

Mokoro Ltd

Putting Aid On Budget

**A Study for
the Collaborative Africa Budget Reform Initiative (CABRI)
and
the Strategic Partnership with Africa (SPA)**

GHANA CASE STUDY

April 2008 (final)

Mary Betley



Mokoro Ltd
87 London Rd
Headington
Oxford
OX3 9AA
UK

Tel: +44 1865 741241
Fax: +44 1865 764223
Email: mokoro@mokoro.co.uk
Website: www.mokoro.co.uk

THE AID ON BUDGET STUDY

The Collaborative Africa Budget Reform Initiative (CABRI) and the Strategic Partnership with Africa (SPA) commissioned study of "putting aid on budget" has the following outputs:

An *Inception Report*, which defines the issues and research methodology.

Ten *country studies from sub-Saharan Africa*. Of the ten country studies, *Ghana, Mali, Mozambique, Rwanda* and *Uganda* were studied in depth, and separate country reports are available. The experiences of Burkina Faso, Ethiopia, Kenya, South Africa and Tanzania were also reviewed and summary information is included in the Synthesis Report annexes. Findings from all ten countries are included in the Synthesis Report.

A *Literature Review*, which (a) documents existing good practice guidance that is relevant to the incorporation of aid in recipient country budgets; (b) reviews the policies and guidelines of the major multilateral and bilateral agencies as these affect the incorporation of their aid into government budgets; and (c) documents relevant experiences of efforts to capture aid in government budgets, including desk reviews of some additional countries, including countries from outside Africa.

A *Synthesis Report* which draws on all the other study components to develop overall findings and recommendations.

A *Good Practice Note* which distils the lessons of the study and is aimed at donors as well as partner governments.

The reports can be downloaded from the CABRI website at <http://www.africa-sbo.org/>.

Acknowledgements

The study team was led by Stephen Lister and included: Mary Betley, Rupert Bladon, Rebecca Carter, Mailan Chiche, Alta Fölscher, Piet Lanser, Alex Warren-Rodriguez and Tim Williamson. Support to the study was provided by Philip Lister and Daniel Ross.

The study team would like to express their gratitude to the senior government budget officials of Burkina Faso, Ethiopia, Kenya, Ghana, Mali, Mozambique, Rwanda, South Africa, Tanzania and Uganda for their valuable input into the study. The study team would also like to thank CABRI, in particular Aarti Shah, and Peter Dearden of DFID and Jiro Otsuka of JICA for their support during the study. Finally the study team would like to thank the aid agencies and other organisations that have provided information for the study and have commented on draft outputs of the study, including: African Development Bank, Asian Development Bank, BMZ, CIDA, Danida, DFID, EC, GTZ, IMF, Inter-American Development Bank, Irish Aid, JICA, the Netherlands, Norad, OECD DAC, PEFA Secretariat, Sida, UNDP and USAID.

Disclaimer

This study was commissioned by Collaborative Africa Budget Reform Initiative (CABRI) and the Strategic Partnership with Africa (SPA) and financed by DFID with additional support from JICA (Literature Review).

This report was prepared by independent consultants. Responsibility for the contents and presentation of findings and recommendations rests with the study team.

The views and opinions expressed in the report do not necessarily correspond to the views of CABRI or SPA.

Table of Contents

Abbreviations and Acronyms	ii
1. Introduction	1
2. Aid Transparency Context	2
Aid Management in Ghana.....	2
Overview of Ghana's PFM System.....	6
3. Aid Transparency: Successes and Weaknesses	12
How Funds are Reflected in the Budget System	12
4. Findings: What works and what does not	18
5. Conclusion	26
Annex A: Summary Matrix: Assessment of Aid Capture	29
Annex B: Key Information Sources	35
Annex C: Persons Met	36
Annex D: Detailed Aid Disbursements by Sector	37
Annex E: Extracts from 2006 PEFA Report	38

Tables

Table 1: Overview of Disbursements of External Aid by Type	2
Table 2. Disbursements by Main Donors	3
Table 3. Overview of Disbursements of ODA by GPRS Broad Sector Area	4
Table 4. Disbursements of Budget Support by Sector (mn USD)	4
Table 5: 2007 Budget Preparation Calendar	8
Table 6: Comparison of Different Sources of Data on External Aid Resources	14
Table 7: Summary of National Procedures Used for Different Sources of ODA in PFM System	17
Table 8: Overview of Conclusions and Recommendations	28
Table D1. Disbursements of ODA by GPRS Detailed Sector Area	37

Abbreviations and Acronyms

AfDB	African Development Bank
ADMD	Aid and Debt Management Division (MoFEP)
AG	Auditor General
BPEMS	Budget and Public Expenditure Management System
CABRI	Collaborative Africa Budget Reform Initiative
CAGD	Controller and Accountant General's Department
CF	Consolidated Fund
CG	Consultative Group
CHRAJ	Commission on Human Rights and Administrative Justice
Danida	Danish International Development Assistance
DFID	UK Department for International Development
DPs	Development Partners
EC	European Commission
ERD	External Resources Division (MoFEP)
ERMD	External Resources Mobilisation Division
FAA	Financial Administration Act
FAR	Financial Administration Regulation
FMIS	Financial Management Information System
GAS	Ghana Audit Service
GFS	Government Finance Statistics
G-JAS	Ghana Joint Assistance Strategy
COFOG	Classification of the Functions of Government
GoG	Government of Ghana
GPRS	Growth and Poverty Reduction Strategy
HIPC	Heavily Indebted Poor Country
HIV/AIDS	Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome
IAA	Internal Audit Agency
IAU	Internal Audit Unit
IDA	International Development Agency (World Bank)
IFAD	International Fund for Agricultural Development
IGF	Internally Generated Fund
IMF	International Monetary Fund
IPPD	Integrated Personnel and Payroll Database
MDA	Ministries, Departments, Agencies
MDBS	Multi-Donor Budget Support
MoFEP	Ministry of Finance and Economic Planning
MoLGRD	Ministry of Local Government and Rural Development
MMDAs	Metropolitan, Municipal, and District Assemblies
MPs	Members of Parliament
MTEF	Medium-Term Expenditure Framework
NDPC	National Development Planning Commission
NGO	Non-Governmental Organisation
NRM	Natural Resources Management
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OHCS	Office of the Head of the Civil Service

PAC	Public Accounts Committee
PAF	Performance Assessment Framework (for the MDBS)
PD	Paris Declaration
PDIU	Public Debt and Investment Unit
PEFA	Public Expenditure and Financial Accountability (Assessment)
PFM	Public Financial Management
PIU	Project Implementation Unit
PRGF	Poverty Reduction Growth Facility (IMF)
POW	Programme Of Work (sector plans)
PPB	Public Procurement Board
PSC	Public Service Commission
PSD	Private Sector Development
SEC	State Enterprise Commission
SPA	Strategic Partnership with Africa
SWAp	Sector-Wide Approach
SWG	Sector Working Group
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
US	United States
USAID	United States Agency for International Development
USD	United States Dollar

1. Introduction

1.1 This case study provides an overview of the practices and emerging lessons of the experience in Ghana of attempts to reflect external aid resources in the budget and the public financial management system. The study covers the reflection of aid resources at each stage of the PFM system, including: planning, budgeting, appropriation (through Parliament), flows (through Treasury), accounting, reporting, and auditing. It is an input into the wider cross-country study on “Putting Aid On Budget”, commissioned by DFID on behalf of CABRI (the Collaborative Africa Budget Reform Initiative) and SPA (the Strategic Partnership with Africa).¹ The aim of the wider research is to study existing practices amongst African countries for reflecting aid resources in the budget (and throughout the PFM process) and identify the challenges in doing so. The study will produce a good practice note to help governments in Sub-Saharan Africa to strengthen its systems to facilitate the reflection of more aid in the budget.

1.2 The case study report is based on interviews with a variety of stakeholders, conducted during a short field visit to Accra from 21st-26th August 2007, as well as on a review of relevant documents collected before and during the visit.²

1.3 The rest of the case study provides: a description of the background country context for the case study, particularly in terms of the scale and scope of aid resources, the institutions responsible for managing external assistance, and an overview of how the PFM system works, particularly the context for the interaction with external resources (section 2); a discussion of how and how well external resources are currently reflected in the PFM system (section 3); an analysis of factors encouraging greater resources to be reflected in the PFM system and those which make it more difficult to do so (section 4); and brief conclusions (section 5).

1.4 A number of annexes follow the main part of the case study, including a summary matrix of evidence and assessment of aid capture (Annex A), bibliographic references (Annex B), list of persons met (Annex C), more detailed analyses of aid allocations by sector (Annex D), and excerpts from the 2006 PEFA exercise on aid coverage in the budget system (Annex E).

¹ See Inception Report, Putting Aid On Budget, Mokoro Ltd.

² See Annex C for list of persons met.

2. Aid Transparency Context

Aid Management in Ghana

Overall level and modalities of aid

2.1 Total disbursements of external aid reached USD1.2 billion (39% of budgetary revenues³) in 2006 (Table 1), from USD966 million two years earlier. Of total resources, credits represented 44% of total 2006 ODA disbursements, and grants 56%. Currently (as from 2007), there are five types of external assistance provided in Ghana: (i) project support;⁴ (ii) general budget support; (iii) sector budget support; (iv) pooled funding arrangements; and (v) direct financing of non-public institutions (e.g. NGOs).

2.2 The majority of resources are provided in the form of project aid, with multi-donor budget support (MDBS) also significant. Over the last three years, Ghana has averaged 34% of total aid in the form of budget support; over the medium term, this share is likely to increase. The provision of sector budget support is recent, with funds provided in this form for the first time in 2007. Also important are programmatic approaches (SWAp), with pooled funding arrangements operating the longest in health and education, and more recently SWAp also in agriculture, private sector development, and HIV/AIDS. SWAp are being planned for the financial sector, the public sector and the broad sector covering natural resources and environmental governance.

	2004	2005	2006	2007
	Actual	Actual	Actual	Planned
	Mn USD			
Budget Support	303	277	324	322
<i>o/w MDBS</i>	303	277	324	310
<i>Sector</i>	0	0	0	12
IMF Support (PRGF)	39	38	117	0
Programme/Project Assistance	608	689	744	1,001
Direct Support	16	21	27	20
TOTAL	966	1,025	1,212	1,343
Budget support as % of total disbursements	35.4%	30.7%	36.4%	24.0%

Source: Papers for CG meeting, NDPC and Development Partners, June 2007

Key development partners

2.3 In 2006, the five largest donors (covering 60% of total disbursements) were the World Bank (IDA), UK, EC, AfDB, and Netherlands. Other important development partners include the Global Fund, Germany, the US, and the UN agencies, particularly UNICEF, IFAD and UNDP. Multilateral support represents 56% of total ODA (disbursements), whilst bilateral support covers the remaining 44%.

³ Total revenue and grants for 2006 (2006 CAGD Annual Financial Statement).

⁴ In Ghana, a project is considered to be a set of activities with a common objective managed by a project implementation unit and financed by resources which are kept in separate bank accounts (usually government-designated) not linked to the Consolidated Fund.

	2004 Actual USD mn	2005 Actual USD mn	2006 Actual USD mn	2007 Projected USD mn	2006 Share %
World Bank	297	331	278	309	23.5%
IMF	39	38	117	0	9.8%
EC	59	99	105	208	8.9%
AfDB	39	69	75	60	6.3%
Global Fund	4	21	26	18	2.2%
UNICEF	11	12	23	12	1.9%
UNDP	7	6	9	16	0.7%
Other multilaterals	31	25	26	39	2.2%
Sub-total multilaterals	487	601	658	663	55.6%
United Kingdom	139	110	141	149	11.9%
Netherlands	44	28	101	100	8.5%
United States	68	62	59	119	5.0%
Denmark	54	49	53	60	4.5%
Canada	35	40	46	49	3.9%
Germany	29	33	45	51	3.8%
France	23	31	29	51	2.4%
Japan	47	23	28	48	2.4%
Other bilaterals	24	26	24	34	2.0%
Sub-total bilaterals	463	403	526	660	44.4%
TOTAL	950	1,004	1,184	1,323	100.0%
Share of bilaterals in total	48.7%	40.1%	44.4%	49.9%	

Source: NDPC and Development Partners (ibid)

Aid distribution by sector

2.4 Table 3 provides a summary of external aid disbursements by GPRS broad sector areas, whilst Table 4 shows a more detailed sectoral breakdown for budget support. Besides general budget support, which accounts for more than one-third of total external aid disbursements, the broad sectoral areas receiving the highest level of disbursements include private sector (31%), which includes both infrastructure development and productive sectors, and the social sectors (26%). Amongst more detailed sectors (see breakdown in Annex D), disbursements to the top five sectors of health, education, agriculture, transport, and water/sanitation account for more than half of total disbursements.

	2004 Actual USD mn	2005 Actual USD mn	2006 Actual USD mn	2006 Share %
Budget support ^a	342	315	441	36.4%
Private sector competitiveness	289	312	369	30.5%
Human development/basic services	278	342	315	26.0%
Good governance/civic responsibility	41	35	59	4.9%
Direct support ^b	16	21	27	2.3%
TOTAL	966	1,025	1,212	100.0%

Note: a. Includes IMF PRGF
b. Sectoral breakdown not available.
Source: NDPC and Development Partners (ibid)

2.5 As indicated above, amongst non-project aid, general budget support is the most established type of assistance, in the form of multi-donor budget support; the amount of such assistance has been on an upward trend since the MDDBS initiative began in 2003. Sector budget support will be a growing feature in the medium term (Table 4). In Ghana, at present, there is a debate on whether or not some of the pooled funding arrangements are in fact effectively sector budget support. Since the pooled funds do not go through the Treasury (Consolidated Fund) accounts, they cannot be considered to be budget support. Nonetheless, these funds use national procedures in other stages of the budget process; these are summarised in Section 4 and in Table 7. In particular: (i) they use government (MDA) bank accounts at commercial banks (but which are not linked to the Consolidated Fund); (ii) consolidated fiscal accounts are produced, together with Consolidated Fund resources; and (iii) the consolidated accounts are audited by auditors appointed by the Auditor-General.

	2005 Actual USD mn	2006 Actual USD mn	2007 Projected USD mn	2008 Projected USD mn	2009 Projected USD mn
General budget support	276.9	324.1	309.8	340.1	379.3
Sector budget support	0.0	0.0	12.1	15.1	37.8
<i>Private Sector/Trade/Financial Sector</i>			2.1	2.1	2.1
<i>Agriculture (incl. NRM)</i>			10.0	13.0	25.7
<i>Employment/Safety Net/Vulnerability</i>					10.0
<i>Decentralisation</i>					49.1
TOTAL	276.9	324.1	321.9	355.3	417.1
Sector budget support as % of total	0.0%	0.0%	3.8%	4.3%	9.1%

Source: NDPC and Development Partners (ibid)

Aid Institutions

2.6 At central GoG level, the External Resources Division (ERD) in MoFEP is responsible for external aid policy and for liaising with donors on aid commitments and for collecting data on disbursements. It is also responsible for overall aid policy. The Aid and Debt Management Division (ADMD) in MoFEP has the primary responsibility for maintaining, analysing and managing information on aid and debt flows, including advising on borrowing strategies, maintaining aid and debt databases on planned and actual

disbursements and undertaking/overseeing debt sustainability analyses. ADMD has recently been upgraded from a Unit, with the recruitment of additional staff. Both divisions are well respected within MoFEP and GoG and have good analytical skills. The Public Debt and Investment Unit (PDIU) of the Controller and Accountant General's Department (CAGD) is responsible for recording and accounting for domestic and external debt transactions.

2.7 At the strategic level, the National Development Planning Commission (NDPC) is responsible for development policy and specifically the Growth and Poverty Reduction Strategy, the main strategic outlet for external finance. At MDA level, planning departments are responsible for implementing the GPRS using both domestic and external resources.

Aid Structure/Processes

2.8 The GPRS II, covering 2006-2009, is the main strategic document intended to drive the Government's medium-term budget priorities and is intended to be the basis for Government-development partner dialogue and co-operation. In terms of the joint Government-development partner organisational structure, the main institutional arrangement for Government-development partner dialogue and for co-ordinating external finance is the Multi-Donor Budget Support (MDBS). This very active group is led on the donor side by DFID and comprises: the World Bank, the African Development Bank, Canada, Denmark, the EU, Germany, Netherlands, and Switzerland. France, Japan and the US participate as observers. On the Government side, the dialogue is led by senior management of MoFEP. The MDBS aims at reducing the Government's transaction costs in dealing with development assistance by ensuring greater complementarities between this assistance and the Government's poverty reduction strategy (GPRS II). This has led to a better alignment both of donor programmes themselves as well as these programmes with Government priorities.

2.9 As part of the MDBS, there are a number of sub-groups, including on PFM, as well as key spending sectors such as health and education. These groups take an active role in monitoring progress on reforms in their relevant sector, and the groups working with MDAs (e.g. health and education) play an active role in sector reviews and in medium-term sector programming.

Aid Harmonisation Action Plan

2.10 At the November 2005 CG meeting, the government and external partners agreed on an Aid Harmonisation and Effectiveness Matrix, which sets out country outcomes for each of the 12 Paris Declaration indicators and actions which the government and partners will undertake to achieve them. This was part of the Ghana Partnership Strategy. A core working group (composed of two government officials and a representative set of multilateral and bilateral donors) identified individual agencies to spearhead actions in different fields of aid effectiveness. The group meets monthly to monitor progress.

2.11 In addition, development partners signed a Joint Assistance Strategy (G-JAS) in October 2006. The strategy is aimed at improving the alignment of development assistance with the Government's policies and with its cycle of operations (e.g. budget).

2.12 The latest OECD Paris Declaration survey (PD) is dated March 2007 and provides data and information for the 2005 fiscal year. The survey provides a useful overview of the issues regarding harmonisation and alignment. Many of the observations of weaknesses in the PFM system (e.g. lack of prioritisation of GPRS, and weaknesses in operationalising

medium-term policy objectives) are well made, and the descriptions of aid mechanisms are comprehensive. However, the lack of specificity of sources of data (i.e. what is included for each type of analysis, such as the definition of “aid” at each stage) makes it difficult to confirm/replicate the data.

Government’s Aid Strategy

2.13 The Government is in the process of developing a comprehensive aid policy, known as the External Resources Mobilisation and Management Policy. It has circulated its Concept Note for comment and is currently awaiting approval by MoFEP senior management. The strategy is in response to Government and donor concerns expressed following the results of the 2006 Paris Declaration survey, which revealed the lack of a shared understanding between the Government and Development Partners on the definitions and concepts related to aid effectiveness, as well as inconsistencies in reporting on activities financed by donor grants and loans, leading to substantial differences in the data available to the Government and the development partners, fragmentation of donor efforts (both loans and grants) due to the lack of the relevant policy provisions guiding allocation of foreign aid, the lack of comprehensiveness of aid included in the budget, and the uncoordinated provision of technical assistance. There is also the recognition of a need for stronger Government leadership and guidance for improving aid effectiveness.

2.14 In response to these needs, the objectives of the aid policy are two-fold: (i) to increase the effectiveness of external resources to Ghana; and (ii) to provide a basis on which the additional aid required by Ghana to meet its short- to mid-term investment needs can be mobilised. The aid policy will include criteria, guidelines, and procedures for: the mobilisation of aid resources, procedures for handling different types of aid, aid reporting, and guidelines for improving sector policy frameworks. It will also specify the roles and responsibilities for aid management within MoFEP and other MDAs. Within MoFEP, the strategy will be managed by the External Resources Mobilisation Division (ERMD).

2.15 Following approval of the Concept Note, the strategy will be fully developed and submitted for comment to MoFEP and other stakeholders (including DPs) and then to MoFEP senior management for approval and to Cabinet as an Information Paper. The specific timetable for completion of a draft policy is still under discussion.

Overview of Ghana’s PFM System

2.16 Ghana’s Public Financial Management (PFM) system is based on a solid legal and regulatory framework which sets out appropriate budget and accountability structures. These include: (i) responsibility and accountability for public funds delegated to individuals through the system; (ii) appropriate oversight by the legislature; (iii) clear statement of the powers and duties for the Ministry of Finance and Economic Planning (MoFEP), the Controller and Accountant General’s Department (CAGD), and the Auditor-General; and (iv) clear and well-documented roles and responsibilities for all stakeholders. The legal framework for PFM is underpinned by an established set of expenditure control procedures covering the wagebill, non-salary items, and procurement.

Legal Framework

2.17 Ghana has a strong legislative framework for public financial management, following the promulgation of updated PFM laws and regulations in recent years. The Constitution sets

out clearly the fiscal roles of the executive, legislative and judicial branches and provides the basis for the raising of resources and their expenditure. Within the framework of the Constitution, the laws governing the management of public funds include the Financial Administration Act of 2003 (FAA) and the Auditor-General Act of 2000. These are supplemented by the Financial Administration Regulation (FAR). The legislative and regulatory framework sets out the basic budget and accountability structures, including: (i) the requirement that all revenues, loans and grants be paid into the Consolidated Fund (CF), out of which only legally approved expenditures can be made; (ii) appropriate oversight by Parliament; (iii) clear statement of the powers and duties for the key players, including MoFEP, the Controller and Accountant-General's Department, Chief Directors of MDAs, and the Auditor-General; (iv) the delegation of responsibility and accountability for public resources to individuals through the system; and (v) clear and well-documented roles and responsibilities for all stakeholders. The CAGD is the Chief Accounting Officer of the Government and is responsible for keeping the public accounts.

2.18 The Constitution creates the Office of the Auditor General and requires it to audit and report on the public accounts of the state and all public offices. The Audit Service Act (2000) specifies the responsibilities of the Auditor General and the scope and time frame of the audits.

2.19 Parliament also recently approved the Public Procurement Act (2003). The Act establishes a Public Procurement Board to make administrative and institutional arrangements for public procurement in a fair, transparent and non-discriminate manner. The new board was inaugurated in August 2004. Also promulgated recently was the Internal Audit Agency Act (2003), which established the Internal Audit Agency (IAA) to co-ordinate, facilitate and provide quality assurance for internal audit units being established in the MDAs and MMDAs. The IAA Board was inaugurated in August 2004.

Budget calendar

2.20 Beginning with the 2006 Budget, the annual budget preparation calendar was brought forward to ensure that the budget was appropriated before the end of the previous year (2005, in this case). The 2007 Budget was prepared according to that shown in Table 5. The fiscal year runs from January 1 to December 31.

Table 5: 2007 Budget Preparation Calendar	
Budget Stage	Date
Circulation of initial budget information for 2007 budget	February 2006
Review of macroeconomic framework and projections	March/April 2006
Circulation of Budget Guidelines, containing medium-term expenditure guidelines	19 May 2006
Cabinet budget retreat and approval of budget ceilings	July 2006
MDAs submit budget estimates to MoFEP	1 August 2006
Budget hearings for MDAs	15 August 2006
Government submits Draft Estimates to Parliament	30 November 2006
Appropriations Bill approved by Parliament	29 December 2006
Fiscal Year begins	1 January 2007
Approval of Statutory Funds by Parliament ^(a)	December 2006 – March 2007
Issuance of expenditure warrants to MDAs	January 2007
Approval of MMDA budgets	March 2007
<small>Note: (a) Specifically, the dates of approval for the main Statutory Fund were: National Health Insurance Fund (NHIF): 15 December 2006; Ghana Education and Training Fund (GETF): 22 March 2007; and District Assembly Common Fund (DACF): 22 March 2007.</small>	

Budget structure and classification

2.21 *Budget structure.* Administratively, Ghana operates as a unitary state with one level of sub-national government, comprising 5 metropolitan assemblies, 8 municipal assemblies, and 125 district assemblies, and referred to collectively as MMDAs. Two-thirds of MMDA representatives are directly elected and one-third are appointed by the president. The MMDAs are headed by District Chief Executives who are appointed by the President and whose appointment is ratified by at least two-thirds of the members of the respective district assembly. The Ministry of Local Government and Rural Development (MoLGRD) is responsible for the MMDAs. The public sector comprises 39 ministries and departments, around 135 subvented agencies,⁵ 5 Statutory Funds,⁶ 34 State-Owned Enterprises and the 138 MMDAs.

2.22 Ghana's PFM system is highly centralised, with a relatively limited local government sector. The Ministry of Finance and Economic Planning is the central agency responsible for PFM, with the Controller and Accountant-General's Department (CAGD) in charge of the centralised payment system.

2.23 Other central agencies with a PFM role include: the Public Service Commission (PSC), the Office of the Head of Civil Service (OHCS), the State Enterprises Commission (SEC), and the National Development Planning Commission (NDPC). Also part of the central PFM management framework are the Public Procurement Board (PPB) and the Internal Audit Agency (IAA), which have separate legal personality, and a statutory mandate.

⁵ The 39 ministries and departments, and the 135 agencies are referred to collectively as the ministries, departments and agencies (MDAs).

⁶ Including District Assemblies Common Fund, Roads Fund, Ghana Education Trust Fund, Petroleum-Related Fund, and the National Health Fund.

2.24 Administrative oversight of the public sector is mainly provided by: (i) the Ghana Audit Service (GAS), which is responsible for audits of entities receiving public monies, including MDAs, MMDAs, Statutory Funds, and public enterprises; and (ii) the State Enterprises Commission (SEC), which is responsible for overseeing public enterprises. The Constitution establishes a number of other oversight institutions, including the Judicial Commission, and the Commission on Human Rights and Administrative Justice (CHRAJ), and grants them constitutional independence. These bodies are charged with ensuring appropriate governance of public institutions.

2.25 Legislative oversight is provided by:

- The Public Accounts Committee (PAC) as a Standing Committee of Parliament. Comprising 25 MPs, and chaired by a member of the opposition, it is responsible for reviewing the Auditor-General's reports, including the Financial Statements, and making recommendations to Parliament. Whilst its sessions are private, PAC's reports to the Speaker are a matter of public record.
- Parliamentary Finance Committee, chaired by a member of the Government. The Public Finance Committee also has 25 members and is responsible for: (i) examining all bills with financial and tax implications; (ii) examining all loan agreements; (iii) discussing and approving budget estimates for all MDAs; and (iv) monitoring foreign exchange and receipts/transfers through the Bank of Ghana.

2.26 *Budget documentation.* GoG's annual budget documentation comprises: (i) the Appropriation Act; (ii) the Budget Statement (containing the Minister's Budget Speech); and (iii) separate volumes containing the annual estimates for each MDA. The budget documents and in-year and end-year fiscal reports are presented annually on the basis of the administrative classification and by aggregated economic item (personal emoluments, non-salary administration, services, and investment). In addition, since the current Chart of Accounts is not fully consistent with the GFS, a bridge table, converting the budget by MDA to the 10 main COFOG functions, has been prepared for each of the last three budgets. This functional table is included in the individual volumes for MDA Estimates but is not shown in the Budget Statement.

2.27 *Budget classification.* The budget documents, including in-year and end-year fiscal reports, are prepared consistently on the basis of aggregated economic (consisting of 4 main items for allocating and reporting – salaries and pensions, non-salary administrative spending, service expenditures and investment expenditures), administrative (MDA), and GFS-standard functional classification (the latter with the use of a bridge table to provide consistency with GFS). A new Chart of Accounts with an activity-based classification is being brought in as part of the introduction of the BPEMS system.

Main problems in budgeting and PFM

2.28 As part of its on-going PFM reform programme, GoG has made progress in strengthening PFM in a number of areas, including: (i) a stronger legislative/regulatory framework, including the adoption of new laws on overall financial management, internal audit, and procurement; (ii) more comprehensive information in the Budget Statement on the detailed use of resources, including those not passing through the Consolidated Fund, such as externally-financed project expenditures and retained internally generated funds (IGFs); (iii) improved timing of the approval of the Budget by Parliament; (iv) increased availability

of information on budget implementation to the public, with more timely gazetting of monthly budget execution reports; (v) stronger commitment controls in line with the availability of cash resources; (vi) clearing of the backlog of external audit reports and hence a more active role for the PAC; and (vii) more transparent procurement procedures.

2.29 Nonetheless, areas of weakness remain and inhibit resources from being effectively utilised to meet Government policy priorities. These include:

- Large deviations between *ex ante* appropriations and *ex post* expenditures by MDA, which reduces budget credibility. Large contingency amounts are included during the budget formulation stage, some of which are subsequently allocated to meet mostly higher salary awards agreed after the completion of the budget; this might require the reallocation of planned resources within MDAs and undermines the *ex ante* budget plans. This is exacerbated by the failure to implement the detailed budget plans. The resulting large expenditure deviations across budget heads reduce budget credibility and potentially undermine the legitimacy of these original budget plans.
- Incomplete costing of sector strategies makes it difficult to allocate resources across and within sectors appropriately.
- Use of fragmented data sources to report on the use of resources hampers MoFEP and MDAs in monitoring the achievement of budget policy objectives since it is difficult to have a clear view of comprehensive spending in a given sector.
- The current format for presentation of budget information, in terms of excessive detail of the activity-level information and the absence of a clear trend from actual outturns through the current year's revised estimates to the budget proposals, potentially weakens the external oversight role by both Parliament and civil society.

Pending reforms

2.30 At the beginning of 2006, MoFEP published its three-year strategic plan and its short and medium-term Action Plan, covering the period 2006-2009. The short-term Action Plan sets out reforms currently being introduced, which focus on improving the efficiency of resource and information flows through the system. The specific measures currently under way include the on-going building of an improved Integrated Personnel and Payroll Database system (IPPD), as well as the Government's integrated financial management system, known as the Budget and Public Expenditure Management System (BPEMS). These improvements are intended to boost the accuracy and timeliness of expenditure information from budget plans through the expenditure commitment stage to making and recording payments.

2.31 In addition, a decentralised payment system is being introduced, beginning initially in pilot ministries, including the Ministry of Education. The new system is intended to improve the efficiency of the payment system through opening MDA-specific treasuries (and eventually regional and district treasuries under the control of the relevant regional/district financial officer). Funds are being released to these treasuries and on to the cost centres without recourse back to MoFEP. This has had the initial effect of speeding up the transfer of funds and reducing the amount of documentation required. Finally, internal audit and procurement processes are being strengthened through improved governance in terms of the

operation of the Internal Audit Agency and the Public Procurement Board, as well as setting out rules-based operational procedures.

3. Aid Transparency: Successes and Weaknesses

3.1 There appears to be strong support in Ghana, both within the Government and by the Development Partners, for adopting a more harmonised approach aligned to the GPRS in line with the principles of Paris Declaration. As evidence of this is the reasonable success of the harmonised Multi-Donor Budget Support Arrangement (MDBS), under which general budget support has been provided since 2003.

3.2 The MDBS programme was initiated by a Memorandum of Understanding signed by the 14 bilateral and multilateral agencies in 2003. The Netherlands channels approximately 70% of its development assistance through budget support, while the UK disburses about 50% as budget support, and 25% through sector-wide approaches. The World Bank now provides approximately 40% of its new lending as budget support. Development partners involved in the MDBS include: the World Bank, AfDB, the EC, Canada, Denmark, France, Germany, Netherlands, Switzerland and the UK.

3.3 The MDBS programme uses a common framework agreement, and is based on a common performance assessment framework (PAF), i.e. a performance matrix, with conditionalities and performance tranche triggers linked to these conditionalities.⁷ MDBS disbursements are linked to the budget cycle. The DPs review the programme annually and assess progress against the PAF. A PFM reform programme accompanies the MDBS. The Government-donor dialogue is an important part of the MDBS. Nevertheless, as the analyses above demonstrate, the MDBS mechanism was not explicitly intended to substitute budget support for project aid.

3.4 This section looks at how external aid resources are reflected throughout the PFM system.

How Funds are Reflected in the Budget System

3.5 In Ghana, the specific nature of the PFM system dictates the extent to which external resources are reflected at each stage of the PFM process. A detailed description of the treatment of the different aid instruments according to each stage of the budget/PFM process is set out below and summarised in the matrix in Annex A.

Plan

3.6 In terms of the strategic planning of investment, the Growth and Poverty Reduction Strategy (GPRS II) is intended to be the guiding principle for prioritising investments. However, it is insufficiently detailed to enable MDAs to plan their detailed investment programmes. Under the auspices of the MTEF, each MDA produces one or more budget volumes setting out the details of budget estimates for programmes and activities for the coming budget year. Some sectors have a medium-term development programme (e.g. roads), but these may not be rolled over and/or linked to the MTEF. In practice, broad strategic planning of investment for the major spending sectors (e.g. health and education) takes place annually, as part of the annual sector review with development partners, culminating in the preparation of the sector's Annual Programme of Work (POW).

⁷ Around 20-30% of MDBS is in the form of performance tranche payments.

3.7 The difficulty is that it is not clear how operational the MTEF is and in particular the degree of attention given to these detailed estimates when scrutinising, approving and implementing the budgets. There is a disconnect between plans contained in the MTEF volumes and the implementation of the budget. As evidence, there are significant variances between budget plans and actual budget outturns. This reflects in part the large number of activities, making it difficult for Parliament and others to see how resources are allocated to meeting specific government policies, as well as for budget managers in the MDAs and in MoFEP to plan and manage their budgets effectively.

3.8 The disconnect reflects both: (i) capacity constraints at MDAs to plan and fully cost out activities; and (ii) the current lack of a mechanism to link activities to resources during budget implementation; the current classification system used by CAGD does not include the activity codes, so reporting on expenditures may not be done on the basis of planned activities. Furthermore, the individual MDA MTEF estimates are not comprehensive, since the items for personal emoluments and administrations (both personnel-related), being less discretionary in practice, are not prioritised in line with the items for services (goods & services) and investment.

3.9 In practice, the processes of identifying and planning project activities differ according to the source of financing. Projects which are more substantial, many of which are funded by development partners, tend to be identified through discussions between the development partner and the relevant MDA; they are subject to relatively detailed preparation and appraisal, following the procedures of the development partner, with much of the design and appraisal work undertaken mostly by external consultants. Other activities, funded by domestic resources, are planned in a bottom-up fashion, with the MDAs relying on their regional and district offices to gather requests for investment project proposals. Once a project has been identified, it is prepared, costed and appraised by the decentralised department or agency.

3.10 Thus, the main types of external aid resources which could be considered to be planned together with domestic resources (i.e. using national planning procedures) are budget support resources and resources supporting SWAps. Taking these together, we estimate that up to 50% of total aid disbursements use national planning procedures.⁸

Budget

3.11 The budget documents included details of: (i) budget support; and (ii) external project assistance for projects administered through PIUs in MDAs. The Appropriations Act and the appendixes in the Budget Statement include tables showing planned disbursements of all loans and most grants. In the Budget Statement, for the coming budget year, planned disbursements of external financed expenditures are shown by economic item (personal emoluments, administration, services and investment) and by MDA (2007 Budget Statement: Appendix 5). For the two forward MTEF years (and for coming budget year), planned disbursements of external finance are shown by MDA (2007 Budget Statement: Appendix 6). As indicated above, in the more detailed MDA volumes of estimates, the type (grant/credit), source (which donor) amount of financing is identified for each activity.

⁸ Assuming up to 100% of sector resources in health and education are included in the SWAp and thus planned in a sectoral manner. However, it is recognised that this is a generous assumption, based on 100% coverage of pooled funds. As this represents the maximum coverage possible, the actual percentage is likely to be considerably lower.

3.12 The budget documents do not include: (i) externally-financed project resources in which donors provide finance directly to non public sector institutions, such as NGOs (either domestic or external NGOs); and (ii) aid in kind, which is thought to be relatively small. As indicated in Table 1 above, the amount of directly-financed expenditures represents around 2% of total aid.

3.13 There has been considerable progress in recent years in coverage of donor flows in the budget. This has been due to considerable work by the joint Government–donor institutional infrastructure, specifically the MDDBS group and as part of CG preparations. In particular, the discussions on planned disbursements of external resources have led to improvements in the availability of reliable information on external finance in the budget.

3.14 As shown in Table 6, a comparison of the information in the Budget Statement and Appropriations Act with that from the information presented to the CG meeting in June shows that external disbursements included in the 2007 Budget Statement (for 2006 actual disbursements) were in aggregate 94% of the CG data on disbursements for 2006. For 2007, the aggregate gap between Government and donors on planned disbursements is 93%.

	2006 Appropriation ^a Bn Cedis	2006 Disbursements – CAGD ^b Bn Cedis	2006 Disbursements – Budget Dept ^c Bn Cedis	2006 Disbursements – Donors ^d Bn Cedis	2006 Diff – Donors over CAGD %	2007 Appropriation ^a Bn Cedis	2007 Projected disbursements – donors ^d Bn Cedis	2007 Diff – Donors over Appropriation %
	1	2	3	4	5=4/2	6	7	8=7/6
Project assistance ^e	8,063	0	6,832	7,023	0.0%	8,966	9,560	93.8%
Budget support	3,026	2,896	2,849	3,062	94.6%	3,005	3,074	97.8%
Direct support	N/A	N/A	N/A	260	N/A	N/A	190	N/A
TOTAL	11,088	2,896	9,682	10,344	28.0%	11,971	12,823	93.4%

Notes/Sources: a. 2006 Appropriation Act. b. 2006 Annual Financial Statement, CAGD. c. 2007 Budget Statement. d. NDPC – document submitted to CG meeting, June 2007. e. Includes pooled funding.

Parliament

3.15 The powers of Parliament to approve the budget are contained in the Constitution. The Budget, in the form of the detailed Estimates, is presented to the full House before being referred to the Parliamentary Finance Committee. Individual parts of the budget are considered by members of Select Committees covering specific sectors, and the head of each MDA is called to defend his/her allocation. Parliament approves the Appropriation Bill, which, upon approval, becomes the Appropriation Act. The Appropriation Act consists of: (i) a summary table showing appropriated expenditures by MDA and source of funds (Consolidated Fund, IGFs, HIPC, donors); and (ii) detailed expenditures by head/sub-head and economic item, across the four sources of funds. The Budget Statement and the supplementary MDA volumes are presented to Parliament as part of budget submission, but are not appropriated as such (i.e. they do not form part of the Appropriation Act).

3.16 Whilst the Parliamentary Finance Committee takes an active role in scrutinising the budget proposals, its work is hampered by (i) excessive detail in budget information for

individual MDAs;⁹ and (ii) the lack of recent trends (previous year's actual, current year's estimates and next year's budget plans) shown side-by-side for MDA expenditures.

3.17 Parliament's review of *ex ante* external allocations in aggregate represents a maximum of 93% of total projected aid disbursements as reported by donors.¹⁰ Nonetheless, as Parliament tends to focus mainly on Consolidated Fund resources, there is likely to be limited detailed scrutiny of non-CF external resources.

Treasury

3.18 In Ghana, aid resources considered to be "on treasury" include only those funds which are paid into the Consolidated Fund, specifically, budget support (both general and sector). As indicated above, pooled funds supporting the SWAs, even though they go through Government-designated accounts, are not treated in the same way as the Consolidated Funds and are accounted for separately. Similarly, project funds are disbursed either directly by the donor or through separate bank accounts which are not linked to the Consolidated Fund. Thus, in practice, less than 30% of external finance uses treasury procedures for budget execution.

3.19 MoFEP is working to establish a Treasury Single Account and eventually consolidate government resources. The process is on-going, and at present involves establishing new sub-Consolidated Fund bank accounts covering revenue and expenditure from GoG internally generated funds, and externally-funded projects not requiring separate bank accounts. This system could eventually encompass donor funds currently held in separate bank accounts.

3.20 As will be discussed below, some development partners are reportedly reluctant to put their funds through GoG systems without stronger fiduciary controls.

Accounting

3.21 All funds paid into the Consolidated Fund are recorded and accounted for by the Controller and Accountant General's Department (CAGD) using a combination of paper-based system and the developing FMIS system known as BPEMS (Budget and Public Expenditure Management System). As such, those funds which are paid into the Consolidated Fund are recorded and accounted for in this way, specifically, budget support (both general and sector).

3.22 In addition, sectors operating SWAs prepare consolidated fiscal accounts and thus may be considered to account for their resources in a way similar to the Consolidated Fund. It is estimated that up to 50% of total aid resources were accounted for using national procedures in 2006.

⁹ The budget documents for each MDA can run to several volumes. There is limited strategic policy context included with the budget estimates; the volumes consist primarily of large quantities of numbers against, until recently, a very large number of activities.

¹⁰ Comparing 2007 appropriations with planned disbursements as reported by DPs. Given that these comparisons are based on aggregate figures, 93% represents a maximum difference between the two sources; when looking at disaggregated data, the actual difference is likely to be somewhat greater.

Auditing

3.23 The Ghana Audit Service (GAS) audits the Central Government's annual final accounts (Consolidated Fund) and a selection of issues for MDAs (on an adverse opinion basis), contained respectively in two volumes (Consolidated Fund and MDAs). As indicated above, in terms of external finance, the Consolidated Fund (and thus the audit of the Annual Financial Statement) includes budget support (both MDBS and sector). The second volume, on MDAs, looks at specific expenditure compliance issues for resources considered to be in the Public Accounts (mainly Consolidated Fund, but also IGFs and externally-financed expenditures) for individual MDAs.

3.24 As part of the MDBS common framework agreement, external audits, termed "special flows audits", may be carried out. The first of these audit reports came out in 2004, and the second is currently in draft form. Pooled funds are required to be audited "by the GAS" (i.e. either by the GAS itself or by an auditor appointed by the GAS); external funds pay for these audits.

3.25 In summary, taking the definition of "on audit" to include those funds whose remit is under the GAS, either to carry out directly or to appoint/approve an external auditor, this would include: (i) those external resources part of the Consolidated Fund (i.e. budget support); and (ii) pooled funds whose auditor is approved by the Auditor General. One estimates that up to 50% total aid resources were accounted for using national procedures in 2006.

3.26 As discussed in more detail below, the effectiveness of both internal and external audit could be strengthened. The former function is still being established and the effectiveness of the latter is hampered by resource and capacity constraints.

Reporting

3.27 Reporting on the budget consists of monthly expenditure reports from the Controller and Accountant General's Department (CAGD), and the Annual Financial Statement. As indicated above, these cover the Consolidated Fund (GoG domestic expenditures for MDAs and HIPC by MDA). For external resources, they include budget support (both general and sector).

3.28 In addition, the 2007 Budget Statement includes information on disbursement of external resources (project/programme assistance) for the previous year in a number of appendices. These include: (i) disbursements of project loans and grants by creditor/donor and MDA; (ii) details of project/programme loans by donor, title of project, date of loan, original currency, amount in original currency and USD equivalent, maturity, interest rate and % grant element; (iii) details of project/programme grants by donor, title, date, original currency, amount in original currency and USD equivalent.

3.29 However, whilst comprehensive information is available on the intended use of public resources, in-year reporting on the utilisation of those resources is less comprehensive, hampering the monitoring of budget performance and reducing the efficient management of overall budget operations.

3.30 Taking "on report" to include data on actual disbursements provided in: (i) CAGD budget execution reports (Consolidated Fund, specifically, budget support); (ii) the following

year's Budget Statement (the majority of project funds); and (iii) MDA consolidated reports from pooled funds, we calculate that in 2006 around 93% of external aid resources were captured in fiscal reports.

3.31 Considerable progress has been made in recent years in capturing more information on donor resources in fiscal reports. A comparison of the Budget Statements for 2004, 2005 and 2006 indicates significantly greater coverage of donor flows in recent years, particularly grants. Nonetheless, as will be discussed below, there are weaknesses in information flows both between Government and donors and across Government aid management institutions themselves, leading to difficulties in reconciliations between aid flows reported by DPs, those reported by ADMD, those provided by ERM and those captured/reported by MDAs.

3.32 In addition, regular CAGD reports could be more comprehensive. Since donor funds are only partially reported (grants included in the CAGD report represent about half of the amount estimated by ADMD) together with CF funds, retained IGF resources, and HIPC resources, there is not a single source for reporting on total Government fiscal operations. This hampers effective oversight of the use of public resources. Monthly and quarterly disbursement information, particularly for project/programme loans, is available to MoFEP and thus could be reported on in the CAGD reports. This is an area that CAGD is currently working to improve.

3.33 In terms of Government's efforts to increase the comprehensiveness of its reporting, beginning with the 2005 CAGD Annual Report and Financial Statement, disbursements of grants by individual donor were included for the first time. Work is also continuing with CAGD to include flows of external assistance in regular CAGD reports. In order to broaden the reporting of the budget, Government is taking steps to include information on all loans and grant agreements in the Government's Budget Statement. With this development, the CAGD reports are expected over time to encompass revenue and expenditure information on externally-funded projects and retained internally generated funds. CAGD could improve the comprehensiveness of its monthly budget execution reports through the inclusion of donor project aid. As discussed further below, the data infrastructure is in place to produce comprehensive reports; however, there needs to be a clear commitment from both DPs and Government to provide and include, respectively, this information.

3.34 Table 7 summarises the extent of national procedures used by each of the main aid instruments.

PFM Stage	Direct finance	Project assistance^a	Pooled funds	Budget support
Plan	No	No	Yes	Yes
Budget	No	Modified yes ^b	Yes	Yes
Parliament	No	Modified yes ^b	Yes	Yes
Treasury	No	No	No	Yes
Accounting	No	No	Modified yes ^b	Yes
Auditing	No	No	Modified yes ^b	Yes
Reporting	No	No	Modified yes ^b	Yes

Note: a. See definition of project used in Ghana above.
b. As discussed in the text, a modified yes means that, whilst funds are treated differently from domestic tax receipts, for example, procedures have sufficient elements of national procedures to qualify.

4. Findings: What works and what does not

4.1 This section begins by examining the successes and challenges to reflecting external aid resources through the budget/PFM system. It begins by looking at the incentives and disincentives for stakeholders (Government and DPs) of increasing the amount of aid on budget and then turns to a discussion of which activities have worked well and those which have proved more of a challenge. Finally, it looks at the broader challenges of the PFM system which could facilitate or hinder increases in external aid's use of national procedures.

Incentives/disincentives from stakeholders' point of view

4.2 With a likely medium-term trend in Ghana towards the provision of a growing share of total aid as budget support (which uses national procedures, as indicated above), particularly sector budget support,¹¹ the discussion in the next few paragraphs looks at the positive and negative incentives for stakeholders of such a move. Nonetheless, budget support is only part of the story, and the latter part of this section focuses on the wider issues of reflecting aid in any form in the budget system. This requires ensuring that all budget resources are, and are shown to be, planned and managed in the same way and according to Government priorities and that there are appropriate accountability mechanisms in place.

4.3 Whilst DPs continue their commitment to MDBS, at the same time, some donors are aiming to increase their level of overall budget support, including sector budget support. Some (e.g. the Dutch, the EC) are aiming to increase the proportion of their overall aid in the form of budget support. The motivation for the move to sector budget support seems to be coming more from donors than from Government. From the development partners' point of view, the motivation for greater budget support is straightforward for some – their agencies' desire to meet Paris declaration objectives.¹² Another potential motivating factor is the desire to reduce donor agency transaction costs, though it may not be clear that budget support necessarily achieves this.

4.4 As discussed above, the move towards greater sector budget support is motivated by a desire to facilitate a stronger sector dialogue, particularly in terms of a greater number of indicators, which are addressed at key sector issues, factors that have been seen to be falling away with MDBS. This view is strengthened by the fact that DPs are increasingly concerned about outcomes/results. In addition, as some donors have indicated, with sector budget support, it is easier to satisfy their own constituents that aid resources are being provided to the sector.

4.5 To some DPs, the distinction between pooled funding arrangements and sector budget support has become blurred; to some donors, the pooled funding arrangements are effectively the same as sector budget support.

4.6 There is a recognition amongst both donors and Government that a plurality of aid instruments is needed, i.e. that projects continue to offer something which is valued, such as external supervision and accountability, a way of addressing concerns about PFM weaknesses, fiduciary risk and accountability for public resources. Key PFM weaknesses of concern include the large deviations between budgeted appropriations and actual allocations,

¹¹ Based on disbursement data through 2010 presented at the June 2007 CG meeting

¹² Although the Paris Declaration encourages the use of country systems, it does not require the use of budget support.

as well as the delays in Treasury releases of domestic resources, including in key spending sectors such as education, particularly for investment (see discussion below). Whilst the move to greater budget support, through the Consolidated Fund, makes it easier to increase the amount of aid using national procedures, the key issue is how best to ensure that *all* resources may be better reflected in the budget/PFM system. This issue is addressed in more detail in Section 5 below.

Incentives from Government side

4.7 From the point of view of the Government, the issue of reflecting more aid on budget involves a mixture of strengthening, and improving the accountability of, the PFM system, as well as attention to increasing the overall transparency of all aid resources, including those which are outside of the Consolidated Fund. As indicated above, the Government has shown a strong commitment to improving the extent of information on total budgetary resources shown in the Budget Statement. The challenge is to extend this to the processes of budget execution and reporting and to address any institutional constraints to doing so.

4.8 From the Government side, the moves towards greater sector budget support provide differing incentives between MDAs on the one hand and MoFEP on the other. From the point of view of MDAs, as they see it, sector budget support potentially offers them a way to bypass the control of MoFEP on their resources. They see this in two ways: (i) as a degree of protection from planned domestic budgetary resources not being released; and (ii) through the sector matrices, a guarantee of a particular level of overall support (e.g. as a share of GDP or the total budget). In practice, on the first of these issues, fungibility of budget support means that there is no guarantee that these resources will not substitute for other intended funds. At the same time, as budget support funds are treated in the same way as any other Consolidated Fund resources (e.g. domestic funds), budget execution procedures are the same; sector budget support funds are not paid directly into MDAs' accounts. What is more useful is to address problems with releases, as is being done through extending the number of line items under control of the decentralised treasuries (goods and services are expected to be added to personal emoluments in 2008).

4.9 The move to sector budget support may cause concerns, particularly to MoFEP. These include: (i) an incomplete or inaccurate understanding of what sector budget support entails (both within MoFEP and amongst MDAs) and hence confusion of what (if any) additional procedures would be required; (ii) insufficient MoFEP oversight of measures in the sector policy matrices (e.g. due to weaknesses in information flows between MDAs and MoFEP), leading to difficulties in allocating sufficient resources to meet the performance measures; (iii) insufficient MoFEP capacity to assess MDA budget submissions in line with agreed policy measures; and (iv) substitution of sector budget support for general budget support and thus the risk of budget fragmentation.

Achieving greater reflection of aid on budget – what has worked well

4.10 In terms of greater reflection of aid on budget, there are important lessons to be drawn from the MDBS, which as indicated in Section 3 above, is an important feature of the aid architecture in Ghana. On the positive side, the MDBS framework has helped strengthen the Government-donor dialogue, helped maintain the commitment to reform, and has also contributed to positive changes in the composition of public expenditures, including increases in resources allocated to poverty-reducing areas.

4.11 Specific results that may be attributed to the MDBS include:¹³

- Increases in budgetary allocations and discretionary expenditures in key areas, particularly areas that are deemed poverty-reducing, resulting *inter alia* in increases in access and equity in education.
- MDBS resources have contributed to macroeconomic stability and a reduction in domestic debt.
- Active programme of PFM reform, which has introduced changes across a number of areas between 2003 and 2006 (see detailed discussion on this above).
- MDBS has provided a useful and transparent forum for donor-Government dialogue, which has promoted open discussions and encouraged Government to stay committed to reform.
- It is likely that the Government-donor MDBS dialogue has encouraged Government to provide increased transparency of budget information.
- Appears to have had an effect on reducing transaction costs in relation to other modalities, specifically in reducing the number of donor missions.
- New government-wide structures for policy dialogue have been created through the SWGs.¹⁴

4.12 The key question is why has the MDBS led to these outcomes. One can point to the importance of Government leadership of the framework, both Government and DP commitment to openness of the dialogue, and DP commitment to providing disbursements predictably. First, Government has been an active partner and has taken a lead in the MDBS structure. Secondly, the openness and inclusive nature of the policy dialogue (with meetings, notes and documents open to all participants and observers) has helped strengthen Government ownership and responsibility for the policy process, and has arguably contributed to stronger prioritisation of resources, and the monitoring of results, including amongst PFM measures.

4.13 Finally, the predictability of MDBS disbursements has been a positive aspect of budget support. Analyses of the provision of budget support against planned outputs over the past three years indicate that ADMD have reasonably good information in aggregate on the likely amount of budget support for the coming year. Donors provide projections of direct budget support, including any performance tranches, at least six weeks before the budget is finalised and presented to Parliament. In aggregate, the data show that the actual provision of direct budget support has tended to be close to donor expectations, differing by no more than 3% of total budget support during the last three years. Within year, however, the flows are somewhat less predictable, and delays of 1-2 quarters are not unusual, partly due to delays in meeting performance tranche targets. Nonetheless, this does not appear to affect the overall level of predictability of these flows for the budget. The availability of information on likely disbursements also does not appear to be an issue for project assistance. Amongst the five largest donors (World Bank, EC, AfDB, Canada and Denmark), ADMD receives comprehensive and accurate quarterly information on disbursements of project flows for the coming year; these tend to be provided at least one quarter before the beginning of the fiscal year.

¹³ For more on the MDBS, see “Joint Evaluation of Multi-Donor Budget Support to Ghana”, Final Report, ODI and CDD-Ghana, June 2007.

¹⁴ At the June 2007 CG meeting, a guidebook for improving sector group dialogue was presented.

4.14 Regarding other types of aid instruments, positive lessons may be learnt from the success of pooled funds. The pooled funding arrangements, initially in health and education, but from 2007 also including agriculture and private sector development appear to be reasonably well institutionalised and to encourage donors to work within it. Joint Government-donor sector working groups share information, plan policy dialogue, financial and technical assistance with other DPs, government, civil society and private sector groups. Consolidated fiscal reports are prepared for these sectors.

4.15 There have also been improvements in the transparency of comprehensive budget information, and GoG's commitment to improving the public's access to budget information is evident. The transparency of the budget documentation has improved considerably over the last two to three years, especially by incorporation in the Budget Statements for 2005-2007 of information for MDAs on donor disbursements, as well as internally generated funds (IGFs), and HIPC funds, as well as information on incomes and expenditures for the Statutory Funds. As indicated above, greater transparency of information on planned resources hasn't yet been extended to in-year reporting on the utilisation of those resources, which has hampered the monitoring of budget performance and potentially reduced the efficient management of overall budget operations.

Achieving greater reflection of aid on budget – what has not worked so well

4.16 There is a tension between the Government's desire for less ambitious targets for conditionalities and donors' desire for more ambitious ones to push for results. It is argued that the structure of the MDBS framework, with more of a focus on narrowly defined policy triggers and tying of conditional resources to these triggers, has not promoted the kind of challenging dialogue and an open discussion of problems needed for real progress to be made. It is also argued that the MDBS mechanism encourages too narrow a dialogue and inhibits a wider policy dialogue, particularly what is felt necessary to deal with particularly and/or detailed sector policy issues. At the same time, there is a feeling by some DPs that MDBS partners may be too lenient towards the Government in the assessment or setting of conditionalities.

4.17 For other aid instruments, constraints in implementation capacity have led to delays in the execution of projects and programmes. MoFEP reports that the achievements of reform programmes are sometimes undermined by weaknesses in the efficient use of resources, with substantial balances often remaining un-utilised, and in some cases are cancelled at the close of programmes and projects. This issue is exacerbated by weaknesses in technical capacities, particularly in terms of financial management, as higher salaries in the private sector attract accounting and other professionals with marketable financial skills.

4.18 At the same time, weaknesses in PFM, particularly in budget formulation, have constrained further progress on ensuring that all resources are planned and prioritised effectively. This issue is addressed in the next section.

Features of PFM system and incentives/disincentives from Government's point of view which would affect the success of reflecting more aid on budget

4.19 This section turns to an assessment of features of Ghana's PFM system which have a potential impact on the ability to increase the amount of aid reflected in the budget system. These findings provide lessons on what particular weaknesses would need to be addressed in order to improve the reflection of aid on budget.

4.20 As indicated above, some progress has been made with moves to reflect aid resources more in the budgeting process, primarily improvements in PFM through the Government-donor dialogue as part of the MDBS framework, including the reporting of donor disbursements in the following year's Budget Statements, and in greater capture of information on the commitment, disbursement and use of donor resources.

4.21 *Large discrepancies between budgeted appropriations and actual allocations* imply reduced accountability for the management of resources. The appropriations voted by Parliament are undermined by the practice of allocating large contingency amounts during the year, largely to cover wage increases. This highlights the line-item nature of budgeting, and, consequently, MDA budget management is undermined by MoFEP and thus budgeting becomes reactive rather than proactive.

4.22 These deviations reflect weaknesses in budget planning, particularly for wagebill planning, and costing of MTEF programmes and activities, and in the procedures for initiating spending on investment items. In addition, a significant factor contributing to these deviations is the difference in the way contingency amounts are reported in the budget compared to the CAGD reports; comprehensive reporting on contingency by MDA in the CAGD reports would help to reduce these deviations. Thereafter, further reductions in deviations would depend on implementing further improvements in budget formulation, particularly for investment resources. Better wagebill planning, in the form of both completing wage negotiations before the beginning of the fiscal year to feed into the preparation of the budget, and avoiding further increases in the wagebill share of GDP, would be a significant step forward in this regard.

4.23 *Weaknesses in budget formulation*, particularly in terms of the MTEF (effectively, a continued practice of line item budgeting). This weakness is exacerbated by the lack of proper wagebill planning, so the budget becomes accommodating of poorly constrained wage negotiations; this further undermines MDA accountability for, and management of, budget resources. As indicated above, there is concern about the operationality of the MTEF, as reflected in the large number of activities, which until recently numbered in the thousands. Thus, in effect, planning of allocations remains largely a mechanistic process. Non-discretionary expenditure items (primarily, personal emoluments and administration) for programmes and activities are prioritised separately from those estimates which are more discretionary in practice (primarily, services and investment). It is still early days in moving away from a more incremental budgeting process to one where allocations are based on detailed analyses of the likely cost effectiveness of different policy options to meet policy objectives and the identification of efficiency savings.

4.24 Ultimately, these weaknesses are a reflection of capacity constraints at the MDA level. Whilst there have been improvements in the process of MDAs' review of their sector policies, nonetheless analytical capacity constraints mean that many medium-term sector strategies are not fully costed and realistically incorporated into the forward budget estimates, particularly with multi-year investment expenditures.

4.25 *Delays in the release of funds from Treasury to MDAs* increase budget unpredictability and negatively affects efficient budget management. At the same time, without appropriate levels of capital investment and sufficient maintenance of this investment, budget managers in MDAs find it more difficult to sustain improvements in basic

services (e.g. primary education) and thereby the gains from increased growth and poverty spending.

4.26 A decentralised payment system (referred to as “realigned treasuries”) has been introduced in a few pilot ministries, including the Ministry of Education. The new system is intended to improve the efficiency of the payment system through opening MDA-specific treasuries (and eventually regional and district treasuries under the control of the relevant regional/district financial officer). Funds are being released to these treasuries and on to the cost centres without recourse back to MoFEP. In other words, funds are transferred to district/decentralised treasuries in a block (for each item), rather than activity by activity. In 2007, the line item for administration was transferred to decentralised treasuries, from 2008, the line item for goods and services will also be transferred in the same way.

4.27 In terms of cash releases, the realigned treasuries reportedly have improved the speed of the release of funds and thus of processing of payments through reducing the amount of documentation required, particularly for the line item for administration. However, an analysis of spending patterns across items over time has shown that there is a greater emphasis on spending services and investment during the second half of the year. The analysis of releases during 2006 compared to monthly cash ceilings indicated that releases particularly for services and investment are not timed in line with the warranted amounts. Indeed, budget implementation appears to be geared towards meeting payroll obligations, with the result that investment expenditures are the least predictable and suffer most when either revenue receipts are lower than planned or an expansion of other expenditure items, particularly payroll, is approved. Data for 2006 show that releases for investment were around one-fifth of appropriated amounts.

4.28 *Weaknesses in audit, both internal and external*, can undermine the effectiveness of appropriate oversight of the use of public funds. Since the internal audit function is relatively new and still being established, it is too early to assess its effectiveness. Whilst the quality of external audits submitted to Parliament is considered to be reasonable, the timeliness and coverage of these audits is weaker. Limited audit resources and capacities prevent the GAS from covering its statutory mandate in full; in particular, most of the accounts and financial statements for public boards, corporations and statutory institutions lag behind by several years. The audits of MDA accounts tend to be carried out selectively, on an adverse opinion basis. Follow-up to the findings of the Auditor-General, particularly where the accounts are qualified, is in need of strengthening.

4.29 The Auditor General’s reports are submitted to Parliament, where they are reviewed by the Public Accounts Committee (PAC). The PAC examines the audited accounts and the associated report, takes evidence from relevant officers and, on the basis of the examination, makes recommendations to the full House. In recent years, its reviews of audit reports have been carried out in a more timely fashion, and it has cleared some of its backlog. Whilst the PAC is active in its reviews of the Auditor-General’s reports, a lack of resources nevertheless prevents it from being more comprehensive or from holding its sessions more regularly.

4.30 With external scrutiny being a critical part of accountability for public spending and with some weaknesses amongst domestic institutions charged with such scrutiny, it could be argued that the MDBS framework and the joint donor-Government dialogue act as external oversight (though not necessarily on behalf of the Ghanaian people but rather more likely on behalf of the taxpayers providing external MDBS resources).

4.31 *Weaknesses in information flows*, both internal (within MoFEP and across agencies), and external (between donors and Government), as manifested in differences in reporting on donor disbursements and in lack of co-ordination amongst aid management institutions. At the same time, there is recognition that the aid management institutions and the budget department do not co-ordinate their activities during the budget hearings/budget preparation process.¹⁵

4.32 At present, budget execution reports focus on the Consolidated Fund and thus do not include details of external resource disbursements. In theory, as indicated above, it is possible for more comprehensive regular reporting of expenditures (for both domestically and externally-financed spending); as part of the preparatory work for the CG, MoFEP has put in place an IT reporting infrastructure to enable external resources to be presented alongside GoG and HIPC funds by MDA and line item. However, this structure requires regular data from MDAs and DPs.

4.33 Finally, with GoG expecting to rely less and less on traditional ODA (concessional loans) and more on commercial loans and borrowing on international capital markets, *weaknesses in domestic investment management capacities* could lead to inappropriate (for government) prioritisation of these funds; with such funds, in contrast to concessional funds which have a greater DP presence, domestic capacity for selecting and prioritising investments becomes even more important. At present, national procedures for project identification, appraisal and approval using domestic resources are poorly defined and are not applied uniformly. Externally-financed projects are subject to more rigorous selection and appraisal than domestically financed projects.

4.34 In summary, the two least strong parts of Ghana's PFM system (i.e. planning and external scrutiny) are the two areas arguably of greatest need for effective linking resources (and inputs) to results. Measures which improve the Government's accountability for its resources and its ability to achieve specific policy measures through the appropriate targeting of its resources will facilitate DPs' moves towards a greater reflection of their resources on budget. The most important changes to improve the incentives for DPs to reflect their aid on budget will be:

- a reduction in budget variance to ensure that the budget is credible. As indicated above, this would require significant improvements in the budget preparation process, particularly in wagebill planning and in the MTEF, specifically, the capacity to link policy priorities to budget allocations so that policy objectives may be targeted and desired results realised.
- greater predictability of budgets: at present, there is an imbalance in the predictability of resources through the year. Whilst personnel-related funds are provided regularly through the year, other expenditure types, particularly, investment resources, tend to be bunched in the second half of the year. This makes the planning and management of budget resources as a whole to meet policy objectives more difficult.
- better oversight capacity: at present, capacities for both domestic and external audit are considered to present challenges to appropriate oversight of public resources.

¹⁵ This is an area that the aid management institutions and the Budget Department have indicated that they will work on during 2008 budget preparation.

4.35 It is the policy of some donors, e.g. USAID, not to provide resources to governments. This is unlikely to change in the near future. Other donors, e.g. Danida, are actively researching the best way to provide sector budget support.

4.36 From the Government's point of view, whilst significant progress has been made in strengthening PFM, reforms will depend on increasing technical and managerial capacities, particularly at sub-national levels. Such capacity strengthening is longer term in nature. At present, leadership for the PFM reforms appears strongest in the MoFEP. The Government is developing plans to introduce and monitor results-based agreements between the Head of the Civil Service and Chief Directors of MDAs.

4.37 Overcoming weaknesses in technical capacities, particularly in terms of financial management, will be a particular challenge as higher salaries in the private sector attract accounting and other professionals with marketable financial skills. The recruitment and retention of qualified accountants will be particularly important to sustain the Treasury decentralisation programme under way. In response, the Government has developed a capacity plan as part of the Public Sector Reform Programme to address these skill shortages.

5. Conclusion

5.1 Ghana has been working in recent years to improve both its PFM system and the reflection of aid resources in the budget. The PFM reforms and aid harmonisation action plans are important channels for improving the transparency and accountability of external aid.

5.2 There is a recognition on the part of DPs that there have been improvements in the PFM system over the last few years¹⁶ but that, due to concerns about fiduciary risk, donors are coming up with a variety of hybrid types of funding instruments which have some elements of greater use of national systems (or more partnership), but in all cases (including MDBS) maintaining some sense of external (donor) control (including in the case of MDBS, the commissioning of the selected flows audit). The quid pro quo (for DPs) of this movement towards more government systems is a voice at the table.

5.3 The main lessons arising from the Ghana country study regarding putting aid on budget include:

- In terms of greater moves towards sector budget support, there is a need to ensure the timing of resource planning and disbursements fit in with the budget cycle (as with the MDBS).
- There is also the need to ensure that the sector policy frameworks are planned together with the wider resource framework and hence actively involve MoFEP (including during budget preparation).
- Improve the strength of information flows on all aid resources during the budget cycle, including during budget preparation. This is likely to involve developing closer working relations between ERMD, ADMD, and the Budget Department.
- Continued strengthening of PFM, particularly on strategic budget preparation.
- Government leadership will be critical to the success of sector budget support, and this will need to ensure that all stakeholders understand what this means. One suggestion made by MoFEP was for the convening of a workshop to discuss these issues with all stakeholders.
- Recognise that the plurality of aid instruments has strengths. Cross-instrument learning would be valuable, including the need for flexibility and the importance of improving the articulation of policy objectives (to ensure appropriateness and realism) and ex-post reviews.
- A more pro-active role (and strengthened capacities) for MoFEP and MDAs in monitoring and managing public investment would help ensure that constraints to the efficient and timely implementation of investment projects can be identified and addressed, and lessons learnt from the review and evaluation of individual projects are fed back into the forward planning of public investment.
- Introducing a common process to apply to both domestically and externally financed investments would ensure that all public investment is subject to a common appraisal requirement regardless of the source of financing. At the same

¹⁶ Arguably assisted by the MDBS mechanism.

time, strengthening capacities for costing, appraisal and evaluation would help ensure that investment represents an effective and efficient use of limited resources.

5.4 The conclusions and recommendations for both DPs and Government to improve the reflection of aid on budget are summarised in Table 8.

Table 8: Overview of Conclusions and Recommendations		
PFM Stage	DPs	Government
Plan	<ul style="list-style-type: none"> Ensure that the timing of resource planning and disbursements for all assistance fit in with the budget cycle, as with the MDBS 	<ul style="list-style-type: none"> Ensure that the sector policy frameworks are planned together with the wider resource framework and hence actively involve MoFEP (including during budget preparation) GoG to develop and implement external resource planning procedures as part of its aid policy
Budget	<ul style="list-style-type: none"> Ensure that the timing of resource planning and disbursements for all assistance fits in with the budget cycle, as with the MDBS Ensure that reliable information is provided on projected aid resources during the budget cycle, including during budget preparation 	<ul style="list-style-type: none"> Improve the strength of information flows on all aid resources during the budget cycle, including during budget preparation. This is likely to involve developing closer working relations between ERMD, ADMD, and the Budget Department Continue to strengthen analytical capacities for budgeting planning amongst staff in MoFEP and MDAs Incorporate wage-related expenditures in MTEF to ensure that all resources are included in MDAs' strategic expenditure plans (to ensure that appropriate trade-offs are made taking into account all resources) MoFEP to promote awareness to MDAs and MoFEP staff of trends in aid instruments, such as sector budget support, and their implications GoG to develop and implement external resource budgeting procedures as part of its aid policy
Parliament	<ul style="list-style-type: none"> Work with Parliament (Parliamentary Finance Committee) to improve the scrutiny of the budget, including external resources 	<ul style="list-style-type: none"> MoFEP to improve the understandability of the budget documents, through improving the presentation of MDA estimates.
Treasury		<ul style="list-style-type: none"> Work to incorporate external project funds into Treasury Single Account
Accounting		<ul style="list-style-type: none"> As accounts are consolidated as part of the creation of a Treasury Single Account, the system could eventually encompass donor funds currently held in separate bank accounts, which would then increase the potential coverage of accounting for donor resources.
Audit	<ul style="list-style-type: none"> DPs providing project support to be encouraged to include GAS (i.e. GAS-appointed auditors) explicitly in the procedures for auditing project funds DPs to continue to provide technical and other assistance to increase GAS capacities 	<ul style="list-style-type: none"> External audit: identify potential cost savings to enable GAS' limited resources to be deployed more effectively Internal audit: continue to strengthen internal audit practices and build capacities in both IAA and across IAUs.
Reporting	<ul style="list-style-type: none"> DPs to provide timely information on the in-year and end-year disbursement of external resources Work with CAGD and MoFEP to investigate reasons for differences between DP-reported data and that provided by Government 	<ul style="list-style-type: none"> Improve the regular reporting of information collected on the disbursement and execution of external financed projects by MDA Work to include these data in CAGD reports in the same classification as for domestic finance. Work with DPs to investigate for differences between DP-reported data and that provided by Government

Annex A: Summary Matrix: Assessment of Aid Capture

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B1	On plan	<p>At the overall strategic level, the Growth and Poverty Reduction Strategy (GPRS II), covering 2006-2009, includes externally-financed grants and credits, including budget support grants/credits and programme/project grants/credits.</p> <p>Under the auspices of the MTEF, each ministry/department/agency (MDA) produces one or more budget volumes setting out the details of budget estimates for programmes and activities for the coming budget year. For each activity, the estimates set out the type of funds (e.g. Consolidated Fund [CF], Internally Generated Funds [IGF], HIPC, or development partners [DP]), source of funds (including identifying individual donors), authorisation (e.g. national budget), responsible institution, and sector. Donor funds normally apply to the items for services (i.e. goods and services) and investment.</p> <p>These MDA MTEF volumes are the main link between budgets and MDA plans.</p> <p>In addition, for the most important spending sectors (health, education, transport, etc.), in which external financing is most prominent, annual joint Government-donor sector reviews are held, during which broad strategic investment plans for the sector are discussed, culminating in the preparation of the sector's Annual Programme of Work (POW).</p>	<p>Whilst the GPRS is intended to be the guiding principle for prioritising investments, it is insufficiently detailed to enable MDAs to plan their detailed investment programmes.¹⁷</p> <p>Also, in practice, it is not clear how operational is the MTEF and in particular the degree of attention given to these detailed estimates when scrutinising, approving and implementing the budgets. There appears to be a disconnect between plans contained in the Medium Term Expenditure Framework and the implementation of the budget. As evidence, there are significant variances between budget plans and actual budget outturns. This reflects in part the large number of activities, making it difficult for Parliament and others to see how resources are allocated to meeting specific government policies. Until recently, the MTEF contained more than 17,000 activities. The number of activities was reduced to 45 standard activities in preparation for the 2007 budget (and 2007-09 MTEF).</p>	<p>The disconnect between MTEF activities and the budget reflects both: (i) capacity constraints at MDAs to plan and fully cost out activities; and (ii) the current lack of a mechanism to link activities to resources during budget implementation. The current classification system used by the Controller and Accountant General (CAGD) does not include the activity codes, so reporting on expenditures may not be done on the basis of planned activities. The individual MDA MTEF estimates are not comprehensive, since the items for personal emoluments and administrations (both personnel-related), being less discretionary in practice, are not prioritised in line with the items for services (goods & services) and investment.</p>

¹⁷ GPRS I, covering 2003-2005, and GPRS II, covering 2006-2009, differ in terms of their priorities, with the latter focussing more on wealth creation and enhancing growth in the population's disposable income in order to double the size of the economy and to raise Ghana's per capita income to middle income level by 2015, whilst GPRS I focussed more on macro stabilisation and poverty reduction measures.

Putting Aid On Budget: Ghana

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B2	On budget	<p>GoG's annual budget documentation comprises: (i) the Appropriation Act; (ii) the Budget Statement (containing the Minister's Budget Speech); and (iii) separate volumes containing the annual estimates for each MDA (discussed in more detail in B1 above).</p> <p>The Appropriations Act and the appendixes in the Budget Statement include tables showing planned disbursements of loans and grants. Specifically, the budget documents included details of: (i) budget support; and (ii) external project assistance for projects administered through PIUs in MDAs. In the Budget Statement, for the coming budget year, planned disbursements of external financed expenditures are shown by economic item (personal emoluments, administration, services and investment) and by MDA (2007 Budget Statement: Appendix 5). For the 2 forward MTEF years (and for coming budget year), planned disbursements of external finance are shown by MDA (2007 Budget Statement: Appendix 6). As indicated above, in the more detailed MDA volumes of estimates, the type (grant/credit), source (which donor) amount of financing is identified for each activity.</p> <p>The budget documents do not include: (i) externally-financed project resources in which donors provide finance directly to non public sector institutions, such as NGOs (either domestic or external NGOs); and (ii) aid in kind, which is thought to be relatively small.</p>	<p>There are differences between the figures for projected external resource flows shown in the budget and the figures on projected disbursements reported by donors. This reflects in part the fact that the budget does not capture some categories of resources (e.g. direct financing), as indicated in the first column. A comparison of the information in the Budget Statement and Appropriations Act with that from the information presented to the Consultative Group (CG) meeting in June shows that external disbursements included in the 2007 Budget Statement (for 2006 actual disbursements) were in aggregate 94% of the CG data on disbursements for 2006. For 2007, the aggregate gap between Government and donors on planned disbursements is 93%. However, there are also in some cases differences in disaggregated data between government (as reflected in the budget) and donor sources. These differences have been attributed in part to differences in expected disbursement timings and differences in the status of some projections (differences in what information is considered official projections); MoFEP is undertaking further analysis of these differences and their explanation.</p>	<p>There has been considerable progress in recent years in coverage of donor flows in the budget. This has been due to considerable work by the joint Government – donor institutional infrastructure, specifically the Multi-Donor Budget Support (MDBS) group and as part of CG preparations. In particular, the discussions on planned disbursements of external resources have led to improvements in the availability of reliable information on external finance in the budget.</p>

Putting Aid On Budget: Ghana

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B3	On parliament	<p>Parliament approves the Appropriation Bill, which then becomes the Appropriation Act. The Appropriation Act consists of: (i) a summary table showing appropriated expenditures by MDA and source of funds (Consolidated Fund, IGFs, HIPC, donors); and (ii) detailed expenditures by head/sub-head and economic item, across the four sources of funds</p> <p>The Budget Statement and the supplementary MDA volumes are presented to Parliament as part of budget submission, but are not appropriated as such (i.e. they do not form part of the Appropriation Act).</p>	<p>Parliament's review of ex ante external allocations in aggregate represents a maximum of 93% of total projected aid disbursements as reported by donors.¹⁸ Nonetheless, as Parliament tends to focus mainly on Consolidated Fund resources, there is likely to be limited detailed scrutiny of non-CF external resources.</p>	<p>Whilst the Parliamentary Finance Committee takes an active role in scrutinising the budget proposals, its work is hampered by (i) excessive detail in budget information for individual MDAs;¹⁹ and (ii) the lack of recent trends (previous year's actual, current year's estimates and next year's budget plans) shown side-by-side for MDA expenditures.</p> <p>Improving the presentation of the budget, in particular that of MDA budgets, particularly to show clearly the links between strategic policies and budget allocations, and how these expenditures have evolved over time, would go a long way towards improving the quality of Parliamentary debate.</p>
B4	On treasury	<p>The following are paid into the Consolidated Fund and are disbursed together with domestic revenues: (i) budget support grants; and (ii) budget support credits.</p> <p>Project funds (credits and grants) are disbursed either directly by the donor or through separate bank accounts, which are not linked to the Consolidated Fund.</p>	<p>In practice, less than 35% of external finance (i.e. only budget support) uses the treasury and other national procedures. Donors providing project support use their own procedures. The main development partners giving budget support [based on those giving more than USD10 million in 2006] include the World Bank, the UK, ADB, EC, the Netherlands, Canada and Germany.</p>	<p>MoFEP is working to establish a Treasury Single Account (TSA) and eventually consolidate government resources. This system could eventually encompass donor funds, currently held in separate bank accounts.</p> <p>Some donors are reportedly reluctant to put their funds through Government of Ghana (GoG) systems without stronger fiduciary controls. Issues such as the large budget deviations between budgeted and actual expenditures and weak capacities for internal/external audit are likely to be important factors.</p>

¹⁸ Comparing 2007 appropriations with planned disbursements as reported by DPs. Given that these comparisons are based on aggregate figures, 93% represents a maximum convergence between the two sources; when looking at disaggregated data, the actual correspondence between appropriations and disbursements is likely to be less,

¹⁹ The budget documents for each MDA can run to several volumes. There is limited strategic policy context included with the budget estimates; the volumes consist primarily of large quantities of numbers against, until recently, a very large number of activities.

Putting Aid On Budget: Ghana

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B5	On account	<p>All funds paid into the Consolidated Fund are recorded and accounted for by the Controller and Accountant General's Department (CAGD) using a combination of paper-based system and the developing FMIS system known as BPEMS (Budget and Public Expenditure Management System). As such, those funds which are paid into the Consolidated Fund are recorded and accounted for in this way, specifically, budget support (both general and sector).</p> <p>In addition, sectors operating SWAs prepare consolidated fiscal accounts and thus may be considered to account for their resources in a way similar to the Consolidated Fund.</p>	<p>It is estimated that up to 50% of total aid resources were accounted for using national procedures in 2006. However, as this figure assumes 100% coverage of pooled funds, it represents the maximum level possible and the actual percentage is likely to be considerably lower.</p> <p>As accounts are consolidated as part of the creation of a Treasury Single Account, the system could eventually encompass donor funds currently held in separate bank accounts, which would then increase the potential coverage of accounting for donor resources.</p>	<p>CAGD could improve the comprehensiveness of its monthly budget execution reports through the inclusion of donor project aid. CAGD indicate that such data are available by MDA so it would be possible to include such information in terms of the same classification as for domestic finance.</p>

Putting Aid On Budget: Ghana

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B6	On audit	<p>The Ghana Audit Service (GAS) audits the Central Government's annual final accounts (Consolidated Fund) and a selection of issues for MDAs (on an adverse opinion basis), contained respectively in two volumes (Consolidated Fund and MDAs). As indicated above, in terms of external finance, the Consolidated Fund (and thus the audit of the Annual Financial Statement) includes budget support (both MDBS and sector). The second volume, on MDAs, looks at specific expenditure compliance issues for resources considered to be in the Public Accounts (mainly Consolidated Fund, but also IGFs and externally-financed expenditures) for individual MDAs. As part of the MDBS common framework agreement, external audits, termed "special flows audits", may be carried out; these are carried out by private sector auditors. The first of these audit reports came out in 2004, and the second is currently in draft form. Pooled funds are required to be audited "by the GAS" (i.e. either by the GAS itself or by an auditor appointed by the GAS); external funds pay for these audits.</p>	<p>Whilst both audit volumes are sent to Parliament and subsequently available to interested parties, through lack of resources, these audits only cover a (relatively small) portion of GAS' mandate, which includes annual audits of all MDAs, MMDAs, Statutory Funds, and public corporations.</p> <p>Taking the definition of "on audit" to include those funds whose remit is under the GAS, either to carry out directly or to appoint/approve an external auditor, this would include: (i) those external resources part of the Consolidated Fund (i.e. budget support); and (ii) pooled funds whose auditor is approved by the Auditor General. Using data for 2006, it is estimated that up to 50% total aid resources were accounted for using national procedures; however, this figure represents the maximum level possible as it assumes 100% coverage of pooled funds, and the actual percentage is likely to be considerably lower.</p>	<p>Weaknesses in audit, both internal and external, can undermine the effectiveness of appropriate oversight of the use of public funds. Since the internal audit function is relatively new and still being established, it cannot be expected to be operating at maximum effectiveness. Whilst the quality of external audits submitted to Parliament is considered to be reasonable, the timeliness and coverage of these audits is weaker. Limited audit resources and capacities prevent the GAS from covering its statutory mandate in full; in particular, most of the accounts and financial statements for public boards, corporations and statutory institutions lag behind by several years, even with the practice of supplementing GAS staff with private sector auditors to cover specific audits in GAS' mandate. The audits of MDA accounts tend to be carried out selectively, on an adverse opinion basis. Follow-up to the findings of the Auditor-General, particularly where the accounts are qualified, is in need of strengthening.</p> <p>However, capacity constraints will be difficult to overcome in the short term, particularly given the limited resources available for external audit and the wide mandate. Thus, there will be a need to prioritise the available resources to where the greatest possible gains and maximum impact can be achieved.</p>

Putting Aid On Budget: Ghana

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B7	On report	<p>Reporting on the budget consists of monthly expenditure reports from the Controller and Accountant General's Department (CAGD), and the Annual Financial Statement. As indicated above, these cover the Consolidated Fund (GoG domestic expenditures for MDAs + HIPC by MDA). Thus, they include: (i) budget support grants; and (ii) budget support credits</p> <p>In addition, the 2007 Budget Statement includes information on disbursement of external resources (project/programme assistance) for the previous year in a number of appendices: These include: (i) disbursements of project loans and grants by creditor/donor and MDA; (ii) details of project/programme loans by donor, title of project, date of loan, original currency, amount in original currency and USD equivalent, maturity, interest rate and % grant element; (iii) details of project/programme grants by donor, title, date, original currency, amount in original currency and USD equivalent</p>	<p>Taking "on report" to include data on actual disbursements provided in: (i) CAGD budget execution reports (Consolidated Fund, specifically, budget support); (ii) the following year's Budget Statement (the majority of project funds); and (iii) MDA consolidated reports from pooled funds, we calculate that in 2006 around 93% of external aid resources were captured in fiscal reports. Considerable progress has been made in recent years in capturing more information on donor resources in fiscal reports. In order to broaden the reporting of the budget, Government is also taking steps to include information on all loans and grant agreements in the Government's Budget Statement. A comparison of the Budget Statements for 2004, 2005 and 2006 indicates significantly greater coverage of donor flows in recent years, particularly grants. Progress is being made with execution reports. Beginning with the 2005 Annual Report and Financial Statement, disbursements of grants by individual donor were included for the first time.</p> <p>Work is also continuing with CAGD to include flows of external assistance in regular (quarterly/monthly) CAGD reports. Since donor funds are only partially reported (grants included in the CAGD report represent about half of the amount estimated by ADMD) together with CF funds, retained IGF resources, and HIPC resources, there is not a single source for reporting on total Government fiscal operations. This hampers effective oversight of the use of public resources. Monthly and quarterly disbursement information, particularly for project/programme loans, is available to MoFEP and thus could be reported on in the CAGD reports. The data infrastructure is in place to produce comprehensive reports; however, there needs to be a clear commitment from both DPs and Government to provide and include, respectively, this information. This is an area that CAGD is currently working to improve. With this development, the CAGD reports are expected over time to encompass revenue and expenditure information on externally-funded projects (including donor project aid) and retained internally generated funds.</p>	<p>There are weaknesses in information flows both between Government and donors and across Government aid management institutions themselves, leading to difficulties in reconciliations between aid flows reported by DPs, those reported by ADMD, those provided by ERM and those captured/reported by MDAs. This is partly due to weaknesses in co-ordination across divisions, and MDAs. It is also partly due to differences in the status of definitions of assistance, particularly when a projection is considered to be official.</p>

Annex B: Key Information Sources

Author	Name	Date
<i>Government of Ghana</i>		
GoG, MoFEP	2007 Budget Statement and Economic Policy	December 2006
GoG, MoFEP	CAGD – 2006 Unaudited Report and Financial Statements of the Consolidated Fund of the Republic of Ghana	31 st December 2006
GoG, MoFEP	Budget Circular: Guidelines for the Preparation of the 2007-2009 Budget	May 2006
GoG, MoFEP	ADMU reports	May 2007
GoG, MoFEP	Three-Year Strategic Plan, Short Term and Medium Term Action Plan	January 2006
GoG, MoFEP	External Resources Mobilisation and Management Policy in Ghana – Concept Note	2006
GoG, National Development Planning Commission	Growth and Poverty Reduction Strategy II, 2006-2009, Volumes I and II	November 2005
GoG	Aid Harmonisation Action Plan and Effectiveness Matrix	2006
GoG, DPs	Multi-Donor Budgetary Support Programme in Support of the Implementation of Ghana's Poverty Reduction Strategy	May 2003
GoG	Papers prepared for CG meeting	June 2007
GoG	Selected Flows Audit, MDBS	2007
Republic of Ghana	Appropriation Act, 2006	December 2005
Republic of Ghana	Financial Administration Act, 2003	2003
Republic of Ghana	Financial Administration Regulations	
Republic of Ghana, Auditor-General's Office	Report of the Auditor-General on the Public Accounts of Ghana (Consolidated Fund), 2005	June 2006
Republic of Ghana, Auditor-General's Office	Report of the Auditor-General on the Public Accounts of Ghana (MDAs), 2005	February 2007
Development Partners	Ghana Joint Assistance Strategy (G-JAS)	October 2006
<i>Latest PFM Assessments</i>		
IMF	Report on the Observance of Standards and Codes – Fiscal Transparency Module	July 2004
ODI, CDD-Ghana	"Joint Evaluation of Multi-Donor Budget Support to Ghana", Final Report	June 2007
Unpublished briefing document	MDBS Review: PFM May 2007	May 2007
World Bank	Ghana: Country Financial Accountability Assessment	June 2004
World Bank	Country Procurement Assessment Report	June 2003
World Bank	2006 External Review of Public Financial Management, Volume I	June 2006
World Bank	Public Finance Management Performance Report and Performance Indicators (PEFA): 2006 External Review of Public Financial Management, Volume II	June 2006
World Bank	Ghana: Public Expenditure Management Country Assessment and Action Plan (AAP)	May 2004

Annex C: Persons Met²⁰

Person Met	Institution
Dr. Eddie Addai	Director, Programming, Planning, Monitoring and Evaluation Division, Ministry of Health
Mary Ann Addo	Director of External Resource Mobilisation Division, MoFEP
Michael Adjei	Danida
Kwabena Adjei-Mensah	Budget Director, MoFEP
Ruby Bentsi	DFID
Andreas Bjerrum	Danida
Archie Book	CIDA
Dan Bwoakye	World Bank
Camilla Christensen	Danish Embassy
Juan Costain	World Bank
Deputy Budget Director	Budget Division, MoFEP
Angela Brown Farhat	Technical Advisor, MoFEP
Jacinta	Aid and Debt Management Division, MoFEP
Marius de Jong	Netherlands Embassy
Xavier Le Mounier	European Commission
Anthony Nyamiah	Technical Advisor, MoFEP
Christina Kimes	World Bank
Smile Kwawukume	World Bank
Eva Mends	Director, Budget Development Division, MoFEP
David Pedley	DFID
Dr. Finn Schleimann	Danida
Joachim Schmitt	German Development Co-operation

²⁰ The persons listed here were met during the field visit for the AOB report. In addition, the report draws on numerous meetings held and information gathered during the field mission for the External Review of PFM, in May 2007. The latter includes meetings with CAGD, GAS and the Internal Audit Agency.

Annex D: Detailed Aid Disbursements by Sector

Table D1. Disbursements of ODA by GPRS Detailed Sector Area				
	2004	2005	2006	2006
	Actual	Actual	Actual	Share
	USD mn	USD mn	USD mn	%
Budget support ¹	341.9	315.0	440.7	36.4%
Private sector competitiveness	289.2	311.8	369.3	30.5%
Private Sector/Trade/Financial Sector	36.8	52.1	57.5	4.7%
Agriculture (incl. NRM)	101.7	99.5	152.3	12.6%
Energy	9.1	20.1	11.4	0.9%
Transport	140.5	138.6	147.2	12.1%
ICT	0.0	0.0	0.1	0.0%
Employment/Safety Net/Vulnerability	1.0	1.4	0.9	0.1%
Human development/basic services	277.9	342.4	314.9	26.0%
Education/Manpower Development	56.0	103.0	74.6	6.2%
Health (incl. HIV/AIDS)	174.1	180.2	165.1	13.6%
Water and Sanitation	44.8	59.2	75.1	6.2%
Urban Development	3.0	0.0	0.0	0.0%
Good governance/civic responsibility	41.2	34.7	59.3	4.9%
Public Financial Management	1.8	2.6	3.5	0.3%
Public Sector Reform	5.6	0.8	3.8	0.3%
Decentralization	9.5	14.4	32.4	2.7%
Governance/Democracy	18.6	14.7	17.3	1.4%
M&E Systems and Institutions	5.8	2.1	2.3	0.2%
Direct support	16.1	20.9	27.5	2.3%
TOTAL	966.3	1,024.7	1,211.7	100.0%
Note: 1. Includes IMF PRGF.				
Source: NDPC and Development Partners				

Annex E: Extracts from 2006 PEFA Report

<p>PI-6. Comprehensiveness of information included in budget documentation</p>	<p>C</p>	<p>The budget documents include: (i) the main macro-economic assumptions behind the budget estimates; (ii) an analysis of the fiscal deficit; (iii) the composition of deficit financing; and (iv) and detailed analyses of the domestic and external debt stock.</p> <p>The budget documents do not yet currently include: (v) a full statement of Government's financial assets, including receivables; (vi) information on the previous year's budget outturns with the individual MDAs' Estimates (the previous year's outturns are included only for the budget aggregates); (vii) the current year's revised estimates with the individual MDAs' Estimates (as with the previous year's outturns, the current year's revised estimates are included only for the budget aggregates); (viii) summarised previous year's outturns and revised current year's budget estimates by MDA; and (ix) detailed analyses of the expenditure and revenue implications of new policy proposals. For (ix), the Budget Statement lists the expenditure allocations made for each initiative, but the detailed analyses leading to these allocations are not included (e.g. in a separate Fiscal Policy Report). The revenue policy measures are listed in detail in a separate section in the Budget Statement, but detailed analyses of likely resulting revenues do not accompany the description of the measures.</p>
---	-----------------	--

<p>PI-7. Extent of unreported government operations</p>	<p>A</p>	
<p>(ii) Income/expenditure information on donor-funded projects</p>	<p>A</p>	<p>Available data from ADMU indicate that around 94 percent of income and expenditure on donor-funded projects are captured in fiscal reports. Capture of donor flows in fiscal reports has increased in recent years.</p>

<p>PI-10. Public Access to key fiscal information</p>	<p>B</p>	<p>Fiscal information available to the public in a timely fashion, through the print media for purchase and/or the Government's website, include:</p> <ul style="list-style-type: none"> (i) the complete set of budget documents, including the Appropriations Act, the Budget Statement, and the detailed MDA Estimates; (iii) year-end financial statements; (iv) the reports of the Auditor-General (vi) on request, resources available to primary service units, such as schools.²¹ <p>The following are either not available or do not meet the appropriate timing: (ii) monthly CAGD reports are available to the public (Ghana Gazette or posted on MoFEP's website) after one month of their completion, and (v) a comprehensive list of procurement contract awards is not published.</p>
--	-----------------	---

²¹ Indicator PI-23 refers to the extent to which this information is regularly provided.

D-1 Predictability of Direct Budget Support	C+																	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.	A	<p>Donor projections of budget support were close to actual outturns for the last three years, as indicated in the table below.</p> <table border="1"> <thead> <tr> <th></th> <th>2003</th> <th>2004</th> <th>2005</th> </tr> </thead> <tbody> <tr> <td>Projections</td> <td>\$281m</td> <td>\$302m</td> <td>\$285m</td> </tr> <tr> <td>Outturns</td> <td>\$282m</td> <td>\$309m</td> <td>\$282m</td> </tr> <tr> <td>% Diff</td> <td>0.1%</td> <td>2.3%</td> <td>-1.2%</td> </tr> </tbody> </table> <p>Source: ADMU/MoFEP</p>		2003	2004	2005	Projections	\$281m	\$302m	\$285m	Outturns	\$282m	\$309m	\$282m	% Diff	0.1%	2.3%	-1.2%
	2003	2004	2005															
Projections	\$281m	\$302m	\$285m															
Outturns	\$282m	\$309m	\$282m															
% Diff	0.1%	2.3%	-1.2%															
(ii) In-year timeliness of donor disbursements.	C	<p>The comparison of actual donor disbursements of budget support was analysed against the expected quarter of arrival of each disbursement. The cumulative amounts delayed as a share of the total were:</p> <table border="1"> <tbody> <tr> <td>2003</td> <td>-45.5%</td> </tr> <tr> <td>2004</td> <td>-22.3%</td> </tr> <tr> <td>2005</td> <td>-60.8%</td> </tr> </tbody> </table> <p>Source: ADMU/MoFEP</p>	2003	-45.5%	2004	-22.3%	2005	-60.8%										
2003	-45.5%																	
2004	-22.3%																	
2005	-60.8%																	
D-2 Financial information provided by donors for budgeting and reporting	C																	
(i) Completeness and timeliness of budget estimates by donors for project support	C	<p>Amongst the five largest donors (World Bank, EU, AfDB, Canada and Denmark), ADMU receives comprehensive and accurate information on disbursements of project flows for the coming year. These tend to be provided at least one quarter before the beginning of the fiscal year and are provided on the basis of donors' classification, which is different to that used by the Government.</p>																
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	C	<p>Information is provided quarterly for most donors, and it is provided generally within two months of the end of the quarter, particularly on grants.</p> <p>The classification used by donors for aid flows is different from the Government's classification.</p>																
D-3 Proportion of aid that is managed by use of national procedures	D																	
		<p>ADMU data indicate that less than 50 percent of external finance, largely project aid, goes through national procedures. In particular, the largest donors use their own procedures.</p>																