations for raising the rate of economic growth, and for expanding national revenues to finance the provision of better quality public services. Continued external support could make a real difference in enabling Ghana to exploit its development potential. What is required now is for the GoG to accelerate implementation of the reforms already initiated. Much of the legislative framework for improving the climate for investment and for widening peoples' access to opportunities and services is in place. The real challenge is to ensure compliance, secure sustained implementation, and enhance public accountability. Though the overall context for progress looks favourable implementation of the GPRS could be hampered if reform efforts slacken, and government commitment wanes.

11) To make a real impact, Ghana needs to deepen the implementation of a range of cross-cutting reforms, especially in the public sector and in financial and economic management. High rates of investment by the public and private sectors in support of economic diversification need to continue. High-quality public services need to be expanded, so as to enable citizens to get affordable access to essential public services, and for firms in the private sector to rely with confidence on the state supplying basic infrastructural services.

- 12) Highlights of GPRS II point towards extending and deepening changes at the sectoral level, which are outlined separately in complementary strategy papers and plans. The value of the GPRS is that it brings together these strategies under three overarching themes: private sector competitiveness and *growth*, *human development* and basic services, and *good governance and civic responsibility*.

Box 2: Key Features of GPRS II

Private Sector Competitiveness and Growth. Government aims to strengthen private sector capacity to effectively perform as the engine of growth and poverty reduction. Action will be focused on improving Ghana's access to global and regional markets; enhancing accessibility and efficiency of national markets and strengthening firms' competency and capacity to compete effectively. Others are enhancing government's capacity for private sector policy formulation, implementation, monitoring and evaluation; facilitate private sector access to capital; facilitate the removal of institutional and legal bottlenecks; facilitate innovation and entrepreneurship; encourage and facilitate the provision of public services and accelerate development of strategic sectors.

Human Development and Basic Services. Government's aim is to ensure the development of a knowledgeable, well-trained and disciplined labour force with the capacity to drive and sustain private-sector led growth. The main focus will be on education and skills development; access to healthcare, malaria control and HIV/AIDS prevention and treatment; access to safe water and adequate sanitation and population management. In addition the strategy is to ensure the protection of the rights of the vulnerable members of society, especially children, women, people with disabilities, the elderly and rural communities.

Good Governance and Civic Responsibility. Government's broad objective is to empower state and non-state entities to participate in the development process and to collaborate in promoting peace and stability in the body politic. Priority areas for government are public sector reform, decentralisation, security and the rule of law. This would require effective, responsible and accountable state machinery with improved capacity to engage the productive private sector and civil society in formulating strategies for accelerated growth and poverty reduction.

- 13) With recent trends continuing, it should be possible for external assistance to Ghana to be scaled up. Recent reviews by the IMF and MDDBS partners in October 2005 provide strong confirmation of positive trends and the likelihood that that these will continue in the near future.³ At a recent meeting in Paris, Senior World Bank Vice President – Danny Leipziger – listed Ghana as a candidate, among a group of 11 countries, to which external assistance should be 'scaled-up' over the coming year. Ghana is increasingly regarded by the

³ See Aide Mémoire summarising findings and conclusions of the 2005 MDDBS Review (October 2005).

international community as being a 'good performer'. Its CPIA scoring is now in the second quintile with improvements in Economic Management from the 3rd quintile to the 2nd quintile. The scoring for Public sector management and institutions has remained in the 1st quintile both 2003 and 2004.

- 14) At a recent CG meeting held in Accra (7-8 November 2005), development partners confirmed support for Ghana's GPRS and complemented Government for many of the positive developments which have been noted recently.⁴ Government and Development Partners, however, also agree that further work is needed to: (a) bring about better donor alignment with country priorities, policies and procedures; (b) ensure a deepening and broadening of the results-orientation of programmes; (c) intensify donor harmonisation and increase the effectiveness of aid; and (d) raise the predictability of funding.

General and Sector Budget Support is required to help underpin good progress

- 15) Given such favourable developments, this is an opportune moment for DFID to lead the way and scale-up assistance to Ghana. Both general and sector budget support is required for backing the national GPRS programme. General PRBS should be provided within an overall framework that has already been well-established by the MDBS donor group. Over \$700m (equivalent of about £400) of PRBS funds are being proposed by to fund the GPRS over the next 3 years.
- 16) While we would like to increase the share of our programme allocated to PRBS, we propose supporting the GPRS with a range of modalities. Our experience (in common with that of countries surveyed in the recent evaluation of PRBS) is that PRBS has shown an initial bias towards the expansion of public services, rather than their quality. Given the centrality of service delivery constraints to Ghana's MDG progress, we intend to run dedicated sector support instruments in health and education in parallel to MDBS until the environment is fully conducive to the effective and sustainable development of better quality public goods and services. Whilst these mechanisms will continue to provide additional financing to the sectors that we consider priorities, we will also seek to ensure better coherence and complementarity between MDBS and sector dialogue, particularly on such issues as public financial management and public sector reform. Both the Dutch and the European Commission share views on the benefits of parallel MDBS and sector financing. The Strategic Partnership for Africa⁵ has recently confirmed the potential for strong mutually reinforcing benefits of parallel but converging sector and central budget support arrangements.

⁴ Communiqué on the Ghana Partnership Strategy. Consultative Group Meeting for Ghana. Accra. November 7-8, 2005

⁵ Sector Budget Support: A Note from the Dublin Workshop of SPA Working Groups, 5-6 October 2005

Fiduciary Risk Environment High, but Risks are Manageable

- 17) Despite a general recognition that the fiduciary risk environment in Ghana is one of high risk, the presence of a credible reform programme to address public financial management (PFM) systems provides reasonable assurances of safeguards being in place for mitigating the actual level of risk perceived by donors. Ghana is implementing a convincing programme of reforms to transform its public financial management (PFM) system. It is strongly owned by Government, and the Deputy Minister of Finance is responsible for leading and managing this. Senior officials in MoFEP and the Comptroller and Accountant General's Department (CAGD) have been assigned specific responsibilities. This high-level attention to PFM reform is reassuring. It helps to ensure critical actions are likely to be taken for improving systems, and that they will be spread across to other government departments.
- 18) Public financial management has improved substantially in the last three years. Assessments for gauging fiduciary risk by the international financial institutions, for the purpose of HIPC debt relief, have noted improvements; for example, scores provided by the HIPC-tracking review for Ghana rose from 1/16 in 2001 to 7/16 in 2004. Over the last year, the comprehensiveness and transparency of the budget has improved significantly. This is true in key Ministries and departments, including MoFEP, CAGD, Education and Health, Internal Audit, and Public Procurement.
- 19) The latest Review of the PRGF by the IMF confirmed measures to tackle budgetary management and reporting were on a sound footing. Moreover, during the MDBS Review Mission, the Deputy Minister of Finance gave further assurances, reiterating previous statements, that the strengthening of accounting and payroll management constituted crucial prior steps for addressing more complex reforms down the line. This pragmatic approach has been reinforced by the recent release of the long-awaited Short-term Action Plan (StAP) for reforming PFM. The StAP identifies key priority actions for 2006, and it outlines the objectives and framework for implementing key reforms during 2007 and 2008.
- 20) Management across government is also set to change as the newly-appointed Chief Director of MoFEP has recently introduced measures for improving budget implementation and expenditure control. (Chief Directors of all spending ministries are required to meet each month to review progress.) In a record achievement, this year's budget (2005) was tabled to Parliament on time. The StAP's focus in 2006 is to implement BPEMS and to address long-standing personnel and pay issues across the public sector. Further evidence of the GoG's strong ownership of the PFM reform agenda is its joint agreement with MDBS development partners to evaluate comprehensively in 2006 the effects and impact of general budget support received by Ghana over the past three-to-four years. This commitment to ownership is most welcome.
- 21) However, despite PFM-related improvements in recent years, the predictability and reliability of releases to line ministries continues to be a problem. DFID

Ghana and PD's FACT Team recently conducted a Fiduciary Risk Assessment (September 2005). This rates Ghana's fiduciary risk environment as high. However, it should be noted that this was a desk assessment carried out for the Public Expenditure and Financial Accountability (PEFA) Secretariat, which is based at the World Bank in Washington. The exercise in Ghana sought to pilot-test a new methodology, which the international community is hoping to adopt as a common basis for assessing PFM systems in low-income countries. Thus, the 'high-risk' pronouncement by the pilot exercise should be interpreted with caution.

22) It is undoubtedly true that assessments of Ghana's fiduciary risk environment, when judged against more comprehensive and rigorous standards (and compared to assessments made earlier, such those by the HIPC Expenditure Tracking process), could be considered as representing a higher level of risk. Such a judgement, however, needs to be considered against the considerable progress Ghana has made in reforming PFM systems, and against the measures and actions that the Government propose taking through its short-term action plan. Bearing in mind these considerations, the actual amount of risk exposure to DFID is likely to be less, more like medium-to-high, rather than high risk, and as concluded by the PEFA pilot-test.

Funding Modalities

23) In compliance with the UK conditionality policy, DFID's disbursement arrangements have been changed. Accordingly, flows of PRBS, committed to government, and included in the budget, will *not* any longer be cut in within the budget-year against poor performance for triggers set in the PAF. Rather, information regarding performance against benchmarks agreed with GoG in the PAF will influence allocations in outer years. Moreover, the emphasis on measuring outcomes and reducing the stress on policy actions will be increased in the future.

24) A submission to the Secretary of State annually will seek approval for finance in a subsequent year (plus indicative amounts for the outer two years of a three-year rolling framework) to support the implementation of the GPRS. Submissions will report progress in performance assessments noted by the MDBS twice yearly. They will include statements of progress on public financial management, indicate the expected level of fiduciary risk, and will highlight actions proposed by GoG to mitigate this.

25) The PRBS will be disbursed through the MDBS programme. Each year, in common with the bilateral donors and the EC, we will divide the allocation equally between two disbursements: (i) a fixed tranche provided on the basis of sound macroeconomic management and maintenance of the shared commitment to poverty reduction, human rights and strengthened financial management and accountability; and, (ii) a variable tranche based on a joint government and donor assessment of performance against the benchmarks in the PAF. The

assessment will be made in the year *before* the disbursement allowing donors to provide a firm commitment in time for the budget.

- 26) The proposed programme includes a £6,000,000 allocation for technical cooperation that will be managed by DFID in support of the PRBS approach. This will include £5 million for capacity development around PFM within the Ministry of Finance, Controller and Accountant General's Office, Procurement Board and potentially the Ghana Audit Service; and £1 million to fund contributions to the independent MDBS evaluation (2006), the MDBS Secretariat in the Ministry of Finance (until 2007), the PEFA assessments (2006-08), learning workshops, and the communications and consultations strategy.

Programme Partners

- 27) The programme partners will be the government's MDBS team including the ministries of finance and public sector reform, and the National Development Planning Commission (NDPC). These institutions are responsible for co-ordinating dialogue across government. The MDBS programme includes a communications strategy that engages and reaches parliament and civil society. DFID provides complementary support to civil society, to research and civil-advocacy organisations in building the capacity required to hold government to account. The MDBS programme is fully co-ordinated with the group of 10 donors, and adheres to a Structures and Principles paper that coordinates interaction with 16 sector working groups.

Design and Appraisal issues

- 28) The design and appraisal was conducted by DFID Ghana in collaboration with the World Bank, Denmark and Switzerland who are all designing programmes this year. The programme is based on performance assessments and reviews, and draws on emerging best practice guidance emerging from the Strategic Partnership with Africa (SPA) and the OECD/DAC's Evaluation of General Budget Support. It also draws heavily on experience and lessons of applying the MDBS programme in Ghana over the past three years.

SECTION 2: PROGRAMME DETAILS

General Description of the Programme

29) The purpose of the proposed support is to provide the GoG with the resources required to finance the GPRS effectively and accountably. Outputs expected to result from this support are:

- higher public expenditure for reducing poverty
- greater alignment between the GPRS and the budget
- strengthened public financial management and accountability
- improved efficiency in the delivery of public services
- more donor harmonisation.

30) The existing MDBS programme provides resources directly to the budget and monitors performance using the results-based Performance Assessment Framework (PAF). Reviews are based on the GPRS progress reports, and are jointly conducted by the government and donors, alongside the IMF. This programme supports Africa Division's DDP objective to deliver our programme more effectively by channelling more resources through budget support. PRBS provides the central pillar for DFID's strategy to support implementation of the GPRS set out in the CAP, and is at the centre of the 10-year Agreement currently being designed.

31) DFID's PRBS funds will be disbursed through the MDBS programme. Each year, together with other bilateral donors and the EC, it is proposed that the annual allocation be divided equally into two disbursements:

- a fixed tranche, the release of which will be made against GoG's progress with respect to sound macroeconomic management, a commitment to poverty reduction, the adherence to human rights, and the progress made in strengthening financial management and accountability systems, and;
- a variable tranche, which will be disbursed to GoG following a satisfactory appraisal of performance against benchmarks agreed with government in the PAF. The assessment will be made in the *year before* the period when the disbursement is to be scheduled. This will permit donors to provide government with firm commitments of funds in good time for the preparation of budgets by government

32) In compliance with the UK conditionality policy, we have changed our PRBS disbursement arrangements. PRBS flows committed to government and included in the budget will *not* be cut in year on the basis of performance against triggers contained in the PAF as was previously the case. However, performance against the PAF will determine commitments made for subsequent years.

- 33) DFID will make submissions to the Secretary of State annually. This will seek approval for finance in a subsequent year (plus indications for outer two years of a three-year rolling framework) to support the implementation of the GPRS. Submissions will report progress in performance assessments noted by the MDBS twice yearly. They will include statements of progress on public financial management and will indicate the expected level of fiduciary risk, and will highlight actions proposed by GoG to mitigate this.
- 34) The programme includes a £1000,000 allocation for technical cooperation that will be managed by DFID in support of the PRBS approach. This will include contributions to the independent MDBS evaluation (2006), the MDBS Secretariat in the Ministry of Finance (until 2007), the PEFA assessments (2006-08), learning workshops, and the communications and consultations strategy.
- 35) The programme partners will be the government's MDBS team including the ministries of finance, and public sector reform and the National Development Planning Commission (NDPC), that coordinate dialogue across government. MDBS includes a communications programme that engages parliament and civil society. DFID provides complementary support to civil society, and research and advocacy organisations, to build their capacity to hold government to account. The MDBS programme is fully co-ordinated with the group of 10 donors, and adheres to a Structures and Principles paper that coordinates interaction with 16 sector working groups.
- 36) The support is aimed at helping to continue the decline in the poverty rate that has fallen from 50% in the early 1990s to around 35% today. It will also help to increase access to education, health care, water, infrastructure, power, land and markets. The total cost of the programme will be £120.5m between 2006 and end-2008 with PRBS as a share of the aid framework rising from around 50% to 65%. The actual pace at which the share rises will depend on continued progress on PFM, civil service sector and planning reforms, and will be reviewed on an annual basis.
- 37) Currently MDBS flows represent around 10% of government expenditure and 40% of total aid flows to Ghana. *Provide details on MDBS donor flows*

	UK FY	Proposed PRBS	Total DFIDG (est.)	PRBS as share of framework	Commitment Status
	2006/07	£35m	£70m	50%	Committed
	2007/08	£40m	£70m	57%	Indicative
	2008/09	£45m	£70m	64%	Indicative
Total PRBS					£120.0 Million

Total TC for capacity development in PFM plus communications, review, audit and evaluations	£6.0 Million
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SECTION 3: PROGRAMME APPRAISAL ISSUES

Ghana's Poverty Reduction Strategy (GPRS)

38) Ghana launched the participatory GPRS process in 2002, leading to the preparation of the full GPRS that was approved by Parliament in February 2003, and considered by the Boards of the Fund and the Bank in March 2003. The main objectives of the GPRS are: (i) accelerating annual real GDP growth to 5 percent by 2005; (ii) reducing poverty from 39 percent to 35 percent over the same period; (iii) improving basic infrastructure such as roads, water and sanitation, and market access; (iv) increasing the level of primary enrolment and completion rate; (v) reducing infant, child and maternal mortality and the incidence of infectious diseases; and (vi) improving governance and the efficiency of the public sector.

39) The implementation of the GPRS is mixed with the government on track to meet five of the ten 2005 targets for indicators: poverty headcount and the poverty headcount in the three savannah region, the overall and the girls' gross primary enrolment, and access to safe water in urban areas. Furthermore, the target for real per capita agriculture growth rate was achieved and surpassed before the end of the period. Less progress is shown for some of the health indicators, with a slow reduction in maternal mortality and stagnation in the outcomes for infant and under 5 mortality, as well as worsening in indicators for child malnutrition.

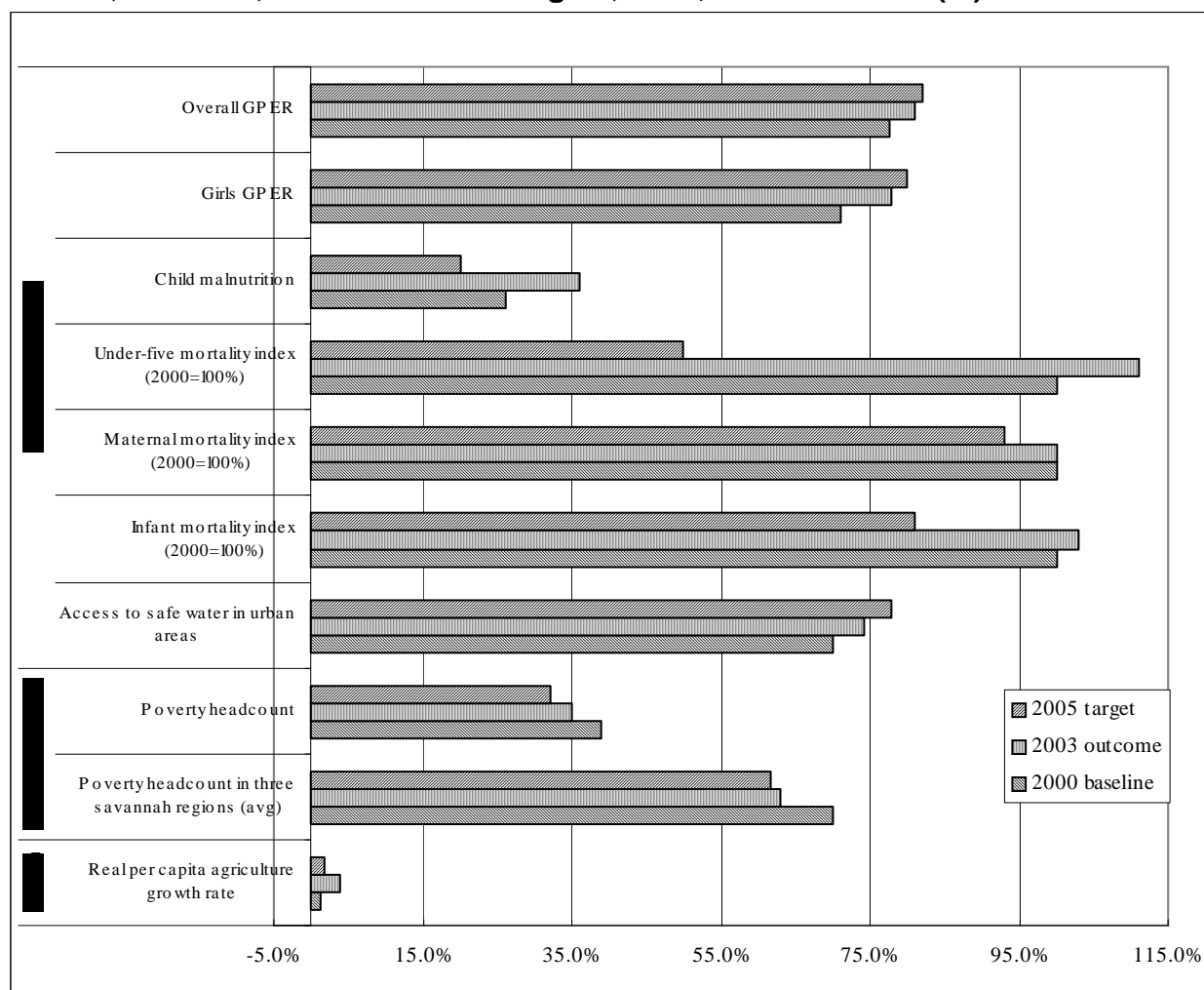
Table 1 summarises Ghana's MDG progress

- Government has made **very good progress** in reducing **headcount poverty** nationwide and in the three poorest Northern regions, where access to basic social services has improved significantly, albeit from a low base. Ghana's income poverty gap is small compared with other developing countries. Per capita **agricultural growth** of about 5% in 2005, substantially exceeding Government targets. Access to **potable water** is estimated to have increased 10% in rural Ghana since the 1999 GLSS⁶. **HIV/AIDS** control is on track, largely due to mass awareness efforts, with prevalence falling from 3.7% in 1999 to 3.1% in 2004. Although still too early to say that Ghana's epidemic has stabilised, the signs look positive.
- Government has made **reasonable progress** against the **education** MDGs in the absence – until recently - of sustained and concerted policy engagement and funding from donors. Gross primary enrolment rose by 7% between 1999 and 2004 to over 86%, but these statistics discount the recent positive impacts of the capitation grants scheme. The primary completion rate rose by over 5% between 2003 and 2004 to around 78%. Ghana's Gender Parity Index is high at 0.93 but other gender targets – such as representation of women in parliament – need more Government attention.
- Ghana is **off track** in relation to **child and maternal health** MDGs. Child health outcomes and adult life expectancy advanced very rapidly in Ghana during the late 1990s and early 2000s. But data published in 2004 suggests that child health outcomes have recently stalled, with **infant deaths in the first month accounting for most of the reversal**. At the same time, financing to the health sector and such outputs immunisation, access to insecticide-treated bed nets and access to skilled midwifery have continued to improve. Infants of the poorest women are six times more likely to die. We have no new outcome data on maternal mortality but levels of peri-natal and maternal mortality are invariably inextricably linked.
- The reasons for this set-back in MDG progress are complex. From a public health perspective, maternal and peri-natal mortality ratios are generally regarded as a sensitive barometer of the effectiveness of the health system overall. To some extent, the data underscore the negative impact of international migration on Ghana's health workforce: it is certainly the case that compensation schemes to attract and retain doctors and midwives have tended to crowd out investment in health infrastructure needed to support adequate levels of emergency obstetric care.

⁶ While impressive, these statistics take account of coverage but not upkeep of facilities

- But the stagnation also suggests that additional funding to the health sector will not produce better outcomes until Government tackles systemic weaknesses and inefficiencies typical of the public sector as a whole. From an aid effectiveness perspective, regionally disaggregated data show the need to pay more attention to community participation in maternal health, as well as the nutritional status of women and girls. Government has embarked on bold measures to address some of these challenges, including expanding nationwide fee exemptions for maternal delivery, refocusing attention on family planning adolescent sexual health and instituting a national health insurance scheme, with exemptions for the poorest. Government is also discussing with donors the viability of a national school feeding programme.

Figure 1: GPRS Indicators for Human Development, Poverty Reduction, and Growth, Baseline, Outcomes and Targets, 2000, 2003 and 2005 (%)



Source: World Bank, PRSC3 Document, August 2005

40) The government has completed the GPRS 2 for 2006-09. The document will refocus the country's strategies for growth and poverty reduction under three main headings: (i) human resource development, (ii) private sector driven growth, and (iii) good governance. The document also updates analysis of growth and poverty reduction, building on the sector strategies that have been prepared since the launching of the first GPRS in 2003. The goal is to have an operational document containing programs and projects that will meet the policy objectives of the new government. The document was prepared in a consultative manner, with cross-sectoral frameworks that are being constructed by the five consultation groups (CSPGs – Cross-Sectoral Policy Groups), organized around the thematic areas of the GPRS.

41) The working document was discussed at the Consultative Group meeting and led by DFID, the World Bank and the European Commission, donors are planning to

prepare a Joint Assistance Strategy setting out how they will support implementation. The MDBS programme will be the key instrument to provide finance and monitor the progress of the GPRS2.

- 42) Ghana has made good progress in increasing tax revenue, rising from 18% in 2002 to 24% in 2004, and has been able to attract more aid and gain debt relief as a result of its policies. However a financing gap exists. The current MTEF includes an external financing requirement of around \$1.1bn a year which the government expects to be filled by aid, with up to 40% provided in the form of PRBS, and HIPC debt relief.
- 43) Earlier in the year the Government and development partners agreed a strategy for *Harmonisation and Alignment in Ghana for Aid Effectiveness*. The strategy sets out a range of undertakings including increasingly using government budget mechanisms while Government continues to implement the PFM legislation and tackle corruption.
- 44) Poverty related expenditures rose to an estimated 79% of GDP in 2005, up from 6.5 percent at end-2003. The increase in poverty reduction expenditures was possible because of increased inflows of external grants, including funds made available by the HIPC debt reduction initiative. As a result, poverty related expenditures reached just over 28% of planned overall expenditures, with the budget execution of total spending on poverty related programs exceeding planned amounts by 12%.
- 45) Poverty related expenditures are planned to increase to 8.6% of GDP in 2006, rising to around 8.9% in 2007. There is a strong convergence between the GPRS and the budget process.
- 46) The 2005 budget was informed by the 2004 GPRS Annual Progress Report (APR). Key recommendations included increasing spending on child nutrition programs and expanding the National Health Insurance Scheme (NHIS), addressing problems with child malnutrition and reducing financial barriers in the access to health care. These actions reflect, in turn, earlier steps taken by the Government, with the 2005 budget guidelines having already stressed that the GPRS was the basis for preparing the 2005 – 2007 budget submissions.
- 47) The project concept note for a rolling three year PRBS programme to fund the implementation of the 2nd GPRS was approved in October 2005.

Approach to PRBS

48) The 2004 DFID PRBS Policy paper states we should use PRBS when:

- a) *A partner government's budget priorities support poverty reduction.* This is increasingly the case in Ghana. The share of expenditure going to the GPRS key sectors (including primary health, basic education, rural infrastructure and water) has shown a substantial and sustained increase over the last 4 years rising from 35% of expenditure in 1999/00 to 48% in the 2005/06 budget. In real terms poverty related expenditure has doubled since 2002. MTEF plans indicate that poverty related expenditures are to rise from 8.3% of GDP in 2005 to 8.9% in 2007. Links between the GPRS and the budget are monitored in the performance assessment framework (PAF).
- b) *A partner government is committed to improving its administrative, technical and financial systems.* This is true in Ghana. Ghana is implementing a credible and government owned set of reform programmes in the areas of Public Financial Management, Public Sector Reform, and Tax Administration. Ghana is one of the top rated low-income countries in Sub-Saharan Africa using the World Bank's "Country Policy and Institutional Assessment", and has achieved one of the best improvement in the ratings of all HIPC countries in the IMF-WB PFM assessment (with a satisfactory rating in seven of the 16 assessed aspects in the 2004 update). The recent Public Expenditure and Financial Accountability Review, PEFA 32 indicator framework, and DFID 2005 fiduciary risk assessment, confirm this assessment. The trajectory of change is expected to remain positive
- c) *The provision of budget support will produce significant benefits relative to other forms of aid delivery.* In mid- 2006 government and donors will complete an evaluation of the MDDBS programme using the DAC GBS evaluation framework. However, emerging benefits of MDDBS since 2003 are intertwined with the benefits associated with the HIPC debt relief and the IMF PRGF. The three instruments are mutually reinforcing and have helped to: 1) stabilise domestic debt, lowering inflation and interest rates and freeing up capital for the private sector; 2) achieve four years of good macroeconomic performance, significantly, stable economic management continued through an election year for the first time; 3) make consistent improvements in Public Financial Management and; 4) promote investment through improvements in the business environment. Combined with HIPC debt relief, MDDBS support has enabled GoG to expand and improve education and health services.

49) However this judgement is finely balanced at the present time given the scale of the reforms that still need to be addressed in the areas of PFM and Public Sector Reform. PRBS has provided sufficient evidence of achievement to merit further investments, particularly in allowing government to scale up poverty related expenditures, strengthening cross-government collaboration in implementing the GPRS and tackling cross-cutting reform issues. However, DFIDG judges that dedicated sector support, using to the extent possible government systems, can complement the MDDBS approach. That is by applying intensive financial support

and TC to improve the efficiency of sector level implementation and PFM, to target areas that the budget finds difficult to reach.

- 50) While MDBS has broadly increased allocation to priority sectors, competing calls on the budget make it difficult for the budget to fund areas that have traditionally been neglected or funded by off-budget donor support. Unfortunately, in the case of Ghana this can include investment and maintenance budgets as well as technical assistance and provisions to improve the business environment. In these areas dedicated sector support can provide immediate benefits to complement budgetary allocations and prepare the ground for the budget to take over funding. Clear targets for migrating to full budgetary funding must be set and adhered to; to ensure that dependency is not created that undermines accountability and the primacy of government systems.
- 51) The programme partners will be the government's MDBS team including the ministries of finance, and public sector reform and the National Development Planning Commission (NDPC), that coordinate dialogue across government. MDBS includes a communications programme that engages parliament and civil society. The MDBS programme is fully co-ordinated with the group of 10 donors. All stakeholders will be consulted on this proposed programme through regular government and donor MDBS dialogue without imposing further burdens on our partners.
- 52) **In compliance with the UK conditionality policy**, we have changed our PRBS disbursement arrangements. PRBS flows committed to government and included in the budget will *not* be cut in year on the basis of performance against triggers contained in the PAF as was previously the case. However, performance against the PAF will determine commitments made for subsequent years.

Economic Appraisal

- 53) The results of the 2003 Core Welfare Indicator Questionnaire (CWIQ) updates the information on poverty for Ghana, indicating that the poverty headcount continues declining, falling by around 7 percentage points between 1997 and 2003, to around 35%. Most of the reduction in poverty is associated with the movement of people from rural to urban areas, with rural areas seeing a decline in poverty rates, but urban poverty rates have increased slightly. Poverty remains, nevertheless, predominantly concentrated in the three deprived regions (Northern, Upper West, and Upper East), as urbanization has not changed the regional profile of poverty, and poorer regions report higher urban poverty rates.
- 54) The Ghanaian economy is in its fourth year of economic expansion, combining improvements in macroeconomic management and strong export growth. The latest figures are positive and indicate that: (i) the annual real GDP growth rate continues rising, averaging 5.6 percent over the last three years, exceeding the GPRS target of 5.0 percent and the 4.4 percent historical average of the last 20 years; (ii) the overall fiscal deficit keeps on declining, falling to less than one-third of its 2001 levels, notwithstanding the more than two-fold increase in transfers to State-owned enterprises; (iii) the end-year inflation rate reached the lowest level

since 1999, closing 2004 at just under 12 percent; and (iv) export growth remains strong, reaching an estimated 13 percent growth in 2004, after peaking at 20 percent in 2003.

- 55) Ghana's macroeconomic management in 2004 established an important historical precedent, achieving sustained growth and a broadly stable macroeconomic environment during an election year. Real GDP growth reached 5.8 percent, up from 5.2 percent in 2003. Growth was driven by the strong performance of exports, with another record cocoa harvest, and higher prices for gold exports. Strong inflows of export revenues, as well as record remittances from Ghanaians living abroad, helped offset the increase in oil imports, allowing a further build up of international reserves, now equivalent to 3.7 months of imports.
- 56) Private investment recently rose above the levels of mobilization of private savings, indicating that domestic investment has also become one of the drivers of the economic expansion. It appears that private investment has been able to respond to the opportunities provided by the economic expansion thanks to the combination of reduced public sector deficits and increases foreign savings being made available to the country. This is an important development because sustaining and increasing the current real GDP growth rate is contingent on the projected rise of the share of aggregate investment in GDP. Ensuring that the increase in investment is directed toward productive activities is the other requisite for sustained growth.
- 57) Given the historical link between growth and poverty reduction, real GDP growth rates in the 5 percent range would suffice to bring poverty rates further down from current levels, meeting the MDG goal of halving the 1990 rate of poverty incidence by 2015.
- 58) Reducing the significant regional differences in access to education and health services is critical for the realization of the poverty reduction scenario to achieve the MDG target. Despite improvements since 1997, there continues to be significant differences in access to education and health services within the country, with access to health services in the northern regions at just over one-third of the percentage reported in the Greater Accra region. These differences in access rates reflect both difficulties in the physical access to these services as well as the ability to pay for them. For instance, the use of pre-natal care that was free at the time of the survey (February-April 2003) was uniformly high across the country. In contrast, supervised maternal deliveries that were not yet exempt from fees at the time of the survey were uniformly low throughout the country, with particularly low levels in the northern regions.
- 59) The last Consultative Group meeting which discussed the 2006-2009 GPRS excluded a firm donor pledging session from donors even though there were indicative donor pledges. This was because the GPRS had not been finalised at the time of the CG and its costing yet to be finalised. Initial costing puts the financing of the GPRS at about \$10 billion over the four years whereas expected donor disbursements over the GPRS period is in the region of \$5 billion. GPRS

activities are usually classified as Service delivery and investment items in the budget out of which donors contribution is about 45-50%. Government's budget primarily finances personal emoluments and administrative expenses and this takes about 50% of the GoG budget. This demonstrates government's dependence on donor funding to achieve its growth objectives and targets.

- 60) PRBS contributes strongly to growth in areas outlined in the PAF. The PAF focuses on the financial sector, energy, private sector competitiveness, growth in the rural sector and non-farm activities and improvement in the management of natural resources. Expected outcomes include increasing the share of domestic credit to the private sector, increasing access to financial services; reducing subsidies on energy and accelerating access to electricity, increasing exports, reducing time required to register businesses, increasing real per capita food production, expanding the forest sector and improving forest governance.
- 61) The Budget Statement for 2006 has for the first time ever been presented to Parliament in the year preceding its implementation. Even though past experience has satisfied the 1992 Constitution and the FAA (2003) the budget and economic policy has never been ready for implementation at the beginning of the financial year. This change in the budget cycle is one of the processes Ghana is going through in its move towards a businesslike approach in the governance of the country. Another feature of the 2006 budget was the level of consultation and participatory approach in its formulation. All Ghanaians were called on to provide input and this helped shape the budget. Another feature of this year's budget is the identification of all implementation challenges and proposals on how those can be mitigated to ensure a successful implementation.
- 62) The MDBS schedule of activities in 2006 will be unusual because changes will be made to enable donors to give GoG one year's advance notice of MDBS funding (i.e. greater predictability). In order to facilitate the transition, donors will use the Performance Assessment Framework (PAF) of 2005 as a basis for giving budget support in 2006 and 2007. This arrangement will enable donors to announce and commit expected disbursements in time for the preparation of the coming year's budget. Donors and the Government of Ghana will agree on a 3-year rolling, results oriented Progress Assessment Framework for 2006 onwards. Each year the PAF actions for the following year will be agreed in draft in March and finalised in December. The following describes the schedule of activities in relation to PAF 2005, 2006, 2007:

PAF 2005 cycle:

- March/April 2006: GoG-MDBS review of performance against PAF 2005
- June 2006: donors disburse the performance component 2006 against implementation of PAF 2005.
- First Quarter 2007: donors disburse MDBS performance component to GoG against implementation of PAF 2005.

PAF 2006 cycle:

- March/April 2006 [during review of PAF 2005]: Agree final PAF 2006 with indicators for 2007 & 2008 (including triggers).
- All year 2006: GoG implements commitments in PAF 2006
- March/April 2007: donor-GoG review of performance against PAF 2006.
- June 2007: donors notify GoG amount of MDBS to be disbursed in 2008.
- First Quarter 2008: donors disburse MDBS performance component to GoG against implementation of PAF 2006.

PAF 2007 cycle:

- March/April 2006 [during review of PAF 2005] Agree draft PAF 2007, 2008 and 2009.
- December 2006: donors and GoG finalise agreement on PAF 2007 (including triggers).
- All year 2007: GoG implements commitments in PAF 2007
- March/April 2008: donor-GoG review of performance against PAF 2007.
- First Quarter 2009: donors disburse MDBS performance component to GoG against implementation of PAF 2007.

PAF 2008 cycle:

- March 2007: Agree draft PAF 2008.
- December 2007: Final agreement on PAF 2008
- March/April 2009: DP-GoG review of performance against PAF 2008.
- June 2009: donors notify GoG amount of MDBS to be disbursed in 2010.
- First Quarter 2010: donors disburse MDBS to GoG against implementation of PAF 2008.

Social Appraisal

63) The GPRS revision is in its final stages but no major changes are expected. Consultation with civil society and other stakeholders was good but could be improved in future. The main pillars of the GPRS (i.e. macro economic stability, human development and good governance/civic responsibility) are central to poverty reduction in Ghana. However, there are questions on overall quality of the document though government appears to have drawn a line on any further improvements.

64) The Annual Progress Report (APR) is the main product of the GPRS M&E process. NDPC has consistently produced APRs for the past three years and the

quality has improved over the years. The 2004 APR is a significant improvement over the previous year's report. The process adopted was participatory with citizens using the Citizen Report Card methodology to assess the quality of basic services and impact of government policies on their lives.

- 65) The PAF has a strong social sector and vulnerability focus. The triggers on education and health have a bias towards the poorest regions and social groups. Social Protection mechanisms such as health exemptions and school capitation grants agreed in the PAF will deliver development benefits directly to poor people and their families. The production of a National Social Protection strategy was also agreed as part of this framework.
- 66) Income poverty has been on the decline in the country since the late '90s. It declined from 40% in 1998/99 to 35% in 2003. There is also good progress in other dimensions of poverty. Asset ownership and access to basic services amongst households improved over the last three years. For instance, gross enrolment rates in primary schools increased from 83.8% in 2002 to 86.3% in 2004. The gender gap in education is closing and Ghana now has a Gender Parity Rate of 83.1%. The growing democratic space in the country enables expression of citizen voices and there are active Civil Society advocacy groups now engaging government on pro-poor policy and legislative reforms.
- 67) GPRS 2 has a clearer vision for the poorest and socially excluded than its predecessor. Social Protection has been mainstreamed into the new GPRS and a national Social Protection Strategy has been drafted. These two strategic documents give a sense of government's intention to ensure that the poorest and most vulnerable groups in society participate in/benefit from national development and growth processes. There is also a commitment in the GPRS to strengthen lead institutions for coordination of government's programmes for the vulnerable and excluded.
- 68) Government has identified strategic communications as an essential part of the Governance Pillar of the second GPRS. This makes communications one of government's priorities and a deliverable under the GPRS against which relevant MDAs could be held accountable. Communication of the previous GPRS was not very effective and the NDPC has already begun exploring ways of improving on this. A revising of the existing GPRS communication strategy has been proposed and is likely to feature the development of strategic partnerships with CSOs and the Ministry of Information in the revision and implementation processes. Also, GoG and its donors are implementing a communications strategy with the view to increasing stakeholder awareness of MDAs as a mechanism for donor support to GPRS implementation. It also aims at increasing awareness of the impact of the GPRS on the lives of the poor.

Institutional Appraisal

- 69) The Drivers of Change study concluded in 2004 that there was insufficient evidence of an improving trend in the budget process, and of improvements in management of the public service and accountability to parliament, and that a rapid scaling up of multi-donor budget support was therefore probably premature. There are indeed significant weaknesses in these processes that the Government needs to mitigate. But this section argues that there is sufficient evidence of planned or actual improvements to contest the Drivers of Change conclusion.
- 70) The ability of the Government of Ghana to implement the objectives of its new Poverty Reduction Strategy II is severely limited by weak capacity of the public service to implement policy and by weaknesses in the management of public finances. The public service is poorly managed and consistently underperforms. Ghana's President has made improving public service capacity a high priority in his new government. In 2005 he established a new ministry and appointed a dynamic Minister to develop and implement a reform strategy. This followed an extended period of inaction. The new Minister has developed a clear vision of what is required to achieve structural change as well as to make rapid tangible gains. The initial objective of the programme is to signal a change in expectations and to give examples of what is possible by some quick wins. It will create conditions for change through catalytic capacity development and reorganisation. Initial measures include rolling out high-level leadership training, decompression of pay and monetisation of benefits, and developing an improved human resource management framework. The President continues to sponsor the reforms and he has requested support from DFID to develop a unit within his Office to monitor and strengthen government delivery. The reform programme will take time to achieve results, partly because the Ministry itself is new.
- 71) The recent desk-based public expenditure and financial accountability (PEFA) assessment reveals many critical weaknesses in public financial management and accountability (PFMA), and DFID has rated fiduciary risk as high. However, a sound legislative framework for PFMA now exists and implementation is starting to get underway. Government and development partners recognise there is a need to accelerate improvements in PFMA to reduce fiduciary risk and to safeguard the viability of PRBS. The Ministry of Finance and Economic Planning has developed a first draft of a three-year strategic framework (Short and Medium Term Action Plan) to respond to the identified weaknesses. At present the framework takes a technical approach to reform and needs further development to ensure that issues such as incentives and performance management are tackled. A baseline PFA assessment, based on the current status of PFMA, will be completed in March 2006.

- 72) There has been a marked improvement in the performance of the Ministry of Finance and Economic Planning since the appointment of a new Controller and Accountant General and a new Chief Director (Acting) in mid-2005. The appointment of the new Controller indicates a degree of commitment to improving PFMA. It has been possible to make progress on improving payroll management in the last six months of 2005 and further improvements are expected in 2006.
- 73) The Government has shown that it is not yet able to allocate and deliver sufficient budget resources within the normal budget cycle to make sustained progress in reforming the public services or financial management. Government's execution of the budget is weak, with repeated overspends on payroll – which have tended to displace new reform programmes. DFID is leading the design of a multi-donor Capacity Building Fund to help finance PSR and PFM improvements, and to help Government strengthen budget execution so that Government can finance reform programmes within its budget in future.
- 74) It is true that the executive's accountability to parliament is limited. The President's powers to appoint any number of MPs as Ministers, as in a Westminster-type system, weakens the willingness of parliamentarians to oppose executive decisions, as they might under a US-style division of powers. The parliamentary service is also relatively weak and unable to support select committees effectively. However, parliamentary select committees have demonstrated the capacity to grasp their mandate and there is a high degree of respect for it in the budget process. For example, the Public Accounts Committee took a more aggressive approach to ensuring the probity of MDAs in late 2004.
- 75) The recent fiduciary risk assessment rated the overall risk of corruption impacting on PFMA systems as high. PFMA systems are weak and offer opportunities for corruption at each stage of the budget cycle. Small-scale, uncoordinated corruption will continue until PFMA systems are significantly strengthened. However, Ghana's overall environment for control of corruption is strong. Ghana compares favourably with other low income countries according to various cross-country indicators. For example, Ghana moved up from 70th to 64th place in the Transparency International corruption perceptions index between 2003 and 2004. This places Ghana as the fifth highest placed sub-Saharan African (SSA) country (after Botswana (31st), South Africa (44th), and Mauritius and Namibia (joint 51st)).
- 76) In his first mandate President Kufour made a commitment to break with this legacy, declaring at his inauguration in January 2001 that his administration would have 'zero tolerance for corruption, indiscipline and nepotism'. A crackdown on corruption in the government's first year - with the conviction of a serving minister and imprisonment of a former minister of finance – sent important signals. The President also swiftly repealed criminal libel laws that stifled public investigation. However, the public perception is that corruption in public life is worsening. This perception may be a reflection of increased transparency

- 77) Ghana now has the most liberal environment for public scrutiny and comment on corruption in its history. Civil society activists can investigate and report on corruption unhindered and the freedom of the media is guaranteed in law and in practice. The media are vocal in exposing specific instances of corruption and in keeping the issue in the public eye. It is likely to act as a restraint on corruption, as potential perpetrators will have a fair degree of certainty that large-scale corruption will be exposed and criticised in the media.
- 78) Ghana's main oversight bodies have the necessary legal and practical independence from the executive to perform their duties. The Ghana Audit Service has improved its efficiency and timeliness of reporting.
- 79) The new Public Sector Reform strategy intends to launch a programme to improve incentives and performance management in the public service but it is unlikely to change institutionalised practice for several years. There has been some very encouraging action taken by the new Controller and Accountant General in the last six months. Several officials in the payroll department were arrested and prosecuted for fraud. Loopholes that allowed fraud to take place have subsequently been closed. In the last few years the legal and regulatory framework for the procurement of public goods and services has been substantially modernized but the system has not yet generated up-to-date and reliable data that indicates the extent of open competition.
- 80) Periodic dialogue between donors and government on performance against an agreed budget support policy matrix provides a forum to monitor corruption risk and progress in reducing risk. In principle this venue allows donors and government to review progress and identify remedial action in detail. In the 2006 budget support matrix Government of Ghana has committed to the following actions:
- *Continue implementation of activities aimed at reducing fraud and combating corruption, including:*
 - *initiating the consolidation of all anti-corruption legislation, covering sanctions regime and institutions to deal with identified forms of corruption (enforcement responsibilities);*
 - *developing and beginning implementation of a medium term action plan based on the agreed recommendations of the Diagnostic study; and*
 - *Submission of the Freedom of Information Bill to Parliament.*

Political Appraisal

- 81) In comparison to other African states, Ghana's political economy is an appropriate context in which to give direct budgetary support. Ghana is a robust democracy and all indications are that democracy will continue to deepen in the coming years. Although there is still a strong patronage-based character to the state, democratic change is exerting a powerful and probably irreversible force to make the state more responsive to the needs of the majority. The Ghana drivers

of change analysis indicated that a combination of economic and political drivers need to simultaneously come into play for Ghana to achieve a positive cycle of rapid growth and poverty reduction. There are signs that sufficient progress is being made to allow Ghana to achieve this positive trajectory. The Government has demonstrated a high degree of respect for human rights.

- 82) The state's ability to implement policy that challenges entrenched interests is limited by the demands of these networks and the need to sustain patronage. Ghana is ethnically and socially heterogeneous and in addition to the expected vertical, patronage-based relationships, there are unusually strong and rich "horizontal" interest groups where relationships are based on ethnicity, locality, and faith. The strength of these horizontal interest groups in part accounts for the robustness of Ghana's democracy.
- 83) The Drivers of Change study concludes that if Ghana is to rapidly reduce poverty and expand its economy to economic and political drivers of change need to come into play simultaneously.
- 84) The Drivers of Change study identifies four potential drivers of further political change. The first is increasingly intense and balanced inter-party electoral competition. This is likely to lead to more benign forms of patronage politics, greater mobilisation of poorer interest-groups and more issue-based campaigning. The main political parties need the incentive of keen electoral competition to provide an incentive for internal reform that will make them even more broad-based and responsive. The 2004 elections were close enough to put the present government under pressure to be responsive and continually demonstrate to citizens what it is achieving.
- 85) Democracy is now the accepted form of political contestation. The maturity of Ghana's young democracy is demonstrated by the fact that the current ruling party has purposefully cultivated political support in regions and among ethnic groups outside its traditional stronghold. It realises that its long-term success depends on offering developmental rewards to all citizens rather than rewarding only its traditional supporters. The poorest region, the North is benefiting from this new political reality.
- 86) The risk of a return to military rule is extremely low and President Kufour is showing all the signs of respecting the constitutional restriction to two presidential terms. The Drivers of Change study identified the need for democracy to be progressively deepened so that Government is responsive and accountable. DFID Ghana has been working with other development partners to review the needs of parliament and will provide support in collaboration with other partners in 2006. DFID Ghana has a particular interest in strengthening the capacity of select committees – notably the Public Accounts Committee.
- 87) The democratic gains of the last fifteen years are very significant, both in formal institutional terms and in terms of the substantive improvements in democratic practice.

Democratic gains

- Promulgation of a liberal 1992 Constitution for the Fourth Republic.
- Increasing independence of agencies of horizontal accountability, such as the Judiciary, Electoral Commission (EC) and Commission on Human Rights and Administrative Justice (CHRAJ).
- Increasingly independent and technically capable election authority.
- Emergence of a vibrant independent media and active civil society.
- Re-emergence of multi-party politics and alternation of parties in power.
- Increasing involvement of Parliament in law making, deliberations over policy, scrutiny of international loans and agreements, and executive oversight.
- Gradual democratisation of civil-military relations.
- Smooth hand-over of power following 2000 elections
- Despite a few incidents of intimidation and minor irregularities, domestic and international observers judged the December 2004 elections generally free and fair.

Remaining democratic deficits

- Transparency and accountability deficits caused by these structural defects and intensified by under-resourcing.
- Failure of formal democratic institutions to give voice to the poor and other marginalised groups.
- Lack of effective devolution of authority to democratic local government.

88) A second driver of change is an increased quantity and quality of information about public affairs, enabled by more critical and technically capable mass-communications media. The role of information in developing critical public opinion is likely to be reinforced by the spread of education and urbanisation. The growth and vibrancy of the Ghanaian media is impressive. Radio is independent and particularly vocal, and played a part in ensuring the election commission fulfilled its role effectively in the 2004 elections. The Government shows no sign of wishing to limit the freedom of the media, despite robust critical commentary.

89) Third, the Ghanaian Diaspora could play an important part in driving political as well as economic change, reflected in the fact that the present Government includes a number of returnees. However, the influence of returnees cannot be expected to be automatic, as the institutional frameworks of Ghana today have a strong tendency to blunt the modernising thrust of returnee innovativeness. The Government is aware of the value of the Diaspora and a dynamic minister, himself a returnee, is developing a programme to encourage Ghanaians to return to contribute to the private and public sector.

90) A civil society that spans socially-rooted local associations, national membership organisations and formal-sector NGOs has the potential to be a fourth driver of change. However, realising the potential would imply breaking with current patterns of local patronage politics and creating federations of associations or local user groups that would be capable of interacting with the party system on a more equal basis. There are no restrictions on associations and the poor to

make their needs known but there are limited formal mechanisms or opportunities outside national elections - local elections are not fought on a party basis. The Drivers of Change study recommends targeting support to strengthen the voice of vulnerable groups and DFID has initiated two innovative programmes to support voice and advocacy. The Rights and Voice Initiative (RAVI) promotes the capacity of civil society organisations to promote citizen engagement with the state in relation to the respect, protection and fulfilment of civil, cultural, economic, political and social rights (Rights & Voice). The multi-donor Ghana Research and Advocacy Programme (GRAP) supports civil society organisations' capacity to influence public policy and create demand for a more responsive and accountable state.

- 91)The present Government has a generally strong record of respecting human rights. On taking office in 2001 President Kufuor instituted a National Reconciliation Commission to investigate allegations of past human rights violations and the Commission's work was generally accepted as non-partisan. Problems do exist though these are largely the result of weaknesses that existed before the present administration took power – and do not reflect attempts by the state to intimidate citizens by abusing state machinery. Police corruption and impunity is a problem and police use of excessive force has resulted in some unlawful killings and injuries. Prison conditions are harsh and life threatening and prolonged pre-trial detention is common.
- 92)Ghana's democracy is robust and shows every sign of becoming more so in the coming years. The Diaspora has opportunities to play an increasingly important role in Ghana's economy and politics. The media is freer now to critique government policy and delivery than it has ever been. All indications are that media freedom will continue and access to information will gradually broaden. Citizens are now more able to make their demands felt on government than they have ever been. But the mechanisms to make feedback continual rather than periodic are still lacking. If Government continues to pursue sound economic policies, and is able to overcome weaknesses in the public services to deliver them, and if the positive political environment persists, then there is a strong likelihood that Ghana will develop a virtuous cycle of poverty-reducing growth and a systematically more responsive government. Government respect for human rights is now an expected norm.

Environmental Appraisal

- 93)There are no direct environmental impacts arising from this PRBS proposal but there will potentially be many indirect impacts which DFID needs to address throughout.
- 94)Ghana is heavily dependent on natural resources for economic growth and poverty reduction. About 45% of Ghana's GDP comes from renewable natural resources - agriculture, forests and fisheries. Whilst Ghana's economy grew at 5.8% p.a. in 2004, higher than the GPRS target of 5%, the GPRS notes that long-term growth rates of 6 - 7% p.a. are needed for real poverty reduction.

Sustainable management of the natural resource base (land, fisheries stocks, forests etc) will be key to maintaining current growth and sustaining future growth.

- 95) Recent analysis however indicates that the natural resource base upon which Ghana's growth relies is being unsustainably exploited. A recent joint ISSER-DFID- World Bank study calculated that environmental degradation is costing the Ghanaian economy 6.2% GDP per year. This reflects reduced productivity and output e.g. the costs of reduced cereal production caused by soil and land degradation. Furthermore, environmental degradation (e.g. soil erosion, deforestation) hits the poor the hardest - 80% of Ghana's population depend on NRs directly or indirectly; 59% of food crop farmers are classed poor.
- 96) To date GoG policies and programmes, including the GPRS, have not given any significant attention to environment and its fundamental contribution to economic growth in Ghana. It is hoped that the revised GPRS will address this deficiency following DFID support for a national environment expert to support the GPRS revision process. If GoG policies continue to fail to adequately reflect the importance and need for sustainable management of Ghana's natural assets, future growth and poverty reduction targets will be jeopardised.
- 97) Support through PRBS does present a number of environmental risks which DFID, in order to comply with policy commitments on environment, should consider and manage as appropriate.
- 98) Funds support policies which directly or indirectly contribute towards environmental degradation weakening growth and poverty reduction potential; Environmental degradation adversely impacts upon key infrastructure investments e.g. soil erosion (reducing agric productivity) will contribute to siltation of dams and reduce hydro- power production.
- 99) Policies ignore or exacerbate poverty-environment linkages e.g. deforestation is in part caused by failures in energy markets and policies failing to provide firewood alternatives

Fiduciary Risk Assessment

- 100) The fiduciary risk environment in Ghana is judged as being medium-to-high. Compared to many African countries, however, Ghana's public financial management systems are regarded as being considerably better. Ratings by the World Bank's Country Policy and Institutional Assessment (CPIA), place Ghana in the second quintile. This is well above the average for non post-conflict African countries. At a joint World Bank/OECD-DAC meeting in Paris (December 6), a Senior World Bank Vice President listed Ghana as one among 11 countries where conditions for a scaling up of aid were promising.⁷

⁷ The Group of 11 countries are: Benin, Burkina Faso, Ethiopia, Ghana, Mali, Mauritania, Mozambique, Rwanda, Senegal, Tanzania, Uganda.

- 101) A September 2005 assessment pilot-tested a new methodology developed by the Public Expenditure and Financial Accounting (PEFA). This desk-based review scored Ghana as 'high risk'. It should be noted, however, that compared to other appraisals, PEFA applies higher assessment standards. It also covers more dimensions of the public financial management system, and is more comprehensive. The 2005 Review identified a number of PFM weaknesses. Scoring of indicators revealed 13 scores at level C or above, and seven at level D (the lowest in the range). The latter focused mostly on issues of budget execution, expenditure control, internal audit, and financial reporting. The PEFA assessment was unable to score eight indicators owing to a lack of information. The GoG have not commented on the PEFA desk assessment, but preliminary discussions indicate disagreement over the interpretation of some results and the final scores.
- 102) Despite these somewhat contrary portrayals of the PFM and fiduciary conditions in Ghana, considerable progress has been recently in improving systems. Over the past three years, significant efforts have been made to improve the legislative framework, the expenditure control and reporting environment, and the transparency of the budget process. Indications are that with much of the critical legislation now in place with regard to key fiduciary matters (the overall PFM system, procurement, accounting and audit) conditions will soon be in place to allow stronger public scrutiny and safeguards.
- 103) Key achievements in the area of PFM over the past two years include:
- a) maintaining aggregate fiscal discipline and lowering both inflation rates (expected to fall to single digit levels in 2006), and domestic interest rates (as government borrowing has been brought under control);
 - b) improving the timeliness and reconciliation of monthly expenditure reports;
 - c) implementing a tracking system to monitor poverty-related expenditures and incorporation of HIPC savings into national budgeting processes;
 - d) improving the administration of public revenues and raising the share of revenue in GDP from 18% to 24% over the past four years.
 - e) improving domestic and external debt management, which has allowed public funds to be released for priority poverty expenditures;
 - f) ensuring that budget allocations are increasingly guided by national policy priorities as identified in the GPRS;
 - g) improving the comprehensiveness of budget information reported in official documentation, including information on the use of statutory funds, funds generated internally within government, and of donor flows;
 - h) clearing the backlog of external audits and completing audits of the consolidated fund and the MDAs within 12 months of accounts being closed. A backlog of the following entities remains, however: Public Boards, Corporations and other Statutory Institutions, District Assemblies and

- Traditional Councils, Pre-University Educational Institutions, and foreign Exchange Receipts and Payments of Bank of Ghana.
- i) taking determined steps to improve the monthly reporting of accounts, and to start making BPEMS operational;
 - j) adopting a range of legislation for safeguarding the public financial management system ;
 - k) establishing, and revamping, public institutions to increase efficiency and effectiveness.
- 104) There is a multi-layered and comprehensive framework for guiding and monitoring PFM reform in Ghana. This is provided by the Public Financial Management Programme (PUFMARP) vision document, the various new pieces of legislation that have been passed by parliament, and the PFM reform priorities which are identified as part of the MDBS's performance assessment framework (see Box below reporting most recent improvements). Several key Ministries and public sector agencies now have detailed strategic action plans for addressing key weaknesses. This is true for public procurement, financial accounting, and audit. Implementation of these detailed action plans, together with the recent issue of the StAP by MoFEP, should allow more sequential and focused progress to be made. There is acute awareness among senior officials in MoFEP of the need to make progress in implementing BPEMS and in improving pay and personnel management. The release of the StAP, plus key staffing changes introduced by MoFEP to strengthen the administration of PFM systems, provide grounds for optimism.
- 105) The latest Review of the PRGF by the IMF confirmed measures to tackle budgetary management and reporting were on a sound footing. Moreover, during the MDBS Review Mission, the Deputy Minister of Finance gave further assurances, reiterating previous statements, that the strengthening of accounting and payroll management constituted crucial prior steps for addressing more complex reforms down the line. This pragmatic approach has been reinforced by the recent release of the long-awaited Short-term Action Plan (StAP) for reforming PFM. The StAP identifies key priority actions for 2006, and it outlines the objectives and framework for implementing key reforms during 2007 and 2008.
- 106) Management across government is also set to change as the newly-appointed Chief Director of MoFEP has recently introduced measures for improving budget implementation and expenditure control. (Chief Directors of all spending ministries are required to meet each month to review progress.) In a record achievement, this year's budget (2005) was tabled to Parliament on time. The StAP's focus in 2006 will be to implement BPEMS and to address long-standing personnel and pay issues across the public sector. Further evidence of the GoG's ownership of the PFM reform agenda is its joint agreement with MDBS development partners to evaluate comprehensively in 2006 the effects and impact of general budget support received by Ghana over the past three-to-four years. This commitment to ownership is most welcome.

107) The recent fiduciary risk assessment rated the overall risk of corruption impacting on PFMA systems as high. PFMA systems are weak and offer opportunities for corruption at each stage of the budget cycle. Small-scale, uncoordinated corruption will continue until PFMA systems are significantly strengthened. However, Ghana's overall environment for control of corruption is strong and a combination of recent action taken by the Controller and Accountant General, a relatively strong supreme audit institution and a robust media mean that there are limits to the scale of corruption that is possible without detection.

Box [3]: Progress During 2005 on Meeting Policy Actions Agreed with Donors with Respect to Public Financial Management

Revise and update the PFM framework

In December 2005 MoFEP made available the long-awaited short-term action plan (STAP). This outlines actions to be taken in 2006. It also sets out the framework for the following three years.

The focus is on critical reform areas: the computerisation of GoG's financial and accounting system (BPEMS) and building the integrated personnel and pay database (IPPD) while strengthening the Comptroller and Accountant General's Department (CAGD).

PFM capacity strengthened considerably across government by appointment of a new Chief Director in MoFEP, plus new senior-level appointments in Office of the Accountant General (CAGD), and the appointment of CEOs for the Procurement Secretariat and the Internal Audit Agency.

Include HIPC Funds in the budget formulation process, with allocation by MDAs

HIPC funds now incorporated into national budget decisions, and 2006 allocations put before Parliament in November.

Make operational Act governing Internal Audit Agency (IAA) and establish Internal Audit Units (IAUs) in 5 key MDAs.

IAUs set up in five Ministries (Finance, Health, Education, Local Government, and Roads and Transport) and manuals, programmes and guidance issued in education and health sectors. Capacity for internal audit higher than initially imagined, and is better in health and education ministries. 10 Ministries, 18 departments and agencies and 13 district assemblies submitted internal audit reports for the period January-December 2004. For the first-half of 2005, equivalent numbers were: 10 Ministries, 13 departments and agencies and 7 district assemblies. Further strengthening requires skills and training, development of regulations, standards and procedures, and recruitment of qualified internal auditors. *Adequate funding and staffing of IAA, however, unlikely to be resolved quickly.*

Ensure provisions of the Public Procurement Act fully implemented and applied to headquarters and regional offices of key MDAs (Finance, Health, Education, Local Government, and Roads and Transport)

After initial criticisms of the law, Procurement Board and its Secretariat successful in raising awareness. Appointment of new CEO helped accelerate Act's implementation. Secretariat actively working with MDAs in to aid understanding on Act's provisions.

Number of competitions for tenders advertised in the press has risen and quality of requests for sole-sourcing has improved. Key MDAs and public entities have submitted procurement plans. The Board has adopted a monitoring and evaluation tool and evaluation of key MDAs to begin later in 2005. The 2004 procurement report to be made available to parliament.

Establish Public Procurement Entities in MDAs, Sub-vented Agencies, Statutory Funding Bodies, Municipalities and Metropolitan areas, and have Entity Tender Committees operational in 50 percent of District Assemblies

Good progress in establishing procurement institutions, also at local level (684 out of 1248 Entity Tender Committees established, and 109 Tender Review Boards from 175 planned). Coverage and compliance with the Act likely to expand over next six months and as training programmes launched in Entity Tender Committees and Tender Review Boards.

Ensure Government's financial and accounting system (BPEMS) computerised and operational at HQ Tema offices of the MoFEP and in key line Ministries (MoE, MoH, MRT, MLGRD) with core functions (general ledger, purchase order and accounts payable) used on-line for processing and reporting transactions.

Implementation is proceeding in MoFEP, CAGD and in Health (including GHS). MoFEP expenditure of BPEMS allocation (US \$ 2.0 million) in 2005 budget on track. Establishment of BPEMS modules advanced at MoH. Thus, MoH using General Ledger and Accounts Payable modules via optic-fiber link to MoFEP. In first quarter of 2006, it should be possible for some departments to generate parallel BPEMS-reports the existing NETS system. Resolution of contractual difficulties for wireless networking should allow BPEMS expansion, and use of new fibre-optic link connecting CAGD with 10 key MDAs will permit pay and personnel issues to be tackled.

Auditor-General to submit 2004 audited accounts for the Consolidated Fund and MDAs

2004 audits of MDAs and the Consolidated Fund reached Parliament by end 2005.

110) Our assessment of a positive PFM trajectory was recently validated by a UK National Audit Office audit of the DFID Ghana programme in December 2005. The

audit concluded that there was sufficient evidence that MDBS funds had been accounted for properly by the Government of Ghana under the 2003-2006 programme, and that there were “no significant issues from the review of the Ghana Audit Service (GAS) work”.

NAO provides assurance of fiduciary discharge on MDBS funds in Ghana

“The format and completeness of the 2003 Consolidated Fund accounts leaves something to be desired, but the shortcomings were clearly highlighted by the Ghana Audit Service and the Auditor General in his audit opinion and report. The audit undertaken by the GAS could also usefully be developed further in terms of audit approach and methodology, but in 2003 and 2004, the GAS was assisted by means of the special audits of selected flows of funds undertaken by Ernst and Young. And we were satisfied that the Auditor General, by qualifying his opinion, acted independently. Finally, the donors have undertaken a series of assessments of the financial management performance of the Government of Ghana, and all have reported that Ghana is on a positive trajectory.

On the basis of the evidence seen in Ghana, drawn from the accounts, audit and financial monitoring, the NAO have reached the conclusion that DFID obtained sufficient evidence to substantiate the fiduciary discharge

Lessons and Evaluation

108) The proposed programme fully benefits from DFID’s leading involvement in the MDBS programme over the past three years. The Project Completion Report (PCR) indicates that the MDBS programme has helped to deepen the partnership between the UK and Ghana and to focus policy dialogue on the key constraints to reform and to overall poverty reduction. In addition, it has enhanced co-operation with donor partners – both those directly involved in the MDBS arrangement and those who have been active observers of this process. These are important preliminary steps towards concrete improvements in the quality of public administration and in the effectiveness of GoG poverty reduction initiatives. The PCR is presented as AnnexA . Ghana was not included as a case study for the DAC evaluation of general budget support but donors have agreed to use the methodology to complete a multi-donor and joint evaluation in mid-2006. In addition to the biannual MDBS reviews, for the past two years government and donors have participated in learning retreats to review the MDBS arrangements and learn from international experience. These retreats have resulted in agreeing improvements in the organisation of government and donors, collaboration with sectors and the results focus of the PAF.

SECTION 4: PROGRAMME IMPLEMENTATION

Management Arrangements

- 109) The management arrangements will be a continuation of the arrangements of our previous PRBS programme. Our contribution will form part of a 10-donor arrangement governed by a Framework Memorandum signed in 2003, and accompanied by a Technical Annex (attached at Annex B) that captures the arrangements for the bilateral donors and the EC that is updated on an annual basis. The Framework Memorandum, presents the main principles of PRBS, the role of the PAF, an undertaking to conduct joint reviews and assessments, and sets out the respective responsibilities of government and donors.
- 110) The Technical Annex describes the disbursement arrangements used by the seven bilateral donors and the EC. The main feature of the arrangement is that annual allocations are divided equally between two disbursements: (i) a fixed tranche provided on the basis of sound macroeconomic management and maintenance of the basic undertakings; and, (ii) a variable tranche based on a joint government and donor assessment of performance against the benchmarks in the PAF. The assessment for the performance tranche will be made in the year *before* the disbursement allowing donors to provide a firm commitment in time for the budget.
- 111) The *Structures and Principles Paper*, agreed earlier in the year, sets out the division of tasks between the participating development partners. The agreement provides for a donor Core Group with one representative for each donor, and co-chaired by the World Bank (on a permanent basis) and another donor (on an annual revolving basis). The co-chairs are supported by the core group to perform a range of tasks including leading discussions with government and ensuring a participatory dialogue with government and between donors, on the principle of consensus. In addition, there is a vice-chair that covers for absences and is expected to assume the co-chair position in the following year. DFID held the chair in 2003/04 and can not expect to take the chair till around 2008. The core group provides an effective coordination mechanism that has resulted in the group taking on broader harmonisation issues outside of PRBS, including the agreement of the harmonisation paper.
- 112) MDBS coordinators have been appointed in each of sixteen sector groups. DFID acts as coordinator in a range of sectors including education, health (through our arrangement with the Netherlands), private sector development, M&E, vulnerability, PFM and public sector reform. In a number of other sectors where we do not lead, our advisers provide a strong input. The sectors coordinators liaise with government and the MDBS core group to ensure that policy dialogue at the centre is complemented by sector dialogue in a consistent manner. This arrangement has broadened the participation of both government and donors in the MDBS process and has improved the quality of dialogue and

assessment. It also helps to consider issues about when to move from sector to budget support.

- 113) The government has formed an MDDBS team that includes the ministries of finance, and public sector reform and the National Development Planning Commission (NDPC) that coordinate dialogue across government. The government's team is led by the three Deputy Ministers of Finance supported by the Chief Director. They have identified four officials to coordinate inputs across government in the areas of private sector development and growth, governance, human development and PFM. The process is facilitated by the *MDDBS Secretariat* that is based in the MoFEP with costs shared by government and donors⁸. The secretariat is responsible for arranging the reviews, collating and managing the flow of information and building understanding of the process throughout government.
- 114) DFID Ghana's economic advisor will be responsible for leading the implementation of the programme and representing DFID on the MDDBS donor core group, supported by the governance adviser and the DPM in PPG Team. The Economic and Governance advisers will lead an MDDBS Steering Group to provide an information sharing and decision-making forum for DFID Ghana.

Funding

- 115) DFID's contribution over the 3 years is £120 million and this can be accommodated within the Aid Framework. The PRBS share of the (static) Ghana aid framework is set to rise from 50% in 2006/7 to about 65% in 2008/9. Other donors have pledge around \$700 million budget support over the same period
- 116) The £6 million allocation of technical co-operation will be managed directly by DFID , and programmed in close consultation with Government and other donors.
- 117) Programme operating costs consist of DFID staff time, both advisory and administrative. The programme includes no directly funded DFID assets which should revert to us on project completion.

Contracting and Procurement Issues

- 118) All procurement under the financial aid grant will be done by GoG in accordance with its own procurement legislation and procedures. Assessment of GoG's procurement systems takes place within the context of overall fiduciary risk assessment within the annual Public Expenditure and Financial Accountability (PEFA) Review. DFID procurement rules will govern the contracting of TA.

⁸ Donors provide support on a revolving basis. DFID is currently supporting the Secretariat until April 2007

Accounting and Audit

- 119) Up to £120M of the funds will be provided as PRBS, and up to £6 million will be provided as technical co-operation managed by DFID. The TC funds will be spent through contracts issued by DFID Ghana.
- 120) On approval by the Secretary of State of disbursement, Crown Agents will make the transfer into an MDBS account established by the GoG for subsequent disbursement into the Consolidated Fund. MoFEP will provide to DFID documentary evidence of the amount and date of the foreign exchange payment received under this Grant, and of the amount and date of receipt of each transfer under this Grant from this account into the Consolidated Fund.
- 121) The Ghana Audit Service (GAS) carries out an independent annual external audit of the Government Accounts. The Auditor General generally presents the annual report to Parliament on the Public Accounts within 12 months of the financial year-end. As soon as it is available, DFID and other PRBS partners have access to this report, which is used as the basis for PFM policy discussions.
- 122) The capacity of the GAS is currently under development with the support of the EC. To complement the work of the GAS, the MDBS donors finance an external audit on selected flows only, commissioned by the GAS and carried out by external auditors. The work is financed by the MDBS donors. The ToRs and a short list of audit companies would be jointly prepared and agreed by the GAS, the Government, and the PRBS donors. The selection of auditors and approval of the audit contract would be endorsed by the Government and the PRBS donors. This audit includes an audit of the MDBS account and the transfers to the consolidated fund.
- 123) The UK National Audit Office conducted a review of DFID's Ghana programme in December 2005, including scrutiny of the MDBS programme. The review NAO's report is attached at Annex C

Monitoring and reporting

Harmonised donor monitoring arrangements for MDBS are described at paragraph 63 and further explained in the Technical Annex and Structures and Principles paper (at Annex B and D respectively). For poverty outcome data, DFID will rely on the Annual Progress Report of the GPRS and related survey data (eg Core Welfare Indicators Questionnaire and Ghana Living Standards Survey) Attached at Annex E is the performance assessment framework (PAF) used to track the performance element of budget support in 2005, together with an explanation of why each disbursement trigger was important. Government led in negotiating the PAF for the first time in 2005. The 10 triggers cover a mix of outcome, output and institutional reform measures. The PAF is available as a public document on the World Bank website. This year's PAF will be completed by mid March 2006.

124)

SECTION 5: Risks

- 125) **Risk A [Probability medium, impact high]:** Circumstances lead to lapses in economic management, following Ghana's graduation from the IMF PRGF facility; in particular, the threat of high levels of Government borrowing in the run-up to the 2008 elections. . **Mitigation:** the government maintained stability throughout the 2004 election for the first time, due to the strong commitment from President and the Minister of Finance. MDBS donors will request a dialogue with Government on its strategy for handling non concessional borrowing, which Ambassadors will support if necessary. There is a history of donors successfully challenging poor thought through borrowing decisions by Government.
- 126) **Risk B [Probability high, impact medium]:** weak capacity in Government leads to inability to meet the GPRS targets on time. **Mitigation:** PSR reform programme underway even though its delivery has been slow Government is set to make some quick wins with the establishment of the new Ministry for Public Sector Reforms
- 127) **Risk C [Probability high, impact high]:** Government fail to implement the medium term action plan for public financial management reform, and thereby fail to reduce the high level of fiduciary risk. If government fail to provide the required institutional and public sector reforms, this could severely impede the implementation of technical and systematic budgeting solutions. **Mitigation:** Progress against the government's programme of PFM and public sector reform is at the heart of the review process for MDBS and the PRSC. There is a renewed effort from DPs to improve the way in which these programmes are supported. The disbursement triggers for the first few years will stress the government's commitments to PFM reform.
- 128) **Risk D [Probability high, impact medium]:** Government interlocutors on MDBS enter into the MDBS agreements without sufficient consideration of the achievability of the triggers and reporting requirements, or sufficient consultation with other stakeholders in Government. This risk is exacerbated by a lack of overall leadership and accountability for the delivery of key public sector and public financial management reforms. **Mitigation:** Triggers set with emphasis on achievability in the first year. The Cabinet has discussed the triggers. DPs will continue to emphasise key messages in the policy dialogue at sector level.
- Risk E [Probability medium, impact medium]:** Disruption of macro-economic assumptions if targets are not achieved and significant sums are not disbursed (and that donors will interpret progress favourably in order not to delay disbursement).
Mitigation: tranching with different performance

