

# INDEPENDENT EVALUATION GROUP

## Poverty Reduction Support Credits: Ghana Country Study

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Basil Kavalsky and Arntraud Hartmann



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Ghana Country Study**

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# Acronyms

AfDB	African Development Bank	NDPC	National Development and Planning Council
APR	Annual Performance Review	NHI	National Health Insurance
BPEMS	Budget and Public Expenditure Management System (BPEMS)	NHIF	National Health Insurance Fund
CAS	Country Assistance Strategy	NHIP	National Health Insurance Project
CG	Consultative Group	NYEP	National Youth Employment Program
CPI	Corruption Perception Index	ODA	Official development assistance
DfID	Department for International Development	ODI	Overseas Development Institute
DPL	Development policy loan	OPCS	Operations Policy and Country Services
EC	European Community	PAF	Performance Assessment Framework
EGPRC	Economic Governance and Poverty Reduction Credit	PDHA	Paris Declaration Harmonization Agenda
ERP	Economic Reform Program	PER	Public Expenditure Review
ERSO	Economic Reform Support Operation	PETS	Public Expenditure Tracking Systems
ESC	Education Sector Coordination	PREM	Poverty Reduction and Economic Management
EU	European Union	PRGF	Poverty Reduction and Growth Facility
GETF	Ghana Education Trust Fund	PRS	Poverty Reduction Strategy
GLSS	Ghana Living Standards Survey	PRSC	Poverty Reduction Support Credit
GDP	Gross Domestic Product	PRSP	Poverty Reduction Strategy Paper
GPRS	Ghana Growth & Poverty Reduction Strategy	SACs	Structural Adjustment Credit
HIPC	Highly Indebted Poor Country	TI	Transparency International
ICR	Implementation Completion & Results Report	USAID	U.S. Agency for International Development
IDF	Institutional Development Fund		
IEG	Independent Evaluation Group		
IFMIS	Integrated Financial Management Information System		
IMF	International Monetary Fund		
M&E	Monitoring and evaluation		
MDBS	Multi-Donor Budget Support		
MDBSG	Multi-Donor Budget Support Group		
MDA	Ministries, Departments and Agencies		
MDG	Millennium Development Goal		
MDRI	Multilateral Debt Relief Initiative		
MOA	Ministry of Agriculture		
MOE	Ministry of Education		
MOF	Ministry of Finance (and Economic Planning)		
MPSR	Ministry of Public Sector Reform		
MTEF	Medium-Term Economic Framework		

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# Executive Summary

The Poverty Reduction Support Credit (PRSC) instrument was put to use at an opportune juncture in 2003 when, after a period of economic crisis, macroeconomic stability had been restored to Ghana and a reform process had been mapped out. The Bank used this instrument to signal strong support to the Government for the reform process, which was at risk of being derailed in the run up to the 2004 elections.

The PRSC was perceived as a clear departure from previous adjustment lending, which was characterized by acrimonious negotiation of conditions. The rolling nature of the PRSC program, with its annual reviews of reforms achieved and the flexibility applied in establishing and interpreting “triggers”, has been highly appreciated by Ghanaian authorities. The evidence suggests that the PRSC has contributed to a more stable and predictable flow of resources to the Ghanaian budget.

The PRSC successfully leveraged Ghana’s Poverty Reduction Strategy Paper (PRSP). The Ghanaian authorities were committed to the implementation of the Poverty Reduction Strategy Paper’s poverty-oriented goals, and the PRSC proved a useful instrument for providing resources, focus, and support for its implementation. The Poverty Reduction Strategy Paper’s priority sectors, particularly health and education, received significant resource increases during the PRSC period. While the PRSCs did not directly contribute to these reallocations, government officials believe they helped enable them by ensuring that increased social expenditures did not reduce investment in other sectors.

Reforms in public finance management were considered to be the PRSC’s core component. Technical work on public finance management reforms has resulted in more timely, accurate financial reporting and improved expenditure controls. External reviews point to important progress in these areas – by the end of the second PRSC series, the budget captured over eighty percent of overall government expenditures, a significant increase from the levels of 50 percent reported in the 2004 Public Expenditure Review. At the same time, the PRSC has not done as much as was hoped to strengthen the budget’s role as an instrument for strategic resource allocation and broad expenditure management.

Representing 30-40 percent of Multi-Donor Budget Support (MDBS) funding, the PRSC was its single most important component. The Bank is a highly appreciated and integrated member of the Multi-Donor process in Ghana. Bank staff used PRSC-provided leverage to help forge donor alignment around key reform measures. The donor group originally intended to limit Multi-Donor Budget Support measures to public finance management issues and poverty-oriented activities. However, the Bank insisted on including energy and water sector reforms as well. Reforms in the energy sector were important because quasi-fiscal deficits stemming from the operations of the utility companies threatened to derail macroeconomic stability and the reform process. Reforms in the water sector were aimed at increasing access to safe water and sanitation, which were important complements to health sector reforms. These two sets of reforms are now seen as important contributions of the PRSC/Multi-Donor process.



The PRSC/Multi-Donor Budget Support process has made important contributions to broader donor harmonization and coordination. It is a well-functioning platform in which donors cooperate effectively. Around this process, sector coordination groups have been established for all major sectors. The program was a useful instrument in putting important components of the Paris harmonization agenda into practice. With the resources it provided and policy measures it reinforced, PRSC was a catalyst for alignment that reached beyond the limited focus of its specific measures. Bank management and staff were flexible, skillful, and attentive to different donor needs in the harmonization process. In the experience of the authors of this report, the quality of donor dialogue and coordination and the quality of donor interaction in Ghana with the Government compares favorably with other African countries.

This said, the PRSC/Multi-Donor Budget Support process has involved a number of trade-offs for all parties, including the Ghanaian authorities. The focus on a limited set of triggers has – despite the *overall* improvement in bringing expenditures on budget – led to an expansion of earmarked financing of sectors, both on and off-budget; the dialogue for these areas has thus moved outside the PRSC/Multi-Donor framework, reducing the involvement and interest of the line ministries in the framework. Indeed, large line ministries have, at times, questioned the benefits of the multi-donor process. This may partly explain the disconnect between overall PFM reforms and implementation of these processes within sector ministries, as well as the subsequent failure to implement reforms in health and education ministries. The PRSC triggers represent a compromise between the Government’s own priorities and the interests of participants. Transaction costs remain high, with a particularly heavy toll on the time of senior ministers. In the view of the review team, the balance of factors remains modestly positive. By and large, the PRSC/Multi-Donor Budget Support provides a symbol of a stable donor commitment and a useful, if limited, incentive to keep the reform process on track.

Ghana is a very different country today compared to when the PRSC program was introduced. Its reform agenda has matured and gained momentum, and the country has experienced good economic growth. Ghana recently borrowed \$750 million from the international capital market, and the availability of commercial quantities of off-shore oil has been confirmed. The Multi-Donor Budget Support/PRSC projected resource levels are therefore of diminishing significance to the Ghanaian authorities. If the Multi-Donor/PRSC process is to continue, some rethinking and refocusing of the instrument will be needed. Even so, the “seal of approval” represented by the Multi-Donor Budget Support/PRSC mechanism remains a powerful lever.

# 1. Background

## Country Context

1.1 *Economic performance.* Following independence from Britain some 50 years ago, Ghana experienced rapid economic growth, spurred by commodity exports and industrialization linked to import-substitution policies. But by the early 1980s, standards of living had declined sharply, and Ghana had joined the ranks of other low-income African countries. Ghana's Economic Reform Program, launched in 1983, marked a notable change in policy direction and a shift from a state-controlled economy to a more market-driven system. The adjustment process suffered setbacks between 1992 and 1997, as increased fiscal spending led to the re-emergence of large fiscal imbalances and inflation and the reversal of key reforms, including the VAT and electricity tariff increases.

1.2 *Bank support through adjustment lending prior to the Poverty Reduction Support Credits (PRSCs).* Against this backdrop, the International Monetary Fund's (IMF) program was interrupted in mid-1996. The World Bank's Structural Adjustment Credits (SACs) also experienced difficulties, with second-tranche releases delayed or cancelled. In 1998, as a new government attempted to stabilize the economy, the Bank launched a series of single-tranche Economic Reform Support Operations (ERSOs), designed to reinstate reforms and deepen the overall reform process. Ghana was hit by a major terms-of-trade shock in 1999 when prices plunged for its two main exports, gold and cocoa, and petroleum prices soared. The shock led to a sharp deterioration in macroeconomic performance and created a difficult environment for the Bank's Economic Reform Support Operations. Two more operations contributed to some improvement in performance, but gains fell short of expectations, and the Bank's Independent Evaluation Group (IEG) rated the final operation as Moderately Unsatisfactory. Although serious slippages had blocked completion of the final review of the IMF-supported Poverty Reduction and Growth Facility (PRGF) in 2002, the IMF approved a second program in 2003.

1.3 Ghana made progress in regaining macroeconomic stability and achieved its Highly Indebted Poor Country (HIPC) Initiative completion point by 2004, with the IMF commending Ghana on its strong macroeconomic performance and prudent fiscal and monetary management. Even so, progress was uneven, and the economy remained vulnerable. Structural change to achieve growth and measures to alleviate poverty through improved public services were seen as essential steps. It was at this juncture that the Government presented its first Ghana Poverty Reduction Strategy, or GPRS, in 2003. In response, the Bank made a major effort to launch and participate in the Multi-Donor Budget Support (MDBS) instrument and developed the poverty reduction strategy as an integral part of this process.

1.4 *Political situation.* Ghana's macroeconomic reform agenda has received notable support from its impressive gains in its democratic processes. The country's political rights, civil liberties, and freedom of press rankings are among the best in Africa and compare favorably to countries at much higher income levels. An active civil society is potentially a key driver for

governance reforms, while farmers' movements, trade unions, and professional associations are also involved in the political process. Ghana was among Africa's top 10 performers in the 2008 Doing Business Report, and its ranking on corruption indicators is the best of low-income African countries (although its ranking has slipped in the past few years). A recent national survey found that 75 percent of households regard corruption as a serious national problem, and 80 believe it has worsened in recent years.<sup>1</sup>

## Situating the PRSC in Ghana's Country Assistance Program

1.5 The PRSC was designed as a means for supporting the implementation of Ghana's Poverty Reduction Strategy and was the first in a sequence of three strategies during the 2003-2006 period.<sup>2</sup> The PRSC approach was introduced at a time when macro-stability had been restored but the economy remained vulnerable to renewed shocks due to the slow pace of reform. Given Ghana's volatile economic situation and lack of a strong and consistent reform record, the Bank's decision to provide substantial support through the PRSCs had risks. It demonstrated good faith and signaled support for the reform agenda the Government had outlined.<sup>3</sup>

1.6 The two PRSC series (1-3) and (4-6) are covered by two Country Assistance Strategy (CAS) documents: a strategy presented in February 2004 for FY04-07 and a second presented in May 2007 for FY08-11. The FY08-11 strategy is an integral part of the Ghana Joint Assistance Strategy, signed by all major development partners except China. The 2004-2007 strategy was designed to support three of the five pillars of the first Poverty Reduction Strategy Paper's. These were: sustainable growth and jobs creation; human development and service provision; and governance and empowerment. Bank assistance was provided through a mix of investment lending and budgetary support. The PRSCs were considered the core instrument of the strategy, representing some 40 percent of planned Bank lending over the FY04-06 period. Investment lending supported capacity building in financial and public sector reform, education, health, community water, agriculture, private sector development, and infrastructure. At the same time, significant lending was also directed to investments in energy, urban water, environment, sanitation, and telecommunications, not as a complement to the PRSC process, but as traditional Bank support for infrastructure investments.

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1 Ghana scores 67 out of 180 countries on Transparency International's Corruption Perception Index (2008). See also Worldwide Governance Indicators 2008, Control of Corruption, World Bank.

2 A second three-year sequence of PRSCs started in FY07. By end-FY08, the Bank disbursed a total of USD 632 million through five PRSCs.

3 The Poverty Reduction Support Credit (PRSC) represented a major departure from the prior adjustment lending model of the World Bank. Introduced in early 2001 in the context of global changes in aid architecture that recognized the importance of country ownership, government reform commitment, and multi-dimensional poverty reduction, PRSCs were intended to aid country-owned Poverty Reduction Strategies, support comprehensive growth, improve social conditions, and reduce poverty. Compared to previous adjustment lending, PRSCs aimed to ease conditionality, provide more predictable annual support and strengthen budget processes, all in a results-based framework. Many of its principles were reflected in the Paris Declaration of Aid Effectiveness. Within four years of their introduction, PRSCs came to account for almost 60 percent of IDA policy based lending and a quarter of total Bank policy based lending. From FY01-FY08, the Bank approved 87 PRSC operations amounting to US\$ 6.6 billion. By end-September 2009, PRSC approvals increased to 99 operations, with another 20 in the pipeline.

1.7 The 2008-2010 Country Assistance Strategy strengthens the Bank's investment activities and introduces budgetary support disbursed against progress in sector reform programs as an additional pillar of support. There is a small shift from budgetary support to investment lending within the Bank portfolio. About 28 percent of total Bank lending to Ghana is expected to be provided through general budget and sector budget support. This reduced share of budgetary support is judged to be adequate due to the Government's improved fiscal position.

1.8 The role of the Multi-Donor Budget Support/PRSC over the past few years has been to provide fungible resources to the Ministry of Finance for activities in the Ghanaian budget outside the many categories of earmarked funding, many supported directly by donors. As the Government's fiscal situation and borrowing capacity has improved, the need for fungible resources has declined. Since Bank sector staff and officials in sector ministries viewed the Multi-Donor Budget Support instrument as inadequate for addressing major issues in several sectors and unsuitable as a tool for moving forward with major sector reform agendas, the Country Assistance Strategy introduced multi-donor sector-wide approaches in agriculture, decentralization, natural resource management, and social protection.

## 2. PRSC Design

### To what extent is there a discernable difference between the PRSC series and earlier adjustment lending/development policy lending?

2.1 Design and content. By mid-2002, it had become increasingly clear that the structural adjustment instrument had played out in Ghana and a new approach was needed. The PRSCs, initiated in the Bank a year or two earlier, seemed to fit the need and have potential for changing the dynamic of the Bank's interactions with Ghanaian authorities. In addition there was an increasing feeling among donors in favor of a joint effort, reflecting an increased emphasis on harmonization within the donor community.

2.2 Unlike earlier adjustment lending, the PRSC was envisaged as being closely aligned to the Ghana Poverty Reduction Strategy (GPRS), a framework developed and owned by the Government. The donor community believed the instrument should be focused on a limited set of governance and public financial management issues. First, both the poverty reduction strategy and the Highly Indebted Poor Country Initiative emphasized poverty reduction through increased allocations for human development. Second, the PRSC offered significantly more resources as a way to raise the stakes for the Government and motivate it to undertake a series of operations.

2.3 In the Bank's view, the proposed PRSC had to have a broad, economy-wide coverage to justify its \$125 million price tag. This was a risky proposition at the time. Ghana had only met 1 of about 12 HIPC conditions in 2001, last among eligible countries. In the ensuing dialogue, the Bank and donors agreed on triggers in governance and agreed with the Government on two

other areas, growth and human development, which are incorporated into the Multi-Donor Budget Support's assessment framework — the Performance Assessment Framework (PAF).

2.4 All in all, the Ghana Poverty Reduction Strategy process has, to some extent, helped define a vision of where the economy is heading over the medium term. The first strategy was prepared by the previous administration; when the current Government came into power, it decided to proceed with the document due to time constraints. In the end it was generally acknowledged as a useful step for the incoming Government, as it helped define priorities. It is not clear whether the second poverty reduction strategy has more ownership from the Government, given the fact that it had substantial input from consultants in its final stages and is not particularly clear on priorities. The President has asked that this be supplemented by a longer-term vision to map out Ghana's transition to a middle-income country. The third strategy, to be prepared by a new Government after elections, should provide an opportunity to do this.

2.5 The PRSC differed significantly from earlier adjustment lending. First, there was the element of single-tranche disbursement against a set of prior actions, with triggers for the next PRSC becoming the next set of prior actions. For Ghana, while this followed the pattern of Economic Reform Support Operations, it was a departure from the traditional adjustment lending of the 1990s. More important, the Bank had opted in favor of a holistic view of progress toward achievement of goals, rather than a rigid approach that required the Government to meet the letter of the law regarding a particular trigger.

2.6 A second key difference was the PRSC's link to the Multi-Donor Budget Support. In principle, this could be seen as a way for donors to co-finance the PRSC. In traditional co-financing, the Bank controls disbursement, but in this case donors disbursed independently against defined criteria. There were differences from the Bank on this, as discussed below. The Bank's active role in helping build the Multi-Donor Budget Support mechanism around its PRSC program provided an important indication to Ghanaian authorities that they would receive reliable financial support if they followed the reform path mapped out in the poverty reduction strategy.

2.7 Another difference was the emphasis on greater Government ownership of measures in the PRSC. The theory was that this would develop as a result of two factors: first, the use of the Ghana Poverty Reduction Strategy as the framework for defining the PRSC's objectives and triggers; and, second, the Government's greater say in the selection of triggers and performance indicators, and in their calibration (that is, the degree of achievement within each year) than had been the case in adjustment operations. In addition, there was much more emphasis on outcomes, although this may be more a reflection of a shift in the overall development debate, which began to place greater emphasis on results, than the nature of the instrument itself. A final distinction relates to timing; the PRSC was more predictable than previous adjustment lending, which had made it difficult to carry out forward budgeting and where second-tranche releases were subject to delay.

2.8 *PRSC flexibility compared to earlier lending instruments.* Although it could be argued that the Bank's willingness to accept general progress in the right direction rather than insisting on a precise trigger represents flexibility, in practice, waivers were also feature of earlier adjustment lending. Arguably, the periods in which the Bank held up adjustment loans were when

progress was *not* in the right direction – for example, in the mid 1990s. The real breakthrough for the PRSCs was the Government’s far greater role in defining the triggers up front and its selection of items it was confident it could deliver.

2.9 In practice, the Bank has interpreted the triggers in a flexible manner. In the view of donors, if a trigger is not met, the Bank simply re-defines it so it can be met. An example of this occurred with the roll-out of the Budget and Public Expenditure Management System (BPEMS). Though targeted for five ministries; it was completed for only two ministries, but the Bank nonetheless judged the trigger to have been met on the basis that progress was substantial in the other ministries and completion would be achieved in a matter of months. Similarly when a trigger on the share of primary education within the overall education budget did not make sense in retrospect (an unnecessary ceiling had been placed on educational spending), the Bank decided to adjust the language surrounding this trigger to allow funding to go forward. Essentially, the Bank’s attitude has been that substantial compliance and good effort is equivalent to full compliance. The donors have different opinions on the usefulness of this approach, with the U.K. and Dutch taking a position closer to the Bank’s view and the Germans and European Union at the other extreme.

2.10 *Government opinion on PRSC-Structural Adjustment Credit differences.* In practice, the Government and donors confirmed that they have found significant differences between the PRSC and earlier adjustment lending. For the Government, there was great relief that the earlier spectacle of tranches not being released – and the associated press coverage – would no longer take place. There is a real sense of ownership of triggers, and indications are that the Government will not accept triggers it does not believe it can achieve. In contrast, in the structural adjustment era, it was not uncommon for the Government to agree on an item with the intention of asking for a waiver later.

2.11 *Results Measurement.* The debate on inputs versus outcomes has been a lively one in Ghana. The push toward outcomes has been led by the European Union, which believes that triggers should consist only of outcomes, with no specification of how they should be achieved. Most donors feel there should be a balance of input and outcome triggers, since the inputs lay the basis for future achievements. The Government, by contrast, is not comfortable with outcome triggers, as it lacks control over all the variables feeding into them. The Multi-Donor Budget Support document includes language that allows for exogenous factors that may impede achievement of outcomes, but this leads to considerable analysis and debate. The Ghana experience (for example, slow progress on some key Millennium Development Goals) suggests there would be benefits from a greater focus on outcomes without moving to the extreme position of the European Union. The donors need to work with the country on the implications of achieving an agreed set of outcomes for both the Multi-Donor Budget Support and the budget, and then try to align lending to provide additional underpinning for outcomes.

2.12 *Regularity of disbursements.* There was a substantial difference in disbursement regularity between the PRSCs and prior adjustments lending. Again, while this difference is partly contextual, it is arguable that, even in good policy situations, the tranche release approach tends to result in much more frequent delays, as decisions must be made on whether shortcomings reflect substantive problems or merely technical issues.

2.13 The PRSC is included in the budget for the upcoming year in full. Thus the budget sent to Parliament at the end of 2007 included the full amount of the Bank's PRSC as well as 80 percent of Multi-Donor Budget Support funding, with the balance not budgeted until the full amount of the performance tranche is known. Finance Ministry officials were unanimous in their view that the Multi-Donor Budget Support/PRSC represents a substantial improvement in predictability relative to the past. This is supported by data on disbursement trends, which show much less variance of Bank disbursements compared to earlier policy lending instruments – Structural Adjustment Credits prior to 1999, Economic Reform Support Operations until 2002 – since the introduction of the PRSC.

2.14 It could be argued that many of the differences between the PRSCs and earlier adjustment lending instruments derive from the fact that previous lending was undertaken during a relatively difficult period of wavering commitment to reform, while the PRSC/Multi-Donor Budget Support reflects a different pattern of government policy. The question is whether the PRSC/Multi-Donor Budget Support would have had a different outcome from that of the Structural Adjustment Credits/Economic Reform Support Operations if an attempt had been made to implement the approach in the mid to late 1990s. In our view, the PRSC/Multi-Donor Budget Support would probably not have had more success than these other instruments if implemented during that era. But, within the context of reform, the outcomes associated with the PRSC/Multi-Donor Budget Support have been significantly more positive than traditional adjustment lending outcomes. The PRSC was designed to be used when the Bank identified positive commitment to reform and poverty reduction; in such an environment, the dynamic it can create between the Government, Bank, and donor community is a definite improvement compared to the atmosphere – and probably the outcomes – associated with traditional adjustment lending

### 3. PRSC Process

**How effective have PRSCs been as a vehicle to help Ghana operationalize a country-driven poverty reduction strategy?**

3.1 *PRSC alignment with national development strategy and sector strategies.* The PRSC/Multi-Donor Budget Support process is fully consistent with the Ghana Poverty Reduction Strategy, but, given the strategy's breadth, this fact is not particularly meaningful. The degree to which the PRSCs reflect the priorities of the Ghana Poverty Reduction Strategy differs from sector to sector. There is an effort to get donor consensus around a list of triggers, but particular donors may opt out of certain triggers or insist on another item as a trigger. The GPRS is developed in wide consultation with nongovernmental stakeholders, although nongovernmental organizations complain that consultations occur too late in the process. In addition, the poverty reduction strategy is seen as having a weak financial framework. For sectors that have prepared medium-term strategies (water, agriculture, health, education), the strategy essentially flows out of

these strategies. Progress reports on the poverty reduction strategy also contribute to the PRSC/Multi-Donor Budget Support assessment process.

3.2 On balance, the PRSC process has contributed effectively to the formulation and implementation of a country-driven poverty reduction strategy. It has helped give teeth to the GPRS and sector strategies and has led to substantial increases in both absolute and relative allocations to core poverty sectors. To a large extent this was pushing on an open door – the social sectors are politically visible in Ghana and increased allocation is viewed favorably. The PRSC's special importance lay in allowing the Government to do what it wanted to in these sectors without reducing funding to other important sectors.

3.3 A number of design elements relating to the PRSC are worth noting. There is strong Government ownership of the program – it is seen as a Government of Ghana program. Within the Government, though, it is seen to a large extent as a Ministry of Finance program. It certainly forms part of the program of the line ministries, but is a small part – a sideshow – and not necessarily the part they view as the most important. There has been strong nongovernmental and civil society participation in GPRS preparation, but little or no participation in the PRSC/Multi-Donor Budget Support, which is viewed as a follow-up to the GPRS. The Bank has played a critical role in supporting country-led PRSC formulation. The Bank, along with the U.K. and the Dutch, has effectively maintained the need for Government ownership and leadership in the process.

3.4 The PRSC/Multi-Donor Budget Support process is probably the core instrument for Government/Bank/donor dialogue. It provides a focal point and, for many donors, is their sole contact for policy dialogue with the Government. Some believe the PRSC/Multi-Donor Budget Support has given smaller donors a policy voice beyond their weight in the overall resource transfer. Finally, monitoring is a particularly strong feature of the process, and the quality and timeliness of data produced for PRSC assessment is impressive, thanks to the Multi-Donor Budget Support's common donor matrix, or PAF. Yet the PRSC's results focus is mixed. Particularly in public financial management, much of the focus has been on specific actions, with few clear links to downstream impact. In social sectors the links are somewhat stronger, but stop short of specifying actions as triggers.

3.5 *Effect on governmental policy dialogue.* The PRSC has contributed to an enhanced dialogue within government on policy and performance. While the PRSC has had an important impact on aligning donors around a common agenda and has also been a key platform for policy dialogue between Government and the Multi-Donor Budget Support donor group, it is less evident to what extent the process has enhanced the dialogue within Government on policy and performance. This Ministry of Finance is the key partner in the Multi-Donor process; its dialogue with other ministries has been somewhat assisted by the process. It has been useful for agencies not typically on the critical path of policy discussions, for example the procurement agency and internal audit agency. Aside from links between the Ministry of Finance and line ministries, there is limited evidence of the PRSC's contributing to a cross-ministerial dialogue on cross-cutting issues that require more than one ministry's involvement in their achievement – for example, child nutrition programs.

3.6 *Results focus.* PRSC is embedded in a clear results framework that links policy actions to specific milestones and medium and longer term outcomes and objectives. The results frame-



work includes a monitoring system with clear and monitorable indicators that have been consistently monitored over time and allow measuring progress in outcomes. There is a clear linkage between the policy actions, objectives, and indicators used to monitor performance.

3.7 *Monitoring and evaluation system.* The PRSC series has helped strengthen the monitoring and evaluation in Ghana. Starting without an M&E framework at the beginning of PRSC I, an M&E system was established, followed by annual performance reviews and the National Development and Planning Council (NDPC), which tracks monitoring indicators. Annual Performance Reviews (APRs) are now disseminated to parliamentarians, the Ministries, Departments and Agencies (MDAs), regional planning and operation offices, and rural communities, and are now, since 2005, used to inform the budget process. Against these positive aspects, some shortcomings remain with M&E. The NDPC does not utilize tools for social accountability for which training was provided. Budget outcomes are not comprehensively reported – thus, there is a loss of feedback – and there are a number of objectives for which indicators are lacking.

3.8 The Multi-Donor Budget Support/PRSC process operates with a Performance Assessment Framework, which is adjusted yearly. The framework is, in principle, guided by the GPRS I and II results framework, although the linkages within results indicators are not clearly evident. Benchmarks and triggers are redefined in yearly negotiation processes among donors and government and thus can change frequently. Government authorities are deeply engaged in the process of defining benchmarks and triggers and are guided by good sectoral policies; the resulting benchmarks and triggers are sensible, but do not necessarily represent the most strategic actions that need to be taken. At times, the linkages between actions and outcomes in the framework are unclear. Frequent year-by-year adjustments with intense donor-Government negotiations carries the risk of strategic directions getting lost. The PRSC's strategic focus should have been clearly established for the second PRSC series (PRSC 4-6). This has not been done.

### **How effectively have PRSCs contributed to donor harmonization around a country-owned, medium-term poverty reduction strategy?**

3.9 Ghana is strongly supported by development partners, which provided 40 percent of all revenues in the 2007 budget. This amount is probably underestimated, as not all development expenditures are in the budget. Total official development assistance (ODA) is estimated at 9 percent of GDP, with support for investment programs still by far the most important instrument. General budget support, which accounts for 25-30 percent of yearly disbursements, is projected to remain at 25 percent of total donor support for 2006-2009 (see Table 1). Overall donor assistance, thus, is not shifting from investment lending to budget support lending. Most donors keep their ratio between investment lending and general budget support constant. DfID is the only donor projecting a substantial shift from investment lending to general budget support. It projected that 55 percent of total assistance in 2006-2009 would be provided through general budget support.

Table 1. Yearly Disbursements of Development Partners (2003-2007)

	2003	2004	2005	2006	2007
IMF (PRGF)	76.6	38.7	38.2	116.6	0
MDBS Budget Support <sup>1</sup>	262.11	303.2	276.9	324.1	321.9
(of which PRSC) <sup>2</sup>	-128.2	-127.5	-123.6	-143.1	-110
Invest. Lending					( 12.1)
Credit	494.4	608.3	688.8	746.3	1003.7
Grants	-159.8	-201.4	-240.2	-203.9	-277.8
Total	833.1	950.2	1003.9	1,186.9	1,315.6

Sources: Government of Ghana, World Bank

3.10 *Relationship to other general budget support programs.* In Ghana general budget support is provided through the Multi-Donor Budget Support Group, a group of 10 partners established in 2003, which has agreed to provide general budget support based on a set of common premises. Within the group, only the U.K., African Development Bank, and European Union contribute significant amounts of support; USAID and Japan participate in the group as observers, as well as FAO, UNAIDS, UNICEF, UNDP, WFP, and a handful of NGOs, such as the Carter Center. Within the Multi-Donor Budget Support, the PRSCs account for 30 to 40 percent of general budget support provided to Ghana in most years. Its large share was most prominent in the early years of the Multi-Donor process (2003-2004), when most donors were reluctant to commit more significant amounts to general budget support. More recently, the shares from other donors have increased somewhat. Even with these shifts, the PRSC will remain the pillar of the Multi-Donor program.

3.11 At the time the PRSC was introduced, the Bank saw it as a first step in a migration of aid architecture in Ghana toward a harmonized donor approach to budget support through the Multi-Donor process. In practice, while there has been movement in this direction, it is still far from being the dominant form of assistance. The Multi-Donor process itself has, in fact, declined as a share of total official development assistance, falling from 39 percent in 2003 to 27 percent in 2005, with part of the gap taken up by other budget support mechanisms. The Bank and other donors intend to provide an estimated amount of USD 114.3 million in sector budget support during 2006-2009. These are un-earmarked funds provided to the general budget but linked to sector reform agendas, such as the increased donor funding for health, education and natural resource management. Health budget support is now on-budget, replacing the support previously provided to the Health Fund.

3.12 *Performance assessment framework and policy matrix.* The Bank's monitoring framework for the PRSC is almost completely integrated into the Multi-Donor Budget Support monitoring program, the Performance Assessment Framework. In 2006, the matrices of the PRSC and Multi-Donor program were merged; until then, they were closely aligned but issued separately and with slight differences between them. The one significant issue has been the Bank's insistence

that the PRSC include triggers for the energy sector (for other donors these form part of the framework, but are not triggers.). The reluctance of the donors on this score is difficult to understand. There was clearly a significant risk that the impact of energy subsidies, through the failure to adjust prices to rising costs, would create serious fiscal problems and potentially derail macro-stability. Nonetheless, except for this issue, the document is fully harmonized.

3.13 There are differences in the way donors interpret failure to meet triggers. Most donors have two tranches – a base tranche and a performance tranche. The base tranche is disbursed on broad macro-stability and structural reform criteria (it was explicitly linked to the IMF’s Poverty Reduction and Growth Facility in earlier years), while the performance tranche is linked to the letter of conditions. When the condition set on share of primary education in the total education budget was not met, there was a 10 percent reduction in disbursements on the performance tranche. Until that point, most donors had split their commitments 50/50 between the two tranches, but when faced with the implications, the U.K., Canadians, and Dutch decided to reduce allocations to the performance tranche to 20 percent. Another difference between the Multi-Donor Budget Support and the PRSC relates to timing. Donors base their March 2008 disbursement on a March 2007 assessment of the country’s 2006 performance. The Bank, by contrast, bases a June 2008 disbursement on an April 2008 assessment of 2007 performance. Although the donors have spent much time discussing this issue, in practice it does not seem to cause much concern for the Government.

3.14 As far as the Bank is concerned, there is undoubtedly an increase in transaction costs relative to carrying out the PRSC alone. There are monthly meetings of the donor coordination group and often time-consuming negotiations to achieve consensus. Donor representatives complain of the endless series of meetings needed to coordinate aid and the substantial added burden that this imposes. For some donors (as for the Bank) the Multi-Donor Budget Support may also represent a saving of the costs of going it alone with some of their project assistance.

3.15 The more interesting question is the level of transaction costs for the Government. Since the Performance Assessment Framework and triggers are the same for the PRSC and the Multi-Donor Budget Support, it is difficult to see that the Multi-Donor program per se causes the Government additional costs. Here again the counterfactual is the issue: to what extent would the Government have needed to spend time in dealing with donors on the programs replaced by the PRSC and multi-donor framework? Relative to projects, the Multi-Donor Budget Support seems to shift the burden to more senior government ministers and officials. These officials spend much time visiting donor missions and in meetings with donors. Through the harmonization process the donors have now agreed to a mission-free period from September 15 to November 15, but of course this does not limit the large and growing number of donor representatives present in Accra.

3.16 For the Bank there is some increase in the leverage it obtains through the Multi-Donor Budget Support. For donors, the Multi-Donor process allows them to buy into the macro dialogue and performance to a degree that would be difficult through their own programs, particularly for smaller donors. The Multi-Donor Budget Support undoubtedly has positive spin-offs in terms of the overall quality of donor coordination in Ghana. There is also a benefit, more difficult to assess, in the added stature the process gives to the Ministry of Finance and Economic Planning in dealing with line ministries. For the large line ministries, the benefits of the Multi-

Donor process are viewed as questionable, but for smaller ministries and agencies, it has played a useful role in maintaining their visibility and ensuring follow through for their programs.

3.17 Based on the views of donors and Government, the PRSC/Multi-Donor Budget Support achieves high scores as an instrument for donor harmonization. The fact that there are differences in views and approaches between and among donors, the Bank, and the Government is in the unavoidable reality and is not in itself a cause for lowering the rating. More important, the PRSC/Multi-Donor Budget Support process has provided an opportunity for donors to sit with the Bank and Government and reach compromise. Overall, the depth and quality of donor coordination in Ghana appears to be close to best practice.

### **How well have PRSCs been aligned with country policy formulation, budgeting, and planning processes, and how effectively have they contributed to predictable resource flows?**

3.18 *Country policy formulation.* The PRSC/Multi-Donor Budget Support process has had important impact on aligning donors around a common agenda and has also been an important platform for policy dialogue between Government and the Multi-Donor program donor group. However, it is less evident to what extent the Multi-Donor Budget Support/PRSC process has enhanced the dialogue within Government on policy and performance.

3.19 The Ministry of Finance is the key partner in the Multi-Donor process. Its dialogue with other ministries has been somewhat assisted by the process, but this has not been a crucial element. It has been useful for agencies not typically on the critical path of government policy discussions – for example, the procurement agency, and the internal audit agency. If the budget process had been used more pro-actively for integrating donor support into the general budget rather than continuing support for sector specific “pools,” the intra-governmental dialogue would have been strengthened further. As mentioned earlier, aside from the linkage between the Ministry of Finance and the line ministries, there is little evidence that the PRSC contributes to a cross-ministerial dialogue on cross-cutting issues that require more than one ministry’s involvement in their achievement.

3.20 *Predictability of disbursements.* The Multi-Donor Budget Support has provided the Government with a predictable source of funding. Between 2003 and 2006 annual Multi-Donor disbursements have been within 5 percent of pledges except for one year, when it was still within 10 percent. This is a feature much appreciated by the Government, although it has not translated into predictability at the level of individual ministries – there are still many complaints about funds being released too late in the fiscal year to allow achievement of program outcomes.<sup>4</sup>

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<sup>4</sup> In Ghana, there was a decision in the FY08-11 CAS to reduce the share of budget support to 28 percent of overall Bank lending, compared to 40 percent in the preceding CAS (FY04-07). While the primary reason was to counterbalance increased Bank contributions to the Multilateral Debt Relief Initiative, there was also signaling of failures to meet triggers, with three modifications in six operations.

## 4. PRSC Results

### How effectively have the PRSCs helped Ghana strengthen its public financial management systems?

4.1 *Diagnostic work.* The Bank's involvement with public financial management reform in Ghana is long-standing. There was a series of operations in the 1990s geared toward providing technical assistance to build Ghana's public financial management systems. The attempt to install an Integrated Financial Management Information System has become a development legend, with the Bank supporting the effort for nearly 12 years before admitting defeat and settling for a more limited automated system – the Budget and Public Expenditure Management System, included in the PRSC/Multi-Donor Budget Support. Although these public financial management system operations did not yield the planned results, they did give the Bank an intimate knowledge of the workings of financial management in Ghana and were, thus, well placed in this regard when the PRSCs were introduced. From 2002 until quite recently, the Bank has supported the improvement of public financial management exclusively through the PRSCs. A new public financial management project is now under preparation to supplement the PRSCs in this area.

4.2 *Public finance management content and design.* The PRSCs have focused on a number of different elements of public financial management. The broad objectives have been as follows: first, to transform the budget into a more meaningful tool of economic policy and prioritization by bringing into the budget the large number of off-budget funds and reducing the deviation between the amounts originally budgeted and the eventual outcomes; and, second, to increase the efficiency of budgeted expenditures by enhancing management and information systems and instituting or strengthening audit systems.

4.3 In addition to public financial management, Ghana's PRSC has a number of performance measures in the broader area of public sector management that are probably best discussed under this heading. There is a significant civil service reform agenda touched on in the Performance Assessment Framework, though these items rarely find their way into the list of triggers. The recently established Ministry of Public Sector Reform has been under pressure from donors who doubt its political realism and have proposed the "right-sizing" of the civil service from 500,000 to 300,000 employees. The list of measures being undertaken or considered for inclusion is long. There are a number of steps for civil service reform – first, monetization of the benefits of senior civil servants into the pay structure and consolidation of the various pay scales into a single "spine"; second, dealing with the many so-called subvented agencies, which often have their own funding sources and occupy an uneasy status between government agencies and government-owned corporations; third, introduction of in-service training for all senior civil servants; and fourth, creation of a human resource database. All of these efforts are very much works in progress; and, although the performance indicators have generally been met, they represent small steps along the way – generally studies or plans – toward actual implementation.

4.4 A related issue has been that of decentralization. There is a push for implementation of the Government's decentralization program, including the establishment of treasuries in the

districts and the devolution of responsibilities to the local level. This has been a relatively difficult area. The Government initially made much of its intention to decentralize but appears to have backed off from this effort, probably due to resistance from the ministries. The donors claimed that they were only taking government statements at face value in seeking to include measures drawn from GPRS and other government documents. It is clear that without an agreed road map in this area and genuine government ownership of the decentralization program, this may not go forward effectively.

4.5 An important issue in public financial management in Ghana that is not addressed by the PRSC relates to public sector salaries. Ghana has a large public service compared to most other countries, and in 2005 and 2006 the Government increased real salaries by an average of more than 20 percent. This has impacted expenditures on health and education, where concerned ministries have been recruiting additional staff without going through the formal approval process for such recruitment by the Ministry of Finance or Head of the Civil Service. Some performance measures of the PRSC relate tangentially to this – for example, share of non-salary expenditures in health and education budget – but, in general, this issue has not been addressed. The rationale provided to the IEG mission was that this was an area that had been assigned to the IMF in the division of labor between the Poverty Reduction and Growth Facility and the Multi-Donor Budget Support. The increase in salaries came just at a time when the Government was phasing out its program with the IMF; as a consequence, it was not taken up by either the IMF Facility or the PRSC.

4.6 Another area where the public financial management has been relatively weak has been in links between sector strategies and the budget. In many cases there are now sector strategies in place, but they are not related to the budget framework. In the case of agriculture, for example, a Medium-Term Economic Framework (MTEF) has been prepared and is being used by the Ministry of Agriculture in its budget discussions with the Ministry of Finance and Economic Planning, essentially as a means for making a case for huge sums of money. In addition to the dysfunctionality of the Medium-Term Economic Framework exercise, it is difficult to compare the line item budget with the particular programs to be supported in the sector. An additional area that could be strengthened is putting in place the Public Expenditure Tracking Systems (PETS), which would provide additional assurance that budgetary expenditures are reaching beneficiaries.

4.7 Overall, despite six years of PRSC/Multi-Donor Budget Support attention, it is evident that Ghana's budget is still some way from being an effective instrument for economic management. There are a number of statutory funds that cannot be formally included in the budget and a host of donor-supported and other programs that remain outside the budget. The Bank's 2004 Public Expenditure Review estimated that only 50 percent of Government expenditures at that time were included in the budget. According to the Bank's economists, the progress since that time in internalizing off-budget funding has been slow but steady. According to the Economic Governance and Poverty Reduction Credit (EGPRC) program document approved by the Bank's board in June 2009, Ghana's budget now captures 83 percent of overall government expenditures. It should be possible to prepare an accurate accounting of the resources available and spent each year from these various sources and develop a consolidated statement in addition to the formal budget exercise. It is essential that donors move all their assistance to the

Government on budget, and that the PRSC/Multi-Donor Budget Support take a leadership role in making sure this occurs.

4.8 Even in the case of the PRSC's more specific public financial management systems-related measures, there is some doubt as to whether there has been significant success. A recent Implementation Completion Report declared that performance measures had been met in this area. In the opinion of the review's authors, however, progress has been uneven when viewed over the full range of PRSCs. There have undoubtedly been major successes in implementing the program: a) the passage of the Procurement Law and good progress in its implementation, with competitive bidding procedures used on all large contracts; b) the increased timeliness of the budget (now passed in advance of the year it refers to) and public accounts; and c) enhanced oversight provided by internal audit and the reports of the Auditor-General (despite weak oversight by the Parliamentary public accounts committee).

4.9 The gradual rolling out of the Budget and Public Expenditure Management System to various ministries is another important step forward, though the pace has been a good deal slower than projected. Even where it has been rolled out, it is only being applied to a limited subset of transactions – for example, the administrative component of the health budget, but not payroll or investment. Moreover, the concerned sector ministries report no added value whatsoever from the new system. At this stage, ministries are turning, with donor support, to developing all-inclusive ministry-specific systems. This will of course raise enormous problems of connectivity down the line, but at least the systems will be a more effective management tool in the medium term.

4.10 In moving forward, consideration should be given to re-thinking the public financial management agenda, which appears to be on auto-pilot. There should be discussion with Government on a policy decision that no changes in complement or salary levels will be undertaken outside the budget cycle, that is, so such changes be transparent and included in the budget, with preparation of a set of consolidated accounts that includes off-budget funds and financing. While ideally there would also be movement towards more effective Medium-Term Economic Framework, backed up by program budgets in pilot ministries, it is better to focus on making the budget a more effective instrument of public management. In addition, another review should be undertaken of the Budget and Public Expenditure Management System. Overall the assessment does not find the progress on enhancing Ghana's public financial management to be satisfactory. This is largely an issue of the relevance of the measures chosen for that objective, not implementation of measures. The narrow technical focus on advancing a number of systems was useful and worth doing, and largely successful, but it needed to be placed in a context of making the budget a more meaningful instrument for resource allocation and management.

### **How relevant and effective a vehicle have PRSCs been in helping Ghana set conditions for poverty reducing growth?**

4.11 *Extent of growth focus.* Ghana has experienced rapid growth over the PRSC period, driven mainly by strong demand for its agricultural products, raw materials, and minerals. At the same time sizeable donor inflows have clearly contributed to this process by allowing the Government to meet demands for increased spending while maintaining macroeconomic stability.

As a budget support mechanism, the PRSC has played a role in this and should, by and large, be viewed as a positive contribution to the growth effort.

4.12 The Government's emphasis on growth has increased over time, along with the number of PRSC/Multi-Donor Budget Support measures and triggers outside the initial focus areas of education, health, and public finance management, with the most significant of these relating to the energy sector. In its early years, with the construction of the Akosombo dam on the Volta River, Ghana had a substantial surplus of hydro-electricity. Under Nkrumah, free electric power was provided to the population, and a contract was signed with a large international aluminum producer that included the free provision of electricity. Over time, growing internal demand and increased reliance on imported oil made this position untenable. The Bank insisted that the PRSC include energy-related performance measures as triggers; in contrast, the donors refused to include these as triggers for the Multi-Donor process. The Bank's position was based on its concern that the major threat to Ghana's macro-stability over the long run was the Government's provision of electricity and fuel at subsidized prices in the face of rising world energy prices.<sup>5</sup> In hindsight, this has probably been the single most important contribution made by the Bretton Woods institutions to Ghana's stability over the past five years.

4.13 The PRSC conditionality focused first on deregulation of the petroleum sector and then on more efficient management of the electrical power agencies and putting in place cost-recovery mechanisms. As the oil price increased, these were passed on without requiring parliamentary approval and created almost no public outcry. The Multi-Donor Budget Support also supported the Government in the renegotiation of the contract with the Aluminum Company, which was subsequently closed down.

4.14 In the second series of PRSCs, the Bank has kept energy issues on the agenda with performance measurement evolving in two key areas. The first focused on the operational efficiency of the energy agency, with reduction in systems losses included as a trigger. The second related to budgetary compensation to the electricity authority for subsidizing the price of power to the aluminum company, which has since closed down production. In PRSC 5, the trigger of reducing system losses was not met, which did not affect the Multi-Donor Budget Support, as it was not one of its triggers. The Bank decided to waive this trigger for PRSC 6 on the basis that system losses were being reduced, though not at the pace originally projected; it subsequently became a trigger for PRSC 7.

4.15 Another area of the growth agenda in the PRSC is the investment climate. Here, the Bank has been able to get support from the donor group. The Doing Business Surveys had shown that it took over a year to register a new business in Ghana in 2003, and it was decided to include a reduction in registration time as a PRSC and Multi-Donor Budget Support trigger. In the course of the PRSC series, the time needed for business registration has gradually been reduced and is now at 45 days (if no environmental impact assessment is required, the figure is closer to 25 days). Another achievement is a reduction in backlog for the commercial court system, which had made courts effectively useless for dispute settlement. As a result, businesspeople have greater confidence in the potential role of the courts, although they remain largely Accra-based. While these are limited aspects of the overall investment climate, recent surveys

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<sup>5</sup> Ghana currently has two large thermal power stations.



suggest that Ghanaian businesses consider the investment climate as more attractive now than at any time since the 1990s.

4.16 A particularly important investment component of the PRSC program relates to the expansion of credit available to the private sector. Performance measures and triggers for this have related to reduction in the amount of commercial bank credit going to the public sector and also to increases in the proportion of resources of the social insurance fund managed by the private sector. Both of these have been fully met. The success of macro-stabilization and reduction of government debt means that the Ghanaian commercial banking sector is now highly liquid and, indeed, has been active in seeking private small and medium investors. The social insurance fund now has investments in about two-thirds of the companies listed on the Ghana stock exchange.

4.17 Another element in the growth agenda has been agriculture. There is some tokenism here, with the performance measure relating mainly to irrigation policy and not providing an adequate basis for a dialogue with the ministry. In recognition of this, the Agriculture sector members of the Bank country team have been urging a separate instrument, and agreement has now been reached that the Bank will join the special budget support fund for agriculture with DfID, Canada, and other donors. This will provide the basis for a much broader set of performance measurements and agreement on triggers. Agricultural performance measures will likely be dropped from the Multi-Donor Budget Support once this comes into effect.

4.18 The final growth-related performance area is natural resource management, where increases in forest coverage have been included in the PRSC along with various arrangements for off-take by timber companies. The targets in these areas have been met, but parallel with the argument for agriculture, the Bank now proposes also to have a separate multi-donor program of general budget support for natural resource management.

4.19 The limitation of the number of performance measures and triggers in the PRSC means that in most sectors the coverage is limited to one or two highlights. Ghana is well into the stage of second generation reforms – that is, it is no longer a matter of correcting a limited set of major policy distortions, but of taking many smaller steps to build institutions and fine-tune the legal and administrative framework. The single over-arching PRSC does not lend itself effectively to this, and both the donors in the social sectors and the Bank in the growth sectors are increasingly of the view that, at least for an interim period, the PRSC needs to be supplemented by a set of sector-specific budget support operations. Ghana has had “pooled funding” for the sectors in a number of areas in the past, but this has tended to be funds earmarked for the sector and often negotiated directly with the sector without Ministry of Finance involvement. The move to sector-specific operations using general budget support is an important advance, forcing a dialogue between the Ministry of Finance and the line ministry which often goes well beyond the use of donor funding.

4.20 *Outcomes.* Overall, the PRSC triggers do not add up to a strategy for poverty reducing growth, nor were they intended to. They did, however, underpin the GPRS to a reasonable degree – though the poverty reduction strategy is indicative in its approach to areas such as agriculture, energy, and private sector development. This said, the PRSC made an enormous contribution to growth through its impact on energy pricing – and the weight of that contribution has to be factored into the overall assessment. It underlines the value of an instrument such as the

PRSC as a tool for correcting major policy distortions. For this reason the PRSC is given a high rating with regard to its growth impact, despite the obvious weaknesses discussed above.

## How effectively has the PRSC helped advance the dialogue and achieve results in sectors delivering services to the poor?

4.21 The PRSC aimed at assisting Ghana in reaching key Millennium Development Goals by improving service delivery in education, health, and social protection.<sup>6</sup> Under PRSC 3, water and sanitation was added. PRSC measures were generally well aligned with GPRS I and II priorities. The only exception was the change in educational priorities from the exclusively primary-education focus of GPRS I to GPRS II's broader focus encompassing secondary, higher, and vocational plus primary schooling, which the PRSC program has not incorporated up to now. Health and education have been important components of the PRSC program, whereas the water and sanitation sector has played a more marginal role. While public expenditures in these sectors increased substantially, outcomes achieved have been disappointing, particularly in health and water/sanitation.

4.22 Moreover PRSC engagements in sectors have not been used to implement public expenditure management reform. After five PRSC programs, highly fragmented financing systems persist for health and, especially, for education. Donors doubt that health and education sector budgetary systems are sufficiently robust for assistance to be directed through general budget support. Instead, they prefer to continue funding through extra-budgetary support mechanisms.

4.23 Priority sectors identified in GPRS I received substantial increases in budgetary resources during the PRSCs, with poverty-related expenditures increasing, both in real terms and as a proportion of total expenditures (see Figure 1). In real terms, spending doubled between 2002 and 2005, increasing from 28 to 35 percent of expenditures over the period.<sup>7</sup> Health and education received significant increases in funding. The share of health in total expenditures increased from 7.5 in 2000 to 12.3 percent in 2005. When counting total health funds, the increase is even greater, as the public budget in Ghana provides only 35 percent of the total public sector spending on health, with statutory funds, donor funds, and recently, National Health Insurance, serving as other important sources. Increases in education were also significant. Budgetary resources, which provide for 75 percent of total education spending, grew by 80 percent. Education expenditures accounted for about 40 percent of the public budget in 2006.

### PRSC CONTRIBUTIONS TO SECTOR DEVELOPMENT: HEALTH

4.24 *Objectives and policy content.* Strategic directions for the health sector were prepared with support from the health sector-wide approach programs. The PRSC focused on elevating three

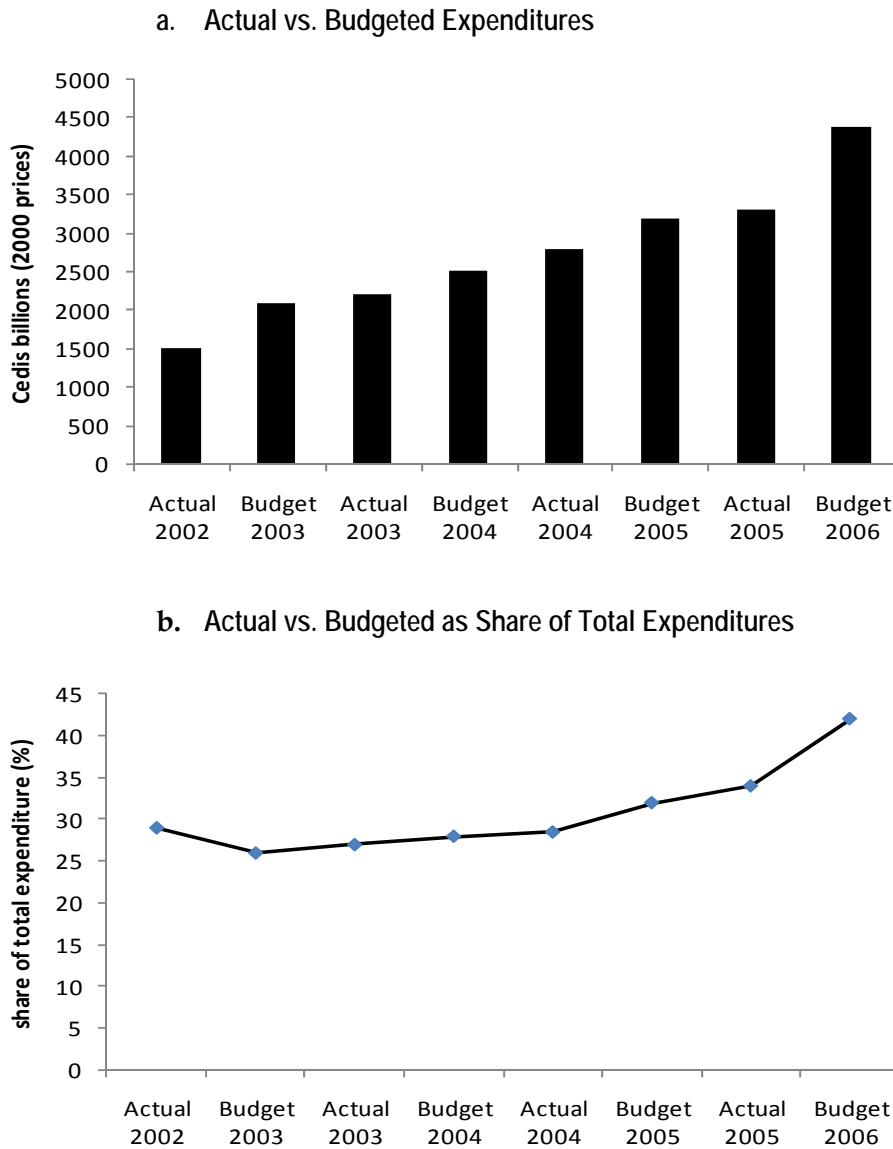
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<sup>6</sup> This section focuses on health, education, and social benefits. The only treatment of water supply in the PRSC program came indirectly in the establishment of water utilities performance indicators as part of general improvements in public utility management. Technically, social benefits are not "service delivery," but these constitute a major element of the "pro-poor" emphasis of the PRSCs.

<sup>7</sup> Poverty-reducing expenditure was formally defined in 2002 as a selection of activities focused on basic education, primary health care, "poverty-focused" agriculture, rural water, feeder roads, rural electrification, and certain other activities, such as vocational training.

sets of issues stressed under GPRS I: i) supporting deprived regions, ii) encouraging health professionals to work in remote areas, and iii) ensuring sustainable financing arrangements to protect the poor. Much attention was focused on improving health services in deprived districts, eliminating fees for health care for specific target groups, developing incentive schemes to retain health professionals in deprived areas, and increasing usage of available health facilities in deprived areas.

Figure 1. Poverty Reducing Spending 2002-2006

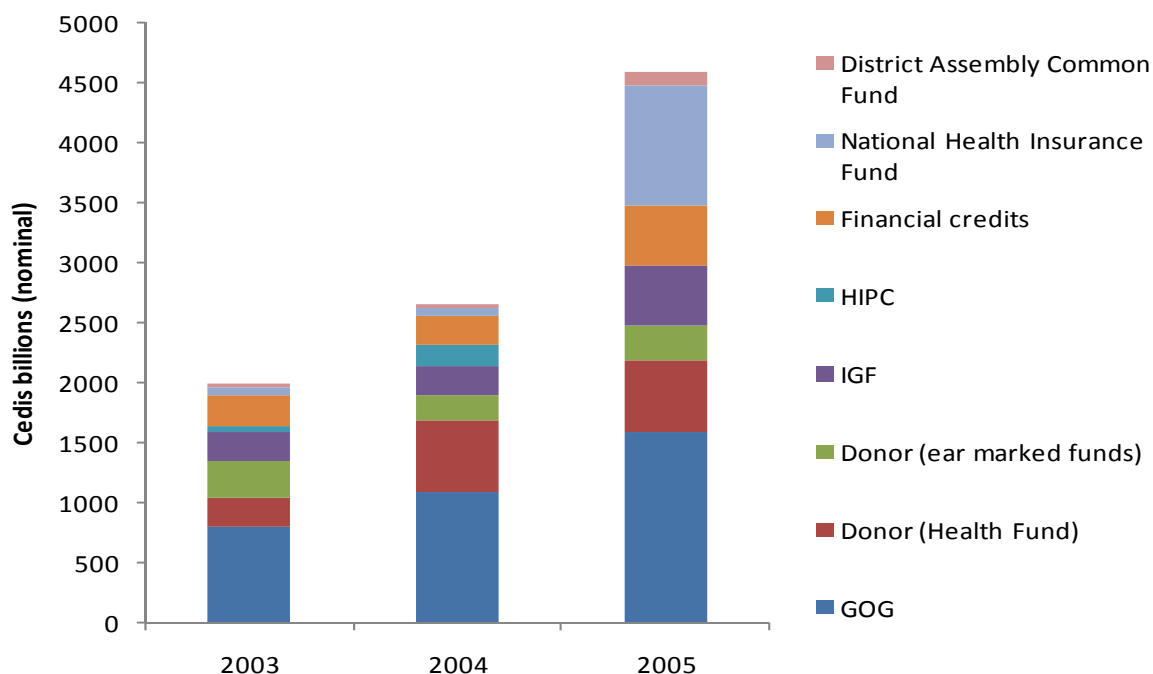


Source: Lawson and others, 2007.

4.25 More than 90 percent of health expenditures that go through Ghana’s budget are spent on salaries (see Figure 2). The share of salaries within the budget has increased continuously, as

salaries/allowances have risen. Even though health worker pay is generous compared to other countries in the region, the migration of skilled health personnel has seriously threatened the system, so salaries have increased to induce them to remain in Ghana. Other revenue sources are used to fund non-wage items. Internally generated funds from user fees are collected and retained by health centers to cover the costs of drugs and a portion of the cost of non-drug consumables. Earmarked donor projects and the sector common basket fund are other important sources for investment and non-salary costs. This fragmented system requires reform.

Figure 2. Health Sector Spending by Source



Sources: Government of Ghana, MOH, 2006; MOFEP, 2007; DACF, 2004

4.26 *Relevance and design.* Measures were also introduced to make the National Health Insurance Fund operational, a fund that covers the costs of services for indigent patients, which is now a significant revenue source. Measures taken up by the PRSC appear sensible and well integrated into the Government's program. The PRSC matrix seemed to have been well used to support progress on reducing regional inequities and helping to provide health services to the poor.

4.27 The policy measures on ensuring sustainable financing arrangements focused on increasing demand for health services among the poor by fee elimination, strengthening of the National Health Insurance Project, and monitoring of the impacts of financial reforms. These priorities were in line with the poverty focus of the PRSC, which may have been too narrow. It did not look at the overall sustainability of the health financing system and the application of public expenditure management reforms to health. The donors and ministry seem content with a special health fund, which shields the ministry and donors from the demands of parliamentary approval and budgetary oversight

4.28 *Implementation and outcomes.* It is surprising that, in spite of the long-standing engagement of donors in this sector, budgetary reforms have not advanced further. It was only with PRSC 5 that “increased allocations to the health sector to compensate for reductions of donor funding to the Health Fund” was made a trigger condition. This trigger also required increased execution rates for total non-salary health budgets and district level allocations, as execution rates for the tiny amount of non-salary items included in the budget were traditionally low. But donors, at this stage, do not seem ready to insist on these reforms. Major donors other than the World Bank stand ready to replenish the Health Fund and thus perpetuate the existing fragmented system by continuing to provide important resources outside regular budgetary processes.

4.29 Although indicators point to a reduction in disparities in mortality rates in deprived areas, health outcomes have been disappointing. Ghana began the PRSC period in 2004 with relatively favorable health indicators: a life expectancy of about 60 years and infant mortality rates that compared favorably with other sub-Saharan countries. Ghana appeared well positioned to meet all but one Millennium Development Goal target (World Bank 2003a).<sup>8</sup> Since then, progress has been less than expected and, given present trends, Ghana looks unlikely to meet the under-five mortality and maternal mortality Millennium Development Goal targets<sup>9</sup>; it is also questionable whether Ghana can reach targets for reductions in HIV/AIDS and malaria. The contrast between outcomes on communicable diseases and broader health indicators stems partly from donor emphasis and diversion of managerial focus, skilled personnel, and resources from broader health programs to HIV/AIDS and malaria. These outcomes also reflect the limited extent to which health outcomes can be influenced by health interventions alone in Ghana, where poor rural water supply and sanitation is an important factor behind high under-five child mortality rates.

#### PRSC CONTRIBUTIONS TO SECTOR DEVELOPMENT: EDUCATION

4.30 Ghana is a frontrunner to achieving the Millennium Development Goals to expand education services at the basic level and reduce gender inequities. The country is on track to provide universal primary education, extend enrollment in basic education, and assure gender parity at this level. There has been a rapid expansion in both net and gross enrollment for basic education, a reduction in regional disparities, and a slight improvement in gender parity. However, the increase in enrollment has also brought increasing challenges in educational quality, even with significant increases in total educational expenditures and rising per-student spending. It has also led to greater demand for post-basic education, and a growing divergence in public expenditures on basic/post-basic education, with basic education receiving a declining share of the overall public education resource envelop.

4.31 The PRSC instrument is seen a useful way to address issues that require attention from different line ministries (typically the Ministry of Finance) as well as from donors. It is viewed as complementary to other instruments, including the ongoing Education Sector Project, a sector investment operation implemented in close cooperation with partners, such as DfID, the Eu-

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<sup>8</sup> The only target whose achievement was considered questionable was for maternal mortality.

<sup>9</sup> Although outside the time of reference of this study, new information from a household survey of 2008 suggests that Ghana made further significant progress on most health-related Millennium Development Goals, compared to the survey of 2003.

ropean Community, USAID, and the Education For All Fast Track Initiative. This program, together with other projects financed by other donors, serves as the core instruments for sector dialogue and reform in Ghana's education sector.

4.32 *Objectives and policy content.* PRSC education policies have focused on several key issues: broadening access to basic education; raising primary education quality; removing financial barriers to education; reducing the gender gap and regional inequities; and improving the efficiency of education financing. PRSCs 1-4 measures were strongly aligned with GPRS I, which focused on reaching the Millennium Development Goal targets of universal enrollment in primary education and reduced gender and regional inequities; GPRS I also focused on increasing efficiency in education. In contrast, GPRS II signaled a marked shift away from strictly Millennium Development Goals-oriented programs in favor of a growth oriented development strategy.<sup>10</sup> The strategy continued the previous focus on primary and secondary education, but added a new emphasis on technical, agricultural and vocational education, apprenticeship/skills training, and technology education to address skills shortages in the industrial and service sectors that have emerged in recent years as Ghana's economy has grown and modernized.

4.33 *Relevance and design.* The Government insisted on including measures on these subsectors in the later PRSC programs. A trigger for PRSC 6 was to "equip teacher training colleges to specialize in the training of mathematics and science teachers."<sup>11</sup> The PRSC 7 matrix of measures includes a provision on vocational and technical training. With regard to the focus on deprived districts and gender issues, PRSC education measures point to two phases. Early matrices focused only on deprived districts (PRSCs 1-3). This singular focus was abandoned in PRSC 4 at the request of the government and other donors who wanted to pursue country-wide approaches. In PRSCs 4-6, country-wide measures were formulated but monitored separately to ensure differentials between deprived and other districts continued to narrow; special programs also monitor girls' access to education. The emphasis on monitoring deprived districts and gender access has been successfully adopted by the Ministry of Education. Ghana has achieved progress in enhancing access to basic education, narrowing regional differentials and moving toward gender parity, although the gender parity index remains below the 1.0 target in GPRS II. (see Table 2). Moreover, girls are still affected by large regional disparities in enrollment, low primary completion rates, and low enrollment at post-basic education levels (World Bank, IMF 2008).

4.34 A crucial PRSC 4 measure for increasing enrollment was the introduction of the "capitation grant" to schools and the elimination of all government- and district-controlled fees at primary and junior secondary level. Though small, these fees posed a real obstacle to enrollment for children from poor families, with enrollment data pointing to rapid increases after the fees were eliminated in 2005. While the government was committed to eliminating the fees, the fact that it was a PRSC trigger probably accelerated its implementation, as the need for PRSC funding pre-empted opposition from the Ministry of Finance. This was a major achievement for the PRSC/Multi-Donor Budget Support process and the Government and also demonstrates how the PRSC can act as a platform for supporting reform measures that require consensus beyond a specific line ministry.

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10 The shift is also reflected in the change of name. While the first GPRS stands for "Ghana Poverty Reduction Strategy," the GPRS II stands for "Growth and Poverty Reduction Strategy."

11 The government differed with most donors on retaining an exclusive focus on basic education.

4.35 However, the PRSCs did not pay particular attention to education quality measures. It is important to note that the decline in the quality of basic education occurred against a backdrop of rising per student expenditures. Total expenditures rose by nearly 12 percent between 2005 and 2006, against a 6.7 percent increase in enrollment; per student expenditures increased as well, rising from USD 90 to USD 100. Education allocations also increased steadily in real terms, rising from 20 percent of total expenditures in 1999 to some 27 percent in a budget that increased significantly over the period. Improvements in access to public schools increased the proportion of students from deprived areas and poor families, where learning is constrained by additional challenges. Moreover, as enrollments increased, teacher shortages occurred, and a large number of new university graduates were recruited through the National Youth Employment Program to serve as teachers. Special training efforts are now under way, but the increased recruitment of untrained teachers has led to a decline in the proportion of trained teachers and has undoubtedly had an impact on teaching quality and learning results (World Bank, IMF 2008).

4.36 Since PRSC 4, matrices include a provision on ensuring timely delivery of core textbooks to all primary school and monitoring the textbook/student ratio in different regions. An IEG study completed in 2004 did note improvements in school quality, especially with respect to school infrastructure and learning materials/books. Even so, serious concerns about deteriorating quality have arisen in recent years, some based on quality control programs of major donors.<sup>12</sup> Data from basic education certificate exams point to deteriorating results in some subjects; there is also evidence of high drop-out and low completion rates at junior secondary levels (Government of Ghana 2007b). The fact is that poor achievement at the junior secondary level generally reflects weaknesses at the primary level. The rapid expansion of student intake at the primary levels seems to have had a system-wide effect, exerting pressure at the secondary and tertiary levels and leading to declines in standards, quality of teaching, and learning outcomes achieved.

Table 2. Gross & Net Primary Enrollment Rates and Gender Parity Index, 2003-2007 (Percent)

	2003-04 Actual	2004-05 Actual	2005-06 Actual	2006-07 Actual
Gross Primary Enrollment Rate				
National	86.3	87.5	92.1	93.7
Deprived Districts	70.0	80.1	84.7	90.8
Net Primary Enrollment Rate				
National	55.6	59.1	69.1	81.1
Deprived Districts	52.2	54.5	68.9	74.5
Gender Parity Index				
National	0.93	0.93	0.95	0.96
Deprived Districts	0.93	0.93	0.95	0.95

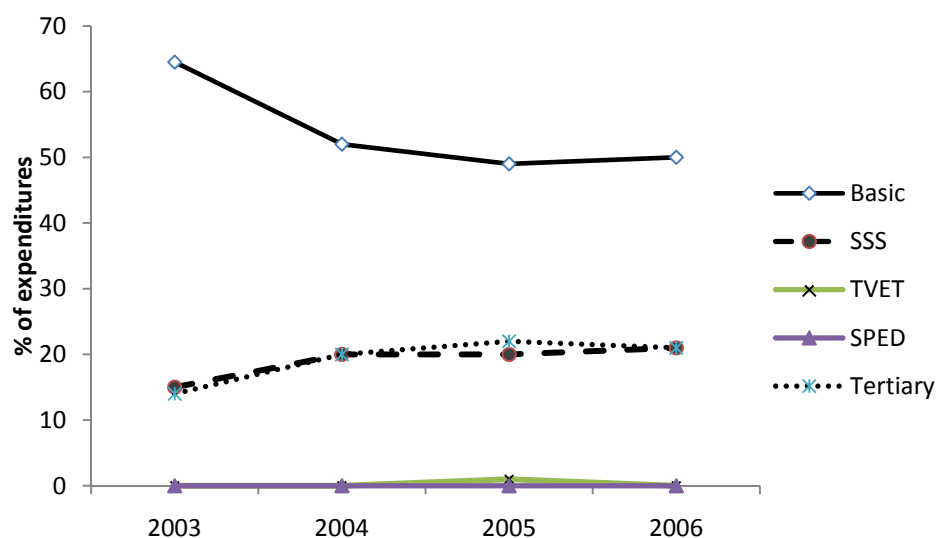
Sources: Government of Ghana, World Bank

<sup>12</sup> USAID provides financial and technical support for testing and quality support programs.

4.37 This issue may well point to the PRSC's intrinsic limits as an instrument for achieving change in a sector. Improvements in education quality require multiple parallel actions over time, which can rarely be achieved by a few specific, easily monitored actions. The PRSC is designed to focus on a limited numbers of measures, which makes it difficult to include multiple measures within a single sector, especially when there are underlying policy issues within the authority of a line ministry. Yet, once the key drivers for improving education quality are identified, the PRSC matrix should be employed to address them, perhaps through an outcome measure related to test scores.

4.38 Although resources channeled to education rose significantly, there was a shift in intra-sectoral allocations, with a declining share for basic education in the overall education resource envelope (that is, government budget plus Ghana Education Trust Fund) (see Figure 3). The share of basic education declined from 62 percent in 2003 to 50 percent in 2006. Since 2003, an increasing share of total education resources has been channeled to senior secondary and tertiary education.

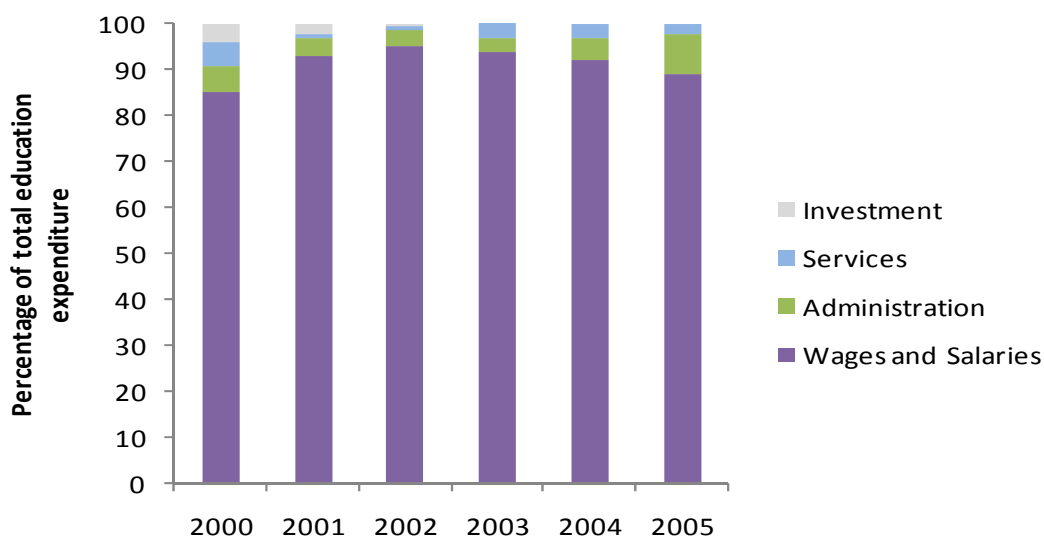
Figure 3. Expenditure by Level of Education



Source: Government of Ghana, audited financial statements 2000-2005



Figure 4. Composition of Education Expenditure



Source: Government of Ghana, audited financial statements 2000-2005

4.39 As quality declined, several key donors became concerned that the reallocations might deprive the primary system of the necessary funds to achieve adequate quality education. As PRSC matrixes did not establish overall ceilings for education funding, PRSC 5 donors insisted on inclusion of a trigger for PRSC 6 that 33 percent of all public education funds – that is, budget, donor fund, Ghana education trust fund, and other public funding sources – be reserved for primary education. The government was confident the trigger could be met, but, in the 2007 review process, it became evident that actual expenditures for primary education in 2006 were below the target. Several donors reduced performance tranches as a result of this non-compliance. The PRSC adjusted the condition ex-post and modified the original trigger to focus on per student expenditure rather than the share of total public education expenditure (World Bank 2008b). The pre-occupation of several donors with the 33 percent resource allocation trigger is, in the view of this report’s authors, overly rigid, and the flexibility which the Bank demonstrated was appropriate.

4.40 The non-compliance points to weaknesses in the public financial management system in the education sector, where donor funding and other extra budgetary funds are not integrated into the budget and monitored with it. The Government simply does not have adequate, timely knowledge of the resource envelope and flows. It also underscores *the* major weakness in the PRSC program: PRSC did not focus adequately on budgetary management issues and use of the budget as a strategic planning instrument. In effect, a process of institutional de-authorization has prevented the ministry from building up the institutional capacity to plan and manage its budgetary expenditures.

4.41 The PRSCs have failed to address these budgetary management issues at the sectoral level, and also failed to address the issue of the composition of education spending. While levels of education spending (other than the share allocation to primary education) were adequate, the

level of recurrent non-salary expenditures was insufficient. The need for budgetary management reforms at the level of the ministry and Ghana Education service were identified at the beginning of the PRSC process (World Bank 2004c).<sup>13</sup> PRSCs 1 and 2 matrices included targets addressing the composition of non-salary expenditures and execution rates of non-salary budgetary funds,<sup>14</sup> but by PRSC 3 a focus on the composition of expenditures was abandoned. This is a serious shortcoming. Government needs to focus on its obligation to fund non-salary recurrent expenditures under its own budget.

4.42 Within the PRSC process there appears to be a disconnect between overall reform conducted under the public financial management component and implementation of these processes within sector ministries. As important spenders of public funds, education and health should have been key ministries for implementation of these reforms, with the PRSC/Multi-Donor Budget Support platform an ideal instrument to support the reform process on both the systemic and sector levels.

4.43 For Ghana's education sector, the budget is clearly not used as an instrument for strategic planning and implementation. A review under the Paris Declaration Harmonization Agenda highlighted that a significant share of donor activities is not even recorded under the consolidated government budget (OECD 2006). Moreover, while donors make an effort to align their processes, the Ministry of Education in Ghana has built up little capacity and experience in managing its own resources with defined processes. More important is the management of the relations of different donor with their respective programs. The failure of the Multi-Donor Budget Support/PRSC process to insist on a rigorous integration of these programs into budgetary processes (as in Benin), is a serious weakness in Ghana.

4.44 The weak performance in sector financial/budgetary management processes also points to weakness in PRSC/Multi-Donor Budget Support processes. There appears little cross-fertilization between sector working groups and no interaction between the Public Finance Management group and the Education Sector Coordination group. As a result, the respective expertise was not brought to bear. Education sector group experts were not sensitized to the importance that budgetary and financial management issues have to the performance of a sector. Understandably, their concern was thus placed on the appropriate level of spending on basic education, rather than on the budget process and composition of expenditures within a consolidated budget.

#### **PRSC CONTRIBUTIONS TO SECTOR DEVELOPMENT: WATER**

4.45 Water and sanitation did not receive a prominent role in GPRS I. Progress in access to safe water has been rather poor, falling behind the rather modest targets established under the GPRS programs (see Table 3). At the present pace of progress, it is unlikely that Ghana will

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13 This project appraisal document points to the PRSC as the instrument to build capacity to increase execution rate of non-salary expenditures.

14 PRSC 1 attempted to increase the share of non-salary expenditures from 5.2 percent in 2002 to 8.5 percent in 2005. Execution rates of budgeted non-salary recurrent expenditures were to be increased from 63.6 percent in 2002 to 75 percent in 2003 and 85 percent in 2004. PRSC 2 targets for non-salary expenditure items were revised downward to 5.5 percent for 2005, and there was a shift from government budgetary expenditures to total expenditures.

meet the Millennium Development Goal of halving the share of population without access to safe drinking water.

**Table 3. Access of Population to Safe Water (Percent)**

	2004	2005	2006	Target 2006
Percentage of rural population with access to safe water	51.7	52	53.2	57.7
Percentage of urban population with access to safe water	54.5	55	56	59

*Source:* Government of Ghana, Implementation of the Growth and Poverty Reduction Strategy 2006-2009, Annual Progress Report 2006.

4.46 The water and sanitation sectors were introduced into the PRSC program with PRSC 3. The emphasis in the PRSC was on the adoption of the National Water Policy, which lays out the basic policy framework. The National Water Policy was adopted in 2007. Policy measures now under review for monitoring under the matrix are: (i) preparing medium term implementation programs for rural and urban water; (ii) implementing the water tariff review – a crucial issue as inadequate tariff revenues has led to the insolvency of several water utilities; and (iii) clarification of the legal and policy framework for sanitation.

4.47 While these are all useful measures, the water/sanitation sectors are still treated rather marginally in the Multi-Donor Budget Support/PRSC process. Unlike in health and education, donors do not regularly meet in a sector group, and donors still support the water and sanitation sectors through investment projects, which for the most part appear less integrated with government processes than in other sectors. Thus, while there is consensus among Government and donors that water/sanitation are sectors that need significantly more attention and resources, support lags well behind the health and education sectors. Some donors have pushed for an outcome approach in the water sector, linked to the achievement of the Millennium Development Goals, but the Government has strongly resisted this on the grounds that it has only limited influence over what happens in this area.

#### **PRSC CONTRIBUTIONS TO POVERTY OUTCOMES**

4.48 Poverty outcomes in Ghana have been encouraging. Preliminary data from the 2006 Ghana Living Standards Survey indicates a continuing decline in poverty.<sup>15</sup> The poverty headcount fell from 39.5 percent in 1998 to 28.5 percent by end 2006. Over the last 8 years, Ghana has reduced the share of population living in poverty by an average of 1.5 percentage points per year. The absolute number of poor decreased from 7.2 million in 1998 to 6.2 million in 2006. This puts Ghana safely within reach of the Millennium Development Goal poverty target, which has been fixed at 26 percent in 2015.

<sup>15</sup> Poverty is monitored through several data sets which are not all comparable. But all data point consistently to significant declines in poverty but with the regional differences presented below. The most recent and reliable data set is the 2006 Ghana Living Standards Survey, which is comparable to the 1998 survey. It indicates a continuing decline in poverty, with the poverty headcount falling to 28.5 percent by end 2005, down from 39.5 percent in 1998.

4.49 Most of the poverty reduction took place in the Forest region (both urban and rural), while the Northern Savannah appears to have been left behind even further. Even though the poverty headcount index in the Northern Savannah region was smaller in 2006 than in 1998, an increasing share of Ghana's poor live in the north. The significantly higher poverty rates in rural Ghana have several causes, including poor agro-climatic conditions in the north and severe constraints for businesses and limited access to services.

4.50 *What was the contribution of the PRSC/Multi-Donor Budget Support programs to the reduction of poverty in Ghana?* Although it is always difficult to attribute poverty alleviation to a specific policy or set of policies, it can be said that Ghana's relatively strong economic growth over the past decade has been translated to substantial poverty reduction compared to other Africa countries, and the PRSC indeed made some important contributions to the country's economic growth agenda (Kwasi 2010). The macroeconomic stability supported by the early PRSC operations at a critical juncture of Ghana's reform program was important for this growth path. Energy-related measures taken up under the PRSC were essential for sustaining macroeconomic stability. The investment climate improved over recent years, and the PRSC made some useful contributions to this improvement. PRSC measures in agriculture are considered to be less successful, as they only focused on some marginal elements of the agriculture reform agenda (World Bank 2008a).

4.51 The evidence on the impact on poverty alleviation from the significant increases that took place in poverty related expenditures is ambiguous. Poverty-related expenditures have reached 10.5 percent of GDP in 2006, accounting for 31 percent of total budgetary expenditures. However, it is difficult to gauge the impact of expenditures on poverty allocations, as the overwhelming share of the health and education budgets are directed to wages and salaries; most variable and almost all investment cost are financed from sources outside the budget. It is therefore difficult to assess how crucial the PRSCs were in this process. In terms of financing, they only provided a limited share of overall assistance to Ghana. PRSC resources amounted to an average of 2 percent of GDP per year.

4.52 However, PRSC resources were probably more important than their financial share would indicate, as they were timely and predictable and were not earmarked. Thus, they were considered to be a particularly valuable source of official development assistance. They were also important for maintaining political support for the government program by enabling increased social expenditures without commensurate cuts elsewhere in the budget. In terms of substantive contributions, as indicated, the measures to restrict extra-budgetary deficits caused by the energy sector have likely helped to prevent macro-instabilities. It is unlikely that the emphasis that the PRSCs placed on service deliveries to the poor has had a significant impact yet on poverty. The most important outcomes of these efforts are substantial increases in primary and secondary school enrollments. But given the long gestation periods for education investments, these efforts may not have yet contributed to reductions in poverty.

#### ASSESSMENT OF OVERALL PRSC OUTCOMES

4.53 Overall, the Ghana PRSC is stronger on the substantive outcomes than on its process achievements. The PRSC/Multi-Donor Budget Support process has been correlated with overall strong economic performance with the consequence that many of the outcome indicators have been met. Overall growth and poverty reduction targets have been met, and for most of the pe-

riod macro-stability was maintained and inflation progressively reduced. Some of the actions supported by the PRSC/Multi-Donor Budget Support have clearly contributed to this, though it is difficult to judge to what degree they would have been undertaken anyway in an environment of pure project assistance, for example. The argument for additionality is clearest in the energy sector, where forward momentum on policy would have been difficult to achieve without a development policy instrument to focus the dialogue. Similarly positive steps have been taken on the investment climate. At the sector level, there is progress on education, but health sector outcomes have fallen short of projections.

4.54 However, serious questions remain about the PRSC as a process and its achievements in strengthening budgeting in Ghana, reducing transaction costs to the Government, and enhancing general budget support and use of country systems by donors. First, the budget process is still extremely weak. Much public expenditure takes place off budget, and a good deal of responsibility for this lies with the donors. Second, transaction costs are still high. The PRSC/Multi-Donor Budget Support has an intricate monitoring framework and places a great deal of pressure on senior officials who need to participate in internal negotiations and in those with donors. As compared to investment lending, it seems to be more a matter of shifting the workload and transaction costs to different groups of government officials than a net reduction. Third, while the Multi-Donor program has clear benefits in bringing about an exchange of donor information and improving coordination among donors and with the Government, there is little evidence that they are moving toward the vision of having this become the core for donor support to Ghana. Even the Bank does not appear to be moving in this direction.

4.55 One rather surprising gap in the PRSC/Multi-Donor Budget Support architecture relates to capacity building. There is substantial donor funding for capacity building in Ghana, and the Bank has a number of instruments specifically for this purpose, including loans (for example, the Economic Management Capacity Project, Institutional Development Fund grants, and World Bank Institute courses). In addition the U.K. has a fund for assistance on public sector financial management and other donors have considerable technical assistance resources. Nonetheless, there is no systematic process for reviewing the capacity building implications of the PRSC/Multi-Donor Budget Support and ensuring that funding is geared toward meeting these needs.<sup>16</sup>

4.56 There has, however, been one notable success of the PRSC/Multi-Donor Budget Support in the process area, and that is donor coordination. This is somewhat different from harmonization, which implies alignment of donor systems with each other and with the Government. Compared to other African countries (for example, Malawi, Nigeria, Zambia), the quality and depth of donor coordination in Ghana is impressive. The PRSC/Multi-Donor Budget Support clearly requires a level of interaction among donors and senior officials much greater than when each pursues its own investment lending programs. The trade-off, as noted above, is the heavy transaction costs this imposes and the time senior officials must spend on such interaction.

4.57 On balance the Ghana PRSC/Multi-Donor Budget Support is rated moderately satisfactory. The declining relevance of the program over time dominates this assessment. The imple-

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16 Country teams point to efforts emerging in the areas of Agriculture, Public Financial Management, Education, Natural Resource Management, Health, and Transport, where there are annual review meetings to discuss, inter alia, capacity building needs.

mentation of the agreed measures merits a fully satisfactory rating, but the measures, while remaining useful, are no longer fully aligned with Ghana's own priorities and have become somewhat mechanical steps forward from the previous set of measures. For example, the budget should be broadened to encompass the large share of off-budget funding, and growth and private sector development agenda should be given deeper treatment. These measures need to be reevaluated for the appropriateness to the country's evolving situation.

## 5. Bank Performance

5.1 Bank management clearly regarded the PRSC as its flagship activity in Ghana. Some of the sector support programs are defined by the fact that they cannot be done well through the PRSC instrument so that a separate operation is needed. Arguably, if the limit on conditions on the PRSC were relaxed, more than the 40 percent of disbursements already included in the PRSC could be channeled through the instrument. The Bank's performance on the PRSC can be analyzed along a number of dimensions.

5.2 *Has the Bank played an effective role in supporting donor harmonization through the PRSC/Multi-Donor Budget Support?* Has it worked collegially and been willing to cede the leadership role to the Government or other areas? Has it worked through donor grouping to try to forge a consensus on the approach to be taken? Has the Bank shown flexibility in trying to harmonize its own procedures and approach to be consistent with those of other donors? The answer to all these questions is yes. The Bank has evolved in the course of managing the PRSC. Its willingness to align more closely and use a shared matrix with donors has been an important development, and the donors' trust of the Bank's role and bona fides has gradually increased over time. The Bank has also played an effective role in using the Consultative Group (CG) process, which it shares with the Government, to get a broader coordination of donor assistance with the PRSC/Multi-Donor Budget Support as the core instrument for macro-policy dialogue and for tackling cross-cutting issues.

5.3 Still, the picture is a mixed one. The Bank has not worked enough with donors to expand the share of the Multi-Donor process in overall donor assistance, nor has it done much to increase the alignment between the Bank's broader lending program and the PRSC, or donor project assistance and the Multi-Donor Budget Support. In this regard, the Bank has taken a particularly egregious step in recent months by establishing a nutrition fund as part of the pooled funding for the health ministry but earmarked for nutrition expenditures. This is the worst of both worlds - using what is ostensibly a budget support fund, while earmarking the disbursements to specific expenditures on nutrition. This is a misstep on a slippery slope that could potentially rob the budget support mechanism of its major benefit - providing fungible resources for the government budget. The Multi-Donor Budget Support has not served to prioritize the allocation of donor assistance.

5.4 The Bank also does not appear to have taken leadership on the capacity-building issue to ensure that the needs of the Multi-Donor Budget Support were being met by the donors; its activities in this area are rated Marginally Satisfactory. There was inconsistent attention to capacity building. The first PRSC was designed to be complemented by a capacity-building instrument, but the Government did not agree to this project. Important capacity-building measures in implementation of public financial management programs, procurement, and auditing were delayed. Other instruments have been used; for example, an Institutional Development Fund grant was provided for capacity reinforcement of the Internal Audit agency, and other donors have stepped in, but capacity building support continues to be unsystematic and subject to serious gaps.

5.5 *On the design of the PRSC itself, has the Bank selected the right issues?* The broad categories covered are aligned with priorities in Ghana. However, as the series evolved, key growth areas such as agriculture and water merited greater focus in the PRSC. The pressure from the Board and Operations Policy and Country Services to focus on poverty-related sectors as well as greater selectivity in PRSCs militates against this. It obviously raises transaction costs for all parties involved to add sectors to the operation. While the full Performance Assessment Framework covers a wider range of sectors than those included among the triggers and the added costs may not be that significant, there is a significant difference between the Government's and the donors' attention to those triggers compared to other items. On the whole, while the focus of triggers on those sectors that impact the budget (especially health and education) was appropriate, the PRSC did not concentrate on addressing these issues from a fiscal perspective and integrating their expenditures into the budget.

5.6 *Has the PRSC helped to define the issues at an appropriate level – that is, neither too simple nor too ambitious?* The picture here is also mixed. The PRSC includes bold measures – for example, energy deregulation as well as detailed bureaucratic steps in relation to public finance that seem out of place in an operation of this kind. This is an area where there was some difficulty in pitching the PRSC appropriately. A broader view of the budget process could and should have been taken. This said, it is important to recognize that the issues were framed in the context of getting government ownership and donor buy-in, limiting what the Bank could include. An issue had to be significant (such as energy) to justify going forward with it despite government and donor opposition.

5.7 *Has the country team functioned as an effective instrument for an integrated approach to PRSC design?* The Multi-Donor process makes it difficult to take a democratic approach to PRSC design, given the Bank's need to speak with a single voice in negotiations with other donors. On Government ownership, has the Bank been careful to promote this in the PRSC process? Has it emphasized links with the GPRS and used that process to support the Government's own strategy development through a consultation process? The Ghana PRSC gets high marks in this respect. The Government (or the Ministry of Finance and Economic Planning) clearly views the PRSC as *its* program.

5.8 On balance, Bank performance is rated Moderately Satisfactory. On the process side, the Bank was mostly successful, working well with the donors and Government, but the failure to maintain the relevance of the instrument through re-focusing on making the budget a more meaningful instrument of financial management and resource allocation brings down the rating from satisfactory to moderately satisfactory.

## 6. Conclusions and Lessons Learned

6.1 The findings of this evaluation largely concur with the finding of the recent Overseas Development Institute (ODI) evaluation of Multi-Donor Budget Support that the overall impact of the Multi-Donor program has been positive, but modest. This evaluation would apply the same judgment to the PRSC, with a caveat for the energy sector. The ODI review points out that the Multi-Donor Budget Support has coincided with a substantial increase in allocations to poverty reducing sectors (up from 28 to 35 percent from 2002 to 2005). To some degree, though, this was pushing on an open door, as it was attractive politically for the Government to increase these expenditures. The PRSC made this easier to do, since it provided additional resources for allocations, rather than requiring re-allocation from other expenditures. There have been useful contributions to public policy in Ghana: the decision to create a Ministry of Public Sector Reform, for example, clearly relates to the PRSC. The sense that the Bank, Fund, and donors would come down hard on misuse of resources was probably the most significant benefit derived from the program.

6.2 A set of core issues emerge from the review of the Ghana PRSC that reflect on the usefulness of the instrument and the situations in which it is best used. The first of these is the balance between macro/cross-sectoral focus and sectors. With agreement that the performance monitoring framework should only contain a set of around 30 measures, and an even smaller subset of 10 to 12 triggers, the degree of detailed treatment of individual sectors became an issue. While in principle there was agreement that the framework should focus on those sectoral issues with direct budgetary implications, in practice it has also included sector-specific recommendations that are difficult to justify (for example, forest cover, irrigation policy). The Multi-Donor Budget Support has evolved in a direction of separate sector working groups, with agendas that cannot be met through a single monitoring framework.

6.3 Consequently, there is growing interest, led in some cases by the Bank, in setting up sector budget support funds outside of the Multi-Donor Budget Support geared to these sectors, with subgroups of interested donors contributing to these funds. This allows a direct policy dialogue with the concerned sector, but maintains the role of the Ministry of Finance. It seems likely that the Multi-Donor process will evolve in this direction. While the budget funds seem to provide a reasonable solution to sectoral needs, in practice they employ different ground rules and funding arrangements. The test will be the extent to which the funds can be drawn into a sensible general budget. The funds also raise questions on the future character of the 'core' Multi-Donor Budget Support. Should it continue to include measures in sectors with specific budget support arrangements? There are two schools of thought: first, measures should be limited to issues of a cross-sectoral nature, to flag to the broader ministerial or cabinet level; second, that the Multi-Donor Budget Support could include overall measures to signal satisfactory progress in achieving measures in sectoral agreements. A likely variant would be to use the second approach for health and education, intrinsic to the poverty reduction focus of the Multi-Donor program, and limit other areas to cross-sectoral issues if and when needed.

6.4 For the Ministry of Finance and for the Bank, it is clear that there is a need to be selective in the inclusion of sectoral issues in the PRSC. The evaluation highlights the reasons for the government's reluctance to take on measures where non-compliance would affect the general



budget, but where the ministry has no direct leverage over the achievement of measures, which lie entirely in the purview of line ministries. Yet the PRSC can be a useful instrument in such cases for tackling difficult policy changes, as is evident in the case of the energy and water sector reforms as well, included by the Bank's insistence. Reforms in the energy sector were important because quasi-fiscal deficits stemming from the operations of the utility companies threatened to derail macroeconomic stability and the reform process. For the Bank there is the usual internal debate between the Poverty Reduction and Economic Management (PREM) department and the Sectors. In the case of Ghana, the balance to date between inclusion of macro- and sector-related measures seems appropriate, and it is difficult to argue that the sectors have been short-changed in this regard.

6.5 A second set of issues concerns the balance between quantitative outcomes and the performance measures (inputs) necessary for achieving the outcomes. The European Union has taken a clear position at the one extreme, arguing that the Multi-Donor Budget Support should focus on an agreed set of outcomes and assess performance against these. The Government is understandably reluctant on this score. The Bank is positioned at the opposite extreme in the debate, arguing that, while the performance measures should clearly relate to outcomes, they should be defined in relatively unambiguous terms and be limited to items that are clearly under the Government's control. The upshot has been the agreed *a la carte* approach, where the document specifies both the performance inputs and program outcomes and individual donors can choose which to use as the basis for their assessment.

6.6 The discussion has been a useful one in highlighting the fact that there is often a disconnect between the kind of outcomes the Performance Assessment Framework is intended to influence and measures designed to achieve those outcomes. This disconnect is often one of timing – the proposed measures have an impact in the longer-term. It remains important to specify key outcomes, but the Government, Bank, and donors need to ensure that the necessary inputs are in place and that government budget and donor programs support the inputs. One way of tackling this issue may be through distinguishing between individual PRSC/Multi-Donor Budget Support operations and PRSCs series. While the input measures seem the appropriate performance indicators in the short run, the discipline of relating them to outcomes at three to four year intervals and trying to understand why in some cases the outcomes have not materialized would add real value to the assessment. The Implementation Completion and Results Report (ICR) provides a mechanism for such a review, but it would be valuable to integrate it into the PRSC/Multi-Donor Budget Support framework itself.

6.7 A third set of issues concerns whether to interpret progress in a holistic manner (flexibly) or in relation to the achievement of the letter of the measures included in the Performance Assessment Framework (rigidly). The Bank, DfID, and the Dutch have argued for holistic interpretation of the general direction and pace of progress, rather than whether the specifics are met. At the other end of the spectrum, the European Community has argued that the specifics are contractual in nature. There is scope for different approaches. For many donors a small amount of withholding can be politically valuable. The Bank needs to recognize this fact of life, but also needs to define what constitutes substantial compliance and movement in the right direction. It becomes difficult for the Bank to signal a situation with increasing risk until that risk has actually materialized. How, for example, will the Bank react to a consistent failure to

achieve outcomes, even if there is a broadly positive rate of achievement of performance measures?

6.8 A fifth set of concerns has to do with the balance between the Government's own setting of measures and expected progress, and donors' perceptions of what is needed. While in principle the PRSC/Multi-Donor Budget Support is the Government's own estimate of priority programs within the GPRS and the pace at which it can move forward, these choices are not unconstrained. First, the donors determine which of the performance measures become triggers. Second, the Government is aware that it cannot simply put together a matrix of low-hanging fruit. The donors want to show that significant progress is being made. The Bank is central to this point, and the push to move forward in the energy sector in particular, which has been largely driven by the Bank, is close in character to old style conditionality. This said, the Overseas Development Institute review felt that the matrix was overly weighted toward measures included by the Government that were easy to fulfill and did not get at many of the fundamental problems.

6.9 An issue related to this is that of the sustainability of the dialogue on particular issues. In principle, the PRSC/Multi-Donor Budget Support should allow the Bank and donors to maintain the focus on a particular issue over time and ensure that forward momentum is sustained. In practice there seems to be considerable jumping around and issues getting dropped before good practices were established as part of the system. Another issue is that of timing and predictability. The donors have now arrived at an agreed mechanism, which is not entirely in synch with PRSC timing, but it is not clear this matters. The key is whether the process results in predictable levels of financing, and this seems to be the case.

6.10 Another issue relates to the link between the PRSC/Multi-Donor Budget Support and the overall program of the Bank and donors. Insofar as the budget support mechanism is setting the framework, the expectation is that the Bank and other donors would try to align their overall assistance programs to support the agreed measures included in the Performance Assessment Framework. While some Bank and other donor support goes in this direction, it does not appear to be systematically linked; important questions of capacity to achieve agreed outcomes do not seem to be taken up, for example. More important, the PRSC/Multi-Donor Budget Support does not seem to signal a general move toward budget support clearly envisaged when the mechanism was set up. While some smaller donors have bought into this, and DfID and the Dutch have increased their contributions, overall budget support still comprises only about a third of all assistance to Ghana. This mostly reflects the continued dominance of "sector lobbies" within the donor community in maintaining separate lines of communication through identifiable projects with donor labels on them.

6.11 As far as the Bank is concerned, the PRSC was originally seen as a movement of Bank lending (whether or not such lending was part of the PRSC) toward general budget support. In practice, the model that the Bank is increasingly following is one of development policy loans at the sector level which provide funds for the general budget, but enable a policy dialogue with the concerned sector ministry. The 'vision' seems to be that these are needed for an interim period in which the sector policy and capacity requires special nurturing and closer attention than can be provided through the PRSC; the intention is that, as these are phased out, they can be incorporated in some more aggregated form into the triggers and funding of the PRSC.

6.12 *Has the PRSC/Multi-Donor Budget Support mechanism lowered transaction costs to donors, the Government, and the Bank?* A lesson to emerge for the government is that the multidonor process can lead to cost savings, as the process has freed up from some of the administrative aspects of project assistance. For the donors, it is perhaps more a matter of how they spend their budgets. Budget support fits well with a structure that is largely field-based, where the dialogue can be carried out by a field-based staff of macro and sector economists, without a need for some of the technical specialists who might be needed to support investment lending. On the other hand, it probably increases the need for high quality field-based staff. In the case of Ghana, the fact that the team task leader was not field-based represented a cost in terms of interaction with the Government and donors, but this was reduced by the fact that the team task leader was in the field part time and maintained involvement during the period.

6.13 This leaves the question of whether, in the view of the mission, the PRSC/Multi-Donor Budget Support framework should continue to be used in the future. As Ghana's economy has grown and generated more domestic resources, the relative importance of PRSC/Multi-Donor support is declining. Ghana has also recently borrowed significant amounts from the capital market. In terms of resource transfers, the PRSC/Multi-Donor Budget Support is thus less important.

6.14 But even with less donor dependence, the process will remain important for Ghana. As recognized by the Government, the PRSC / MDDBS process is an effective platform for aligning donor positions and policy dialogue for the Government, which is an important institutional achievement. Another valuable aspect for the government is the integrating role of the PRSC across key sectors within the government. The PRSC process has also clearly demonstrated the benefits of better public financial management in the integration of cross-sector budget management, but has also pointed towards the need for further integration of budgetary and off-budget funds. Overall, the Government recognizes the importance of this platform and particularly appreciates the Bank's role, given its sound technical knowledge and capacity to serve as an integrating player among different donor interests. The instrument can also be put to good use should economic shocks require new adjustments in the Ghanaian economy.

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FY08-11 CAS to reduce the share of budget support to 28 percent of overall Bank lending, compared to 40 percent in the preceding CAS (FY04-07).

Appendix Table 1. External Support to Ghana

Actual Disbursements Projected Disbursements	GPRS I				GPRS II						
	Actual Disbursements				Actual	Projected Disbursements				Projected	
	2003 - 2006 2007 - 2010	2003	2004	2005	2003-2005	2006	2007	2008	2009	2006 - 2009	2010
<b>Total Disbursements (US\$m)</b>		<b>833.06</b>	<b>950.19</b>	<b>1,003.88</b>	<b>2,787.13</b>	<b>1,186.97</b>	<b>1,325.64</b>	<b>1,427.58</b>	<b>1,520.69</b>	<b>5,460.87</b>	<b>1,398.42</b>
<b>IMF Support</b>											
PRGF Arrangement (BOP support to BOG)		76.59	38.66	38.15	153.40	116.55	0.00	0.00	0.00	116.55	0.00
<b>Budget Support (Unearmarked)</b>		<b>262.11</b>	<b>303.22</b>	<b>276.90</b>	<b>842.23</b>	<b>324.14</b>	<b>321.94</b>	<b>355.27</b>	<b>466.23</b>	<b>1,467.58</b>	<b>436.69</b>
MDBS		262.11	303.22	276.90	842.23	324.14	309.81	340.13	379.26	1,353.33	355.53
SBS		0.00	0.00	0.00	0.00	0.00	12.13	15.15	86.97	114.25	81.16
<b>Sector and Investment Support</b>		<b>494.36</b>	<b>608.31</b>	<b>688.83</b>	<b>1,791.50</b>	<b>746.28</b>	<b>1,003.69</b>	<b>1,072.30</b>	<b>1,054.46</b>	<b>3,876.74</b>	<b>961.73</b>
Credits		159.79	201.39	240.22	601.41	203.93	277.81	311.42	352.02	1,145.18	389.37
Grants		334.57	406.92	448.61	1,190.10	542.35	725.88	760.89	702.44	2,731.56	572.36
of which:											
<b>Pillar 1: Private Sector Competitiveness</b>		<b>252.32</b>	<b>289.16</b>	<b>311.78</b>	<b>853.26</b>	<b>369.33</b>	<b>569.26</b>	<b>562.78</b>	<b>586.57</b>	<b>2,087.95</b>	<b>559.37</b>
Private Sector/Trade/Financial Sector		36.36	36.77	52.14	125.27	57.47	85.12	101.87	65.44	309.90	43.61
Agriculture (incl. NRM)		94.90	101.74	99.50	296.15	152.31	209.87	226.77	199.83	788.78	179.21
Energy		7.92	9.14	20.14	37.21	11.36	147.06	59.63	82.77	300.82	100.95
Transport		112.12	140.47	138.65	391.23	147.22	124.24	170.52	232.46	674.44	227.19
ICT		0.00	0.00	0.00	0.00	0.05	0.15	0.75	2.25	3.20	3.00
Employment/Safety Net/Vulnerability		1.02	1.03	1.35	3.40	0.93	2.82	3.24	3.82	10.81	5.40
<b>Pillar 2: Human Development and Basic Services</b>		<b>208.24</b>	<b>277.91</b>	<b>342.38</b>	<b>828.53</b>	<b>316.07</b>	<b>343.38</b>	<b>434.09</b>	<b>390.59</b>	<b>1,484.13</b>	<b>333.91</b>
Education/Manpower Development		46.95	56.00	102.99	205.94	74.61	105.33	124.57	130.05	434.56	93.96
Health (incl. HIV/AIDS)		104.31	174.10	180.18	458.59	166.31	150.61	135.76	116.35	569.03	116.70
Water and Sanitation		53.07	44.81	59.21	157.10	75.15	84.64	170.64	141.27	471.70	120.20
Urban Development		3.90	3.00	0.00	6.90	0.00	2.79	3.12	2.92	8.84	3.04
<b>Pillar 3: Good Governance and Civic Responsibility</b>		<b>33.80</b>	<b>41.24</b>	<b>34.67</b>	<b>109.71</b>	<b>60.88</b>	<b>91.05</b>	<b>75.43</b>	<b>77.30</b>	<b>304.66</b>	<b>68.45</b>
Public Financial Management		5.59	1.81	2.57	9.97	3.49	7.12	8.74	8.24	27.58	5.86
Public Sector Reform		7.39	5.60	0.84	13.82	3.84	8.59	5.49	9.75	27.67	12.72
Decentralization		7.82	9.48	14.40	31.70	33.95	44.58	27.67	29.32	135.52	26.76
Governance/Democracy		9.93	18.60	14.74	43.28	17.27	28.94	30.15	25.47	101.83	18.58
M&E Systems and Institutions		3.07	5.75	2.12	10.94	2.33	1.83	3.38	4.52	12.06	4.52
<b>Credits and Grants</b>											
Total Credits		281.16	309.15	359.11	949.42	390.47	411.19	465.79	551.39	1,818.84	545.75
Total Grants		475.31	602.38	606.61	1,684.31	679.95	914.45	961.79	969.30	3,525.48	852.67
Credits as Percentage of Total Disbursements		37.17	33.92	37.19	36.05	36.48	31.02	32.63	36.26	136.38	39.03
Grants as Percentage of Total Disbursements		62.83	66.08	62.81	63.95	63.52	68.98	67.37	63.74	263.62	60.97
<b>Direct Support to NGOs (not included above)</b>		<b>18.42</b>	<b>16.07</b>	<b>20.87</b>	<b>55.37</b>	<b>27.48</b>	<b>19.86</b>	<b>19.27</b>	<b>17.48</b>	<b>84.08</b>	<b>26.50</b>

Appendix Table 1. External Support to Ghana

Development Partner (m\$)	Actual Disbursements Projected Disbursements	2003 - 2006 2007 - 2010	GPRS I				GPRS II					Projected
			Actual Disbursements				Actual	Projected Disbursements				
			2003	2004	2005	2003-2005	2006	2007	2008	2009	2006 - 2009	
World Bank			246.17	297.17	330.67	<b>874.01</b>	277.98	309.24	294.92	386.49	<b>1,268.62</b>	411.36
IMF			76.59	38.66	38.15	<b>153.40</b>	116.55	0.00	0.00	0.00	<b>116.55</b>	0.00
ADB			54.31	38.80	68.85	<b>161.96</b>	74.94	59.66	123.26	137.01	<b>394.87</b>	115.33
EU			77.67	59.45	99.11	<b>236.23</b>	105.27	208.19	104.47	146.99	<b>564.91</b>	124.05
Canada			11.17	35.06	40.39	<b>86.63</b>	46.20	48.65	47.66	47.84	<b>190.36</b>	50.22
Denmark			45.06	54.00	49.16	<b>148.22</b>	55.84	61.30	60.39	67.50	<b>245.03</b>	66.61
France			18.90	22.56	31.38	<b>72.84</b>	28.63	50.60	72.05	73.63	<b>224.91</b>	63.16
Germany			19.75	28.94	32.89	<b>81.58</b>	45.35	50.96	35.30	23.89	<b>155.49</b>	8.78
Italy			1.64	3.21	4.74	<b>9.58</b>	16.71	2.23	19.07	0.00	<b>38.01</b>	0.00
Japan			38.05	46.53	22.81	<b>107.39</b>	28.38	47.92	56.49	62.87	<b>195.65</b>	71.97
Netherlands			29.53	44.46	27.90	<b>101.89</b>	100.82	100.03	181.86	160.67	<b>543.37</b>	123.92
Nordic Development Fund			1.42	0.16	1.57	<b>3.15</b>	1.67	10.52	11.64	9.35	<b>33.18</b>	8.33
Spain			10.00	15.00	15.00	<b>40.00</b>	0.00	22.94	34.38	21.13	<b>78.45</b>	0.00
Switzerland			4.20	6.02	6.62	<b>16.85</b>	7.03	9.23	11.66	10.94	<b>38.85</b>	12.43
United Kingdom			98.77	139.22	109.99	<b>347.98</b>	141.13	148.96	150.37	155.12	<b>595.59</b>	162.86
United States			58.23	67.88	61.96	<b>188.07</b>	58.95	119.27	167.23	169.15	<b>514.60</b>	138.35
FAO			1.60	4.45	1.92	<b>7.97</b>	2.46	2.94	2.50	2.50	<b>10.40</b>	0.60
IFAD			8.35	9.09	5.80	<b>23.24</b>	5.31	6.75	8.35	9.73	<b>30.14</b>	9.65
ILO			0.42	0.74	0.95	<b>2.11</b>	1.60	1.47	0.00	0.00	<b>3.07</b>	0.00
IOM			0.60	0.26	0.33	<b>1.19</b>	0.22	0.20	0.20	0.20	<b>0.82</b>	0.00
UNAIDS			0.57	0.41	0.28	<b>1.26</b>	0.26	0.26	0.35	0.35	<b>1.22</b>	0.35
UNESCO			0.15	0.38	0.44	<b>0.97</b>	0.50	0.41	0.00	0.00	<b>0.91</b>	0.00
UNFPA			5.00	5.00	5.00	<b>15.00</b>	5.31	5.53	6.72	6.72	<b>24.28</b>	6.72
UNICEF			7.07	10.64	11.66	<b>29.37</b>	22.61	12.23	12.27	12.27	<b>59.38</b>	12.27
UNIDO			2.80	2.00	1.00	<b>5.80</b>	0.30	2.22	2.33	1.34	<b>6.19</b>	0.00
UNDP			4.69	7.48	6.30	<b>18.48</b>	8.80	16.37	13.27	3.97	<b>42.40</b>	0.00
WFP			0.89	3.47	2.16	<b>6.52</b>	1.58	3.34	2.96	3.16	<b>11.04</b>	3.16
WHO			6.32	5.08	5.68	<b>17.08</b>	6.43	6.43	7.89	7.89	<b>28.64</b>	8.29
Global Fund			3.15	4.08	21.15	<b>28.38</b>	26.16	17.80	0.00	0.00	<b>43.95</b>	0.00
<b>Total</b>			<b>833.06</b>	<b>950.19</b>	<b>1,003.88</b>	<b>2,787.13</b>	<b>1,186.97</b>	<b>1,325.64</b>	<b>1,427.58</b>	<b>1,520.69</b>	<b>5,460.87</b>	<b>1,398.42</b>

Sources: World Bank, Government of Ghana



Appendix Table 2. PRSC Disbursements as a Share of GBS, of Government Expenditures

	PRSC1 yr	PRSC2 yr	PRSC3 yr	PRSC4 yr	PRSC5 yr
Calendar Year	2003	2004	2005	2006	2007
General Budget Support					
<i>Credits/loans</i>					
PRSC (US\$ mil.)	128.2	127.5	123.6	143.1	108.1
<i>Other credits/loans (list by lender)</i>					
ADB	31.6	18.5	32.8	32.1	0
EU	46.8	34.6	29.9	24.1	24
Canada	3.6	17.5	13.6	14.3	15
Denmark	0.8	4.9	4.4	5.6	6.2
France	0	0	8.4	8.1	23
Germany	0	4.8	5.2	11.3	13.6
Netherlands	6.3	13.3	8	18.5	33.3
Switzerland	3.7	5.4	5.8	5.8	5.9
United Kingdom	41.1	76.7	45.6	61.3	78.8
Total General Budget Support	262.1	303.2	277.3	324.2	307.9
Total ODA (US\$ mil., data source OECD-DAC)	1213.2	1495.3	1387.4	1349	N/A
PRSC/General Budget Support (%)	48.9	42.1	44.6	44.1	35.1
General Budget Support/ODA(%)	21.6	20.3	20.0	24.0	
<b>Government Revenues and Expenditures</b> (data from WB LDB database)					
Total current expenditures (US\$ mil.)	1,526.4	1,854.2	2,008.4	2,330.8	
Total capital expenditures and net lending (US\$ mil.)	681.4	1,098.1	1,286.7	1,850.9	
Total government expenditures (US\$ mil.)	2,207.7	2,952.3	3,295.1	4,181.7	
Total domestic revenues, incl. grants (US\$ mil.)	1,943.2	2,673.5	3,002.1	3,334.6	
ODA/total government expenditures (%)	55.0	50.6	42.1	32.3	
General Budget Support/total expenditures (%)	11.9	10.3	8.4	7.8	
PRSC/total expenditures (%)	5.8	4.3	3.8	3.4	
Domestic revenues/total expenditures (%)	88.0	90.6	91.1	79.7	

Sources: World Bank, Government of Ghana

Appendix Table 3. HIPC AAP Indicators (2001, 2004)

		ASSESSMENT		
		Standard Benchmark	2001 Assessment	2003-04 Assessment
<b>FORMULATION</b>				
Comprehensiveness				
1	Fiscal reporting adequately covers the Government Finance Statistics definition of the general government sector	A	C	B
2	Government activities are not funded through inadequately reported extrabudgetary sources to a significant degree	A	B	B
3	Budget out turn data are quite close to the original budget	B	C	C
4	Fiscal reports include grants projected to be provided by donors	A	B	B
Classification				
5	Budget expenditures are classified on an administrative, economic, and detailed functional or programmatic basis	B	C	B
6	Poverty-reducing expenditures are clearly defined	A	C	A
Projection				
7	Multi-year expenditure projections are integrated into the budget formulation process	A	B	B
<b>EXECUTION</b>				
Internal control				
8	There exists a small stock of expenditure arrears, with little accumulation of arrears over the previous year	A	C	A
9	Internal control is effective	A	C	B
10	Tracking surveys are in use, or are necessary	B	B	B
Reconciliation				
11	Satisfactory reconciliation of fiscal and banking records is undertaken routinely	A	C	A
<b>REPORTING</b>				
In-year Reporting				
12	Internal fiscal reports are received within four weeks of the end of the relevant period	B	C	C
13	Good quality classification of poverty reducing spending is reflected in the in-year budget reports	A	C	A
Final Audited Accounts				
14	Routine transactions are entered into the main accounting system(s) within two months of the end of the fiscal year	A	C	A
15	An audited record of the final outturn is presented to the legislature within twelve months of the end of the fiscal year	B	C	C
<b>NEW</b>				
Procurement				
16	The procurement system supports efficiency and effectiveness in the expenditure of public funds through clear and enforceable rules that promote competition, transparency and value for money	A		B
<b>Total Number of Benchmarks Met</b>			<b>1</b>	<b>7</b>

Sources: World Bank, Government of Ghana

Note: Shaded cells indicated cases where assessed indicator meets or exceeds the standard benchmark level

Appendix Table 4. PEFA as Part of 2005 PFMR Exercise

Indicator	Scores	Brief explanation and Cardinal Data used
1. Aggregate expenditure out-turn compared to original approved budget	A <sup>17</sup>	In one out of the last three years actual total primary domestically financed expenditure deviate by more than 15% from the amount budgeted (21.5% in 2002).
2. Composition of expenditure out-turn compared to original approved budget	D	In 2003 and 2004 the variance in the composition of primary domestically financed expenditure exceeded overall deviation in total primary domestically financed expenditure by 16.9 and 15.6 percentage points, respectively.
3. Aggregate revenue out-turn compared to original approved budget	A	In each of the last three years actual domestic revenue collection exceeded budgeted domestic revenue estimates.
4. Stock and monitoring of expenditure payment arrears	C	For the year when supplementary information was available (2003), the indication was that the total stock of government arrears reached 5% of the total primary domestically financed expenditure. There is no evidence that the stock of arrears has been reduced in the last two years (C). Data on the stock of arrears was generated by one comprehensive survey in 2003 (including Government net indebtedness with public utilities). No comparable data is available for 2002 and 2004 (C).
5. Classification of the budget	C	The budget classification system does not consistently use the GFS standards. However the system is based on a Chart of Accounts that makes it possible the generation of budget documentation consistent with those standards using a bridge table.
6. Comprehensiveness of information included in budget documentation	B, ▲	Recent budget documentation fulfils 6 out of 9 information benchmarks. The remaining areas which are incomplete are being addressed by planned and ongoing improvements.
7. Extent of unreported government operations		There is no sufficient and reliable information to adequately assess the key dimensions of this indicator.
8. Transparency of inter-governmental fiscal relations	D+,▲	A transparent formula for horizontal allocation of funds to local governments is in place for DACF that makes up at least 50% of the DAs' financial resources (B). No reliable Information on DACF or other resource allocations is received by DAs prior to finalization of their budgets, and when it arrives this occurs too late for significant budget changes to be made (D). DAs' annual budgets, expenditure reports, and audited annual accounts are not prepared in a comprehensive and timely manner, and are not consolidated with central government budget and reports according to same categories (D).
9. Oversight of aggregate fiscal risk from other public sector entities	D+, ▲	Most autonomous government agencies prepare financial reports but a consolidated overview is missing (C). Government does not produce a report which consolidates overall fiscal risk issues (D).
10. Public Access to key fiscal information	B	Ghana provides 4 out of the 6 elements of information to which public access is essential. While budget documents, audit reports and financial statements are made available, information on contract awards and releases to primary service units is lacking.
11. Orderliness and Participation in the annual budget process	D,▲	A fixed budget calendar exists with guidelines which require the participation of MDAs and Cabinet in the process but this timetable is not always strictly adhered to (B). A budget circular is issued to MDAs indicating ceilings for individual administrative units or functional areas. The initial ceilings for the 2006 have not been approved by Cabinet before distribution to MDAs; Cabinet will approve revised ceilings after MDAs have completed detailed costing (C). Within the last 3 years Parliament has approved the budget well into the third month (March) of the fiscal year under a tight time schedule (D).
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	Forecasts of fiscal aggregates on the basis of the main categories of economic classification are prepared for at least three years on a rolling annual basis (C). Debt sustainability analysis has been undertaken at least twice during the last three years, but the same has not been the case with domestic debt (C). Sector strategies have existed for

Appendix Table 4. PEFA as Part of 2005 PFMR Exercise

		several major sectors, but their consistency with aggregate fiscal forecasts is not proven (C). Many important investment decisions are made on the basis of relevant sector strategies, but link with relevant recurrent cost implications is weak and inclusion in forward budget estimates is incomplete (C).
13. Transparency of taxpayer obligations and liabilities	C+	Overall, the legislation and procedures for most major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved (B). Taxpayers have access to some information and education on tax liabilities and procedures, but it is limited due to coverage of selected taxes only and lack of comprehensiveness (C). A tax appeals system of administrative procedures is set up, but needs substantial redesign to be more transparent, effective, functional, efficient, and fair (C).
14. Effectiveness of measures for taxpayer registration and tax assessment	C	Taxpayers are registered in database systems of individual tax revenue agencies (also corresponding to major types of taxes) which are not fully and consistently linked (C). Penalties for non-compliance exist for most relevant areas, but are not always effective due to scale and erosion of real impact on compliance (C). There is continuous tax audit and fraud investigation, but there is insufficient evidence that this is based on clear risk assessment criteria (C).
15. Effectiveness in collection of tax payments		There is no sufficient and reliable information to adequately assess the key dimensions of this indicator.
16. Predictability in the availability of funds for commitment of expenditures	C+,▲	A cash flow forecast is prepared for the fiscal year and updated at least quarterly, on the basis of actual cash inflows and outflows (B). MDAs are provided reliable information on commitment ceilings at least quarterly in advance (B). Significant in-year adjustments to the budget allocations are frequent but undertaken with some transparency (C).
17. Recording and management of cash balances, debt and guarantees		There is no sufficient and reliable information to adequately assess the key dimensions of this indicator.
18. Effectiveness of payroll controls	D+	The integrity of the payroll is significantly undermined by lack of reliable, complete and integrated personnel records and payroll databases, and by lack of reconciliation between these data bases (D). Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments (D). Controls of changes to records are deficient and facilitate payment errors (D). A comprehensive payroll audit has been undertaken within the last 3 years (B).
19. Competition, value for money and controls in procurement	B▲	Some evidence suggests that competition is improving in the award of contracts that exceed the established threshold for small purchases, but there is no comprehensive and reliable data to fully determine its extent (B). Other less competitive methods of procurement when used are justified in accordance with regulatory requirements (B). A mechanism for submitting and addressing complaints exists in Act, but its operation has not yet been tested and further improvements to the system may be required (B).
20. Effectiveness of internal controls for non-salary expenditure and assets management		Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures and may occasionally be violated (C).  There is no sufficient information to assess the other two dimensions of this indicator.
21. Effectiveness of internal audit		There is insufficient information to fully and objectively score all the dimensions of this indicator.
22. Timeliness and regularity of accounts reconciliation		Dimension i) Reconciliation of Treasury controlled accounts occurs monthly with most items cleared within 4 weeks of month end; information used to assess dimension needs further scrutiny. Dimension ii) There is no information to assess this dimension.
23. Availability of information on resources received by service delivery units	D	No comprehensive data on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

Appendix Table 4. PEFA as Part of 2005 PFMR Exercise

24 Quality and timeliness of in-year budget reports	C+	The CAGD produces monthly reports on central government budget outturns with classification that allows comparison with the original budget. It is not clear whether all expenditures are captured at commitment or at payment stage (B). Monthly reports are produced and issued within six weeks (B). There are some concerns about the accuracy of information which may not always be highlighted in the reports, but this does not undermine their basic usefulness (C).
25 Quality and timeliness of annual financial statements	C	A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account is not always complete, but the omissions have not been deemed significant as the Auditor General has concluded that the statements represent a true and fair view of the financial position of government (C). The statements are submitted for external audit within 6 months of the end of the fiscal year (C). Statements are presented in consistent format over time with some disclosures of accounting standards (C).
26. Scope, nature and follow-up of external audit		There is insufficient information to fully and objectively assess all the dimensions of this indicator.
27. Legislative Scrutiny of the Annual Budget Law	D+,▲	The legislature's review covers fiscal policies, medium term fiscal framework, and medium-term priorities as well as and aggregates for the coming year as details of expenditure and revenue (A). The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures (A). Time allowed for the legislature's review is clearly insufficient for a meaningful debate - less than one month (D). Clear rules exist for in-year budget amendments by the executive, but they may not always be respected, and allow for extensive administrative reallocations as well as expansion of total expenditure (C).
28. Legislative scrutiny of external audit reports		The information collected is not adequate for full and objective scoring of all dimensions of this indicator.
D1. Predictability of Direct Budget Support	D+,▲	In the first year of MDBS the actual total disbursement fell short of the forecast by 4.9% (A). Requirement for score C is that <i>"Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursement delays (weighted) have not exceeded 50% in two of the last three years"</i> This requirement is not met. There is no mechanism in place for quarterly disbursement of MDBS monies, and intra-year predictability is dependent on donor-government performance assessment (D).
D2. Financial Information provided by donors for budgeting and reporting on project and program aid	D	Some donors do not provide budget estimates for disbursement of project aid for the coming fiscal year with at least three months prior to its start, and some others do not provide them at all (D). Many donors do not provide quarterly reports within two month of end-of-quarter, and some donors only reactively report on actual donor flows when requested by the ADMU of the MOFEP (D).
D3. Proportion of aid that is managed by use of national procurement procedures		There is no information for full assessment and scoring of this indicator.

Sources: Government of Ghana, World Bank

Note: This score takes into account the provision in page 12 of PEFA (2005) guidelines that allow for one year to be abnormal (and not contributing to the score).

Appendix Table 5. PEFA from 2006 PFMR

		D	C	B	A
<b>A. Credibility of the Budget</b>					
PI-1	Aggregate expenditure out-turn compared to original approved budget				
PI-2	Composition of expenditure out-turn compared to original approved budget				
PI-3	Aggregate revenue out-turn compared to original approved budget				
PI-4	Stock and monitoring of expenditure payment arrears				
<b>B. Comprehensiveness and Transparency</b>					
PI-5	Classification of the budget				
PI-6	Comprehensiveness of information included in budget documentation				
PI-7	Extent of unreported government operations				
PI-8	Transparency of Inter-Governmental Fiscal Relations				
PI-9	Oversight of aggregate fiscal risk from other public sector entities				
PI-10	Public Access to key fiscal information				
<b>C. (i) Policy-Based Budgeting</b>					
PI-11	Orderliness and participation in the annual budget process				
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting				
<b>C. (ii) Predictability and control in Budget Execution</b>					
PI-13	Transparency of taxpayer obligations and liabilities				
PI-14	Effectiveness of measures for taxpayer registration and tax assessment				
PI-15	Effectiveness in collection of tax payment				
PI-16	Predictability in the availability of funds for commitment of expenditures				
PI-17	Recording and management of cash balances, debt and guarantees				
PI-18	Effectiveness of payroll controls				
PI-19	Competition, value for money and controls in procurement				
PI-20	Effectiveness of internal audit controls for non-salary expenditure				
PI-21	Effectiveness of internal audit				
<b>C. (iii) Accounting, Recording and Reporting</b>					
PI-22	Timeliness and regularity of accounts reconciliation				
PI-23	Availability of information on resources received by service delivery units				
PI-24	Quality and timeliness of in-year budget reports				
PI-25	Quality and timeliness of annual financial statements				
<b>C. (iv) External Scrutiny and Audit</b>					
PI-26	Scope, nature and follow-up of external audit				
PI-27	Legislative scrutiny of the annual budget law				
PI-28	Legislative scrutiny of the external audit reports				
<b>D. Donor Practices</b>					
D-1	Predictability of Direct Budget Support				
D-2	Financial info provided by donors for budget, reporting on project, programme aid				
D-3	Proportion of aid that is managed by use of national procedures				

Source: PFM Performance Indicator Table, Annex A of Volume 2

Note: The scores range from A (highest) to D (lowest). Shaded patterns indicate a + score (for example, PI-4 is a B+), PI-19 is not scored. Note:

Appendix Table 6. Alignment of Short-Term PFM Plan with PEFA Assessment

STAP Action	Relevant PEFA Indicator	PEFA Score	Comments
Budget formulation – strengthen the MTEF	Indicator 12	C	Improving the links between plans, budgets and outturns will take considerable time. This is considered a not-so-quick win, but initial steps are underway (for example, coding and improving link 2007 MTEF and Budget to the GPRS II).
BPEMS	Indicators 12, 16, 20, 22-25	C	Appropriate to focus on improving information flows through the system. This is considered a not-so-quick win.
Management of HR and Payroll System (IPFD2)	Indicator 18	C+	Appropriate focus. International experience would suggest that this is not such a quick win.
Cash management – decentralization of treasuries	Indicator 16	C	It is important to ensure that expenditure control procedures are not undermined.
Accounting and reporting	Indicators 22, 24-25	C (22) C+ (24-25)	The STAP rightly indicates that the introduction of accrual accounting should proceed with (extreme) caution.
Internal audit management	Indicator 21	D+	Appropriate focus. However, ensuring adequate understanding of the role of internal audit as a management tool to strengthen accountability for the use of MDA resources, rather than as a tool for pre-audit or <i>ex ante</i> control, is likely to take significant time.
Public procurement	Indicator 19	Not scored	Appropriate focus for reform.
Harmonization of the financial management laws and alignment of DPs' processes to the laws.	Indicator D-3	D	Whether or not it is a priority will not be solely up to Government. This is considered a no-so-quick win

Source: 2006 External Review of Public Financial Management, p. 26

**Appendix Table 7. Alignment of Medium-Term PFM Plan with PEFA Assessment**

S&MT AP Focal Areas/ Key Objectives	Relevant PEFA Indicators (in bold) (related Work Plan activity in brackets)	PEFA Score and Indicator
<b>Fiscal policy management - macro stability</b> - Formulate and implement sound macro-economic policies	PI-14 (linking/integrating revenue systems) PI-16 (improving monitoring of expenditure commitments) PI-8 (consolidating of fiscal data) PI-23 (PETS) PI-2 (more accurate wage bill)	D (23) C (2, 8, 14, 16)
<b>Strengthen budget formulation/preparation</b> - Allocate and manage financial resources efficiently, effectively and rationally	PI-12 (improving MTEF through capacity development) PI-8 (harmonization of central/local classification systems) PI-9 (facilitating SOE inputs into the budget) PI-5 (budget classification)	C (8, 9, 12) B (5)
<b>Straighten budget implementation</b> - Improve public expenditure management and reporting	PI-24 (budget reporting) PI-16 (cash releases) D-2 (donor harmonization) PI-3 (variance between planned and actual revenues) PI-15 (inventory control for revenue agencies) PI-22 (bank reconciliation) PI-7 (comprehensiveness of unreported government operations)	C (15, 16, 22, D2) C+ (24) A (3, 7)
<b>Financial regulatory and management framework</b> - Account for all public finances properly - Improve fiscal resource mobilization	PI-6 (development of asset register) PI-24, PI-25 (production of timely accounts) PI-20 (financial instructions) PI-7 (preparation of statutory accounts) PI-19 (activities for implementing the Public Procurement Act) PI-21 (activities for implementing the Internal Audit Agency Act) PI-26 (improvement of capacity of Audit Service, follow-up)	C (6, 20) C+ (24, 25, 26) A (7) Not scored (19) D+ (21)
<b>Integrated payroll and personnel system</b> - Improve the human resource and institutional management capacity	PI-18 (implement IPPD)	C+ (18)
<b>External resource mobilization / aid and debt management</b> - Reduce and restructure domestic debt	D-1, D-2 (improve data on external assistance, reports on use of external assistance) PI-17 (improving quality of external and domestic debt data, including debt reconciliation, contingent liabilities) PI-12 (debt sustainability) PI-7 (fiscal information on external loans)	C (D-2) C+ (D-1) C (12) B (17)
<b>Revenue management</b> - Improve fiscal resource mobilization	PI-14 (revenue database interface, improved revenue administration) PI-15 (revenue arrears) PI-3 (analysis of revenues against targets)	C (14, 15) A (3)
<b>Financial sector program</b> - Create enabling environment for the private sector	NA	
<b>Capacity building</b> - Improve the human resource and institutional management capacity	Cuts across all indicators	

Source: 2006 External Review of Public Financial Management, p. 27



