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Multi-Donor Direct Budget Support in Ghana: The Implications For Aid Delivery and Aid Effectiveness

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Multi-Donor Direct Budget Support in Ghana: The Implications for Aid Delivery and Aid Effectiveness*

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MULTI-DONOR DIRECT BUDGET SUPPORT IN GHANA: THE IMPLICATIONS FOR AID DELIVERY AND AID EFFECTIVENESS

1. Introduction

For all practical purposes, international development assistance is a mix of gift-giving and loans. Aid benefactors actively seek both. Guided by their preferences, donors identify “deserving” recipients and decide on the amount, the mix and the mechanisms of delivery of the assistance. What is in aid packages and the delivery mechanisms are less talked about but are vitally important for the effectiveness of development assistance. There is growing realization that the limited effectiveness of aid may be partly the result of the mechanisms of aid delivery and the transactions costs associated with them. Although less aid is explicitly tied than used to be the case, perceptions are strong that aid “*quality is not good enough*”. Delivery mechanisms influence the quality of aid because of their potential impact on the underlying institutional environment. Recent diagnosis of aid effectiveness has kindled interest in these matters prompting the question whether some foreign aid delivery mechanisms work better than others.¹

I review in this monograph the mechanisms of aid delivery, their potential effects on economic governance, and the emerging paradigm of the delivery of aid through direct budget support in Ghana. The next section provides a brief background to aid flows in Ghana and the regime of aid coordination. Section three looks at the trends in aid delivery mechanisms in Ghana and the potential impact on government systems. I turn next in section four to the direct budget support arrangements and the key elements that may be used as a lever of reform and to accelerate desirable change in government systems. This is followed by the results of a field survey of donors and government stakeholders as an assessment of the experience to date and the lessons learned.

¹ Easterly, Levine and Roodman (2003).

2. The Path of Aid Flows to Ghana

Ghana has for long remained one of the aid community's favourite countries in the West African sub-region. Beyond the historic and geopolitical considerations that influenced aid flows to Ghana for much of the 1960s and 1970s, Ghana in the late 1980s and early 1990s benefited from its willingness to pursue reforms and structural adjustments. In the late 1990s, the pursuit of democratic governance endeared Ghana to the aid community. At the turn of the millennium, a number of factors reinforced donor's enthusiasm. These included the successful transfer of power from one elected government to the other in 2000, the new government's commitment to the rule of law and democratic governance, to poverty reduction and growth (at a time when the aid paradigm focused more explicitly on the former), as well as the new government's enthusiasm for improvements in corporate governance and private sector led-growth.

Paradoxically, throughout the 90s, a string of budget deficits, rising debt and high debt service burden, rapid growth in the money supply, high and volatile inflation, unstable exchange rate and unfavourable terms of trade all combined to hurt the performance of the economy. By its own historical standards, the economy regained some growth impetus beginning in 2001. This was largely on account of relief of the external debt burden, improved export earnings, a focused attention on growth and poverty alleviation, a noticeably improved fiscal and monetary management, and the availability of development assistance.

Ghana's reliance on external development assistance to support budget implementation is legendary. Historically, tax revenue has only been enough to finance between 50-60% of total budgetary expenditures. Tax revenue since the mid 1990s hardly exceeded 80% of total budgetary revenue, 70% of total domestic financed expenditures, and 57% of total expenditures.

	Ghana	Sub-Saharan Africa
Net aid as % of gross national income	13	4
Net aid as % of gross capital formation	52	23
Net aid as % of imports	18	11
Net aid per capita (\$)	32	20

Source: Evaluation of the Comprehensive Development Framework (CDF), World Bank, Ghana Case Study, Working Paper series, undated.

Ghana's foreign aid per capita (loans and grants) rose sharply from \$18 in 1980 to a peak of \$38 in 1998 before falling to \$32 in FY 1999-00. The sharp rise in aid resources reflects the massive inflow of donor assistance in support of the economic and structural reforms begun in 1983. Ghana's net aid as a ratio of gross national income of 13% is 9 full points above the sub-Saharan average of 4%. The high dependency of public investment and imports on foreign aid reflects in the net aid to gross capital formation ratio of 52% and the net aid to imports ratio of 18% in FY 2000; both ratios are higher (the former considerably higher) than the sub-Saharan averages.

Traditionally, both multilateral and bilateral agencies have supported Ghana's development efforts through aid pledges. Pledges and disbursements were volatile throughout the 1990s. Disbursements as percent of total pledges ranged between 29% and 81% and averaged about 64% in the 1990s during the decade of 1989/1999. This made dependence on development aid more and more precarious. The impact of the shortfalls on the budget reflected mainly in domestic borrowing and on the balance of payments in declines in reserves.

3. The Aid Mix and Delivery Mechanisms

Donors decide on the preferred aid delivery mechanisms, which may take the form of commodity aid, technical assistance, project aid or programme aid.² The choice or the mode of resource transfer has implications for the behaviour of recipient countries, the donor-recipient relationships and not least the quality of development dialogue.³ The factors that affect the mix of grants and loans include donors' domestic considerations, political and strategic interests, historical factors, colonial links, and pure altruism because humans care about the well-being of their fellows. In the Report of the Commission for Africa published in March 2005, it was observed that much of the evidence on aid reflects not necessarily the need for growth but rather past geo-political considerations. Indeed, some commentators have argued that aid has rarely been an honest gift because in the delivery mechanisms are catches that leave recipient governments scarcely benefiting, some perhaps worse off.

² Debt relief is another form of aid delivery.

³ The choice of grants and loans is the subject of Alan Metzler's Report to the US Congress in 2000 (*International Financial Institution Advisory Committee Report to US Congress*)

It is tempting to dismiss the concerns of aid recipients that aid mix and delivery mechanisms matter with the proverbial saying that “beggars can’t be choosers”. But such a response is cavalier because it immediately narrows the scope for dialogue and it also undermines altruism. Even if donors are only strategically motivated in aid giving, there is still reason to worry about the delivery mechanisms because of the potential impact on economic governance that donors ultimately care about.

Historically aid flows into Ghana have taken many forms, most commonly commodity aid, technical assistance, project, and programme aid. Stand-alone evidence on the trends and amount of commodity aid and specific technical assistance are difficult to come by. More commonly, these forms of aid delivery may be part of a broader package of project or programme aid, grants and loans. Project aid may take the form of stand-alone national projects, or projects tied to specific sectors (Sector Wide Approach -SWAp) such as education, health, water, sanitation, and energy, or projects for specific group of people in specific geographical area (District Wide Approach-DWAp). The conventional wisdom with project aid is that donors concentrate their efforts in areas where they are most “efficient” or in areas where they perceive the greatest need. Donors select their preferred projects, the sector or geographical area and provide aid with or without matching fund contributions from the benefactors.

To the extent that the selection of projects, sectors and geographical areas reflect donor preferences, aid allocation may favour some sectors and areas more than others. Moreover, the scope of coordination failure rises with the dissimilarities in donor preferences. Worryingly, project aid can undermine government administrative systems in two ways. First, it is usually the best technical staff in government departments that are drawn into project management and monitoring units. This further weakens an already thinly staffed civil service machinery. Second, donors often select projects that are capital intensive, require capital imports and donor-based technical experts, especially when aid is tied. The project aid, the technical advice and technology may not conform to the priorities and capabilities of the recipient country planning. The heavy use of expatriate technical staff for project-related activities more often than not weakens local capacity building (Elbadawi and Gelb 2002) and contradicts the objective of capacity building. Moreover, research on aid fungibility suggests that narrowly focused project-based and donors’-driven accountability can be illusory. Accountability could be better

promoted by broad programmatic lending in the context of transparent and locally supported reform agenda.⁴

Developed during the mid 1990s, Sector Wide Approach (SWAp) to aid delivery is an improvement over individual project aid programmes. The basic idea is that donors work together with national authorities, agreeing on strategies for support, and seeking ways to pool their assistance. Properly coordinated, SWAps may reduce rivalries among donors in the competition for procurement and among line ministries in the competition for preferred projects. However, perceptions of the lack of full disclosure by donors, problems of transparency and openness, and the lack of accountability to recipient country government mean that SWAps may not always be fully integrated into national development plans. Left alone, parallel implementation systems and structures which stand outside regular administrative systems may emerge.

District Wide Approach (DWA) to aid delivery is the outgrowth of the decentralization objective and is in the mode of “stand alone” project aid. The basic idea of DWA is that donors direct aid, largely in the form of technical assistance and material support and grants, directly to local government units to fund specific projects. The premise is that geographical areas that are perceived as most in need of help may not be getting enough through normal central government channels. And when funds are allocated, much of that leaks through the civil service machinery before they reach the intended local beneficiaries. While, DWAs no doubt are well-intentioned targeted gift-giving, they may circumvent government systems and create parallel management systems. Unless the local aid is tied into a planning framework and their operational and maintenance costs captured in district budgeting, the sustainability of such ventures is always a concern. In Ghana, the fiduciary risk is surely the greatest reason for the concerns for DWAs, especially since the human capacity constraints in planning and budgeting at the district levels are noted to be high and the standards of transparency in public finance management are generally lower than desired.

Figure 1 shows the trends in the composition of aid flows at the aggregate level. Grants averaged about 20% of the mix of grants and loans in the 1990s. The decline in grants between

⁴ Devarajan and Swaroop 2000

1995 and 2000 coincided with the rise in project aid and signalled the growth of uncoordinated donor activities with little attempt on the side of government, line ministries, and development partners to relate those activities with national development agenda. The data in Figures 1 and 2 may not reflect total aid flows into government systems if some external assistance flows escape budget capture. This is more likely the case when disbursement goes directly to a non-central government agency, to an NGO or the districts. In fact, in both the monthly and annual reports of the Comptroller and Accountant General, the execution of foreign-financed projects is not captured whenever transactions are made outside of the public accounts. In a weak policy coordination environment with weak public finance oversight, it is likely that government ministries, departments and agencies maintain commercial bank accounts that directly receive external assistance flows, some in breach of Articles 176 and 183(2b) of the 1992 Constitution.

Figure 1: Total Aid Inflows

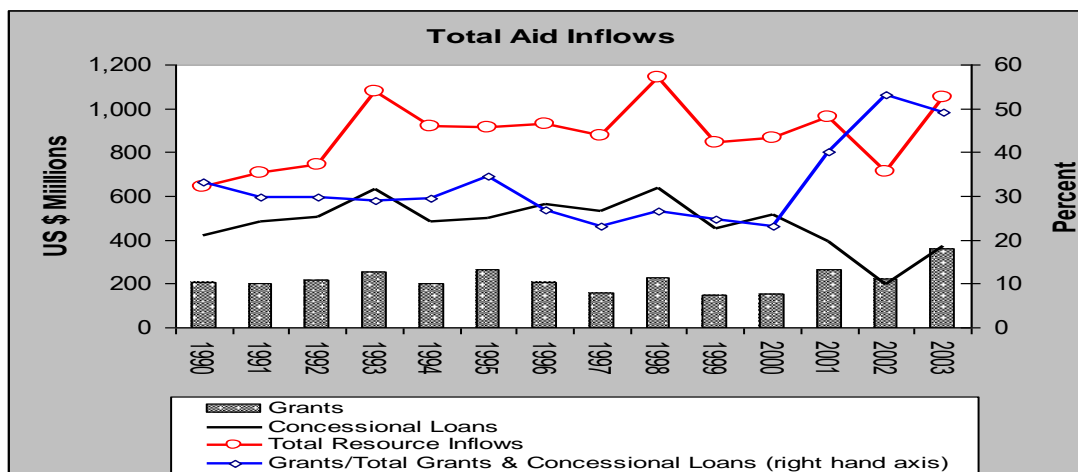
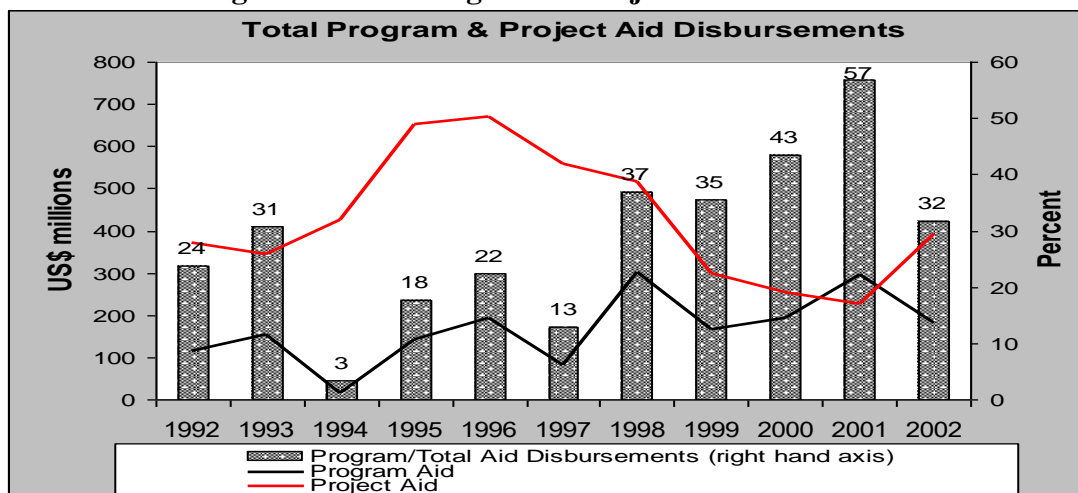
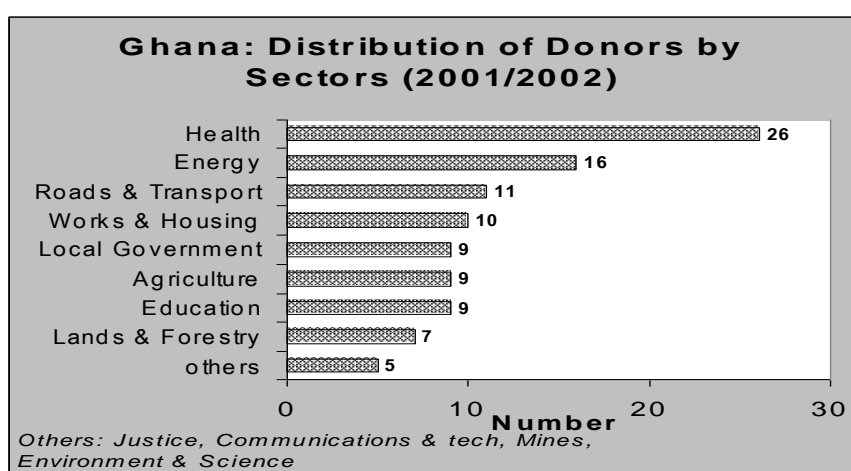


Figure 2: Total Program & Project Aid Disbursements



When the benefactors administer projects as “off-budget” items, when donors insist on transferring funds directly to non-central government agencies (often through commercial banks instead of Bank of Ghana), they inadvertently reinforce a vicious circle of weak government systems, undermine public financial management, and weaken the accountability of public institutions.⁵ The failure of MDAs to provide full disclosure of financial resources received directly from donors is a recurrent concern of both the Controller and Accountant General and the Auditor-General.

Figure 3: Distribution of Donors by Sectors



The shift away from grants in the early 90s also coincided with the shift into project aid. Figure 3 shows the distribution of donors by project sectors in 2001/2002. Nine multilateral institutions and 17 bilateral aid agencies competed for procurement, the delivery of grants and loans to the health sector. While the health sector SWAp is generally considered a success⁶ the existing SWAp programme (2002-2006) stands alone for those five years because it was completed before the Ghana Poverty Reduction Strategy (2002-2005) came to be. Health is followed by energy with three multilateral and 13 bilateral institutions, agencies and country governments. Donors’ participation was least in lands and forestry, and the agriculture sectors. Greater shares of aid inflows were directed to the financial sector, roads and transport, mines and energy in that

⁵ Commenting on the 2002 Public Accounts, the Controller and Accountant-General remarked that it could not produce broad-based financial statements for 2002 due largely to the fact that Ministries, Departments and Agencies that benefited from direct donor resources failed to provide adequate information of their accounts (Report of the Auditor-General on the Public Accounts of Ghana, 2002)

⁶ For a commentary on the Health sector SWAp see “A Multi-Partner Evaluation of the Comprehensive Development Framework” World Bank, 2002.

order.⁷ Aid flows to social infrastructure (education, health, population, water and sanitation) substantially increased in the latter part of the 1990s, crowding out aid flows to economic infrastructure and services such as transportation, communications, energy and banking, which had accounted for the largest share of aid commitments in the early 1990s.

Noteworthy, the sectoral shifts in commitments do not always reflect changes in recipient country's development priorities. Rather, the shifts are often in line with donors' priorities or with the general consensus in the donor community on what is deemed most relevant for economic development. Shifting donor preferences and priorities undermines the development process because first it drains the ownership of the vision and the process of development away from aid recipients. Second, it denies aid recipients the opportunities to tackling their developmental problems through learning by doing. Aid that is not cognizant of these dangers is less likely to bring about sustainable development outcomes. There is considerable scope for SWAps and DWAs if they are within a country-owned comprehensive development framework that coordinates policy dialogue and harmonizes procedures and processes.

According to the 1999 study "Study of Aid Flows"⁸ the problem Ghana faced in the late 1980s and throughout the 1990s was that much development assistance sat in different project boxes. The rate of expansion of project aid, the diversity of aid agencies, the increased complexity of donor operational policies and procedural requirements all made it difficult for government to keep pace with the demands for managing and coordinating the aid environment. The increased transaction costs arising from the preparation, negotiations, implementation and monitoring of agreements and the diminished country ownership of grant sponsored development projects add to the difficulty. The government's thin management capacity was unable to keep pace with the requirements for effective coordination and to maximize the benefits of aid resources.

The 1999 study further echoed the 1993 Public Expenditure Review's observations about the preponderance of matching fund projects.⁹ The latter accounted for about a third of Ghana's development budget in 1999. As of March 2003, there were 131 project loans and conditional grants outstanding of which 77% were identified as matching funds projects and were supported

⁷ Republic of Ghana, *Study of Aid Flows: Budget, balance of Payments and Monetary Effects, October 1999*

⁸ Prepared by the Ministry of Finance and Bank of Ghana.

⁹ Matching funds represent the contribution that central government (or other local agencies) makes to the financing of donor-assisted projects or programmes.

by 27 development partners and agencies.¹⁰ The major drawbacks include the pre-condition of blocking matching funds for specific project without regard to the timing of domestic revenue inflows, the excessive levels of matching funds requirements as a percent of project cost, and the reluctance of donors to share information. In most instances, bilateral donors often operate as if government officials have little “right” to full disclosure of project information because of their grant-aided nature. Historically, these projects are inadequately budgeted for in part because some are negotiated at the sector level by the implementing line ministries without fully assessing the availability of funds and the implications for overall budgetary outcomes.

There are also the potential problems of allocative inefficiencies. First there is always the risk that stand alone and matching fund project aid that donors seek to promote and are willing to fund may not always reflect the country government’s or public priorities. Government departments’ that prioritize projects on the basis of the willingness of donors to finance them therefore may inhibit allocative efficiency because such projects may not necessarily reflect optimal social choices.

Second, allocative inefficiency may also arise when MDAs use the availability of matching funds from donors as leverage on national budgetary resources. Historically, the Ministry of Finance and Economic Planning is on record as willing to give priority to matching funds or counterpart funded projects. The reasoning is that the inability of the MDAs to fulfil their matching fund obligations slows down project implementation and has often been the cause of further reduced level of aid disbursement, delays in project execution and the rather embarrassing creation of “off-budget” arrears. In a weak budget planning and coordination environment, matching fund projects become instruments of competitive leveraging of budgetary resources by MDAs in a manner that may not reflect national planning priorities. This practice introduces an element of constrained optimization in the allocation of budgetary resources in general and of development spending in particular.

¹⁰ J. Amoako-Tuffour and D. Twerefou, “Matching Fund Conditionality and the Implication for Budgeting and Budgeting Outcomes” A Study conducted at the Ministry of Finance and Economic Planning, May 2003.

4. Multi Donor Budgetary Support

At the beginning of the millennium, the desire for a change to direct support was mutual between the Government of Ghana (GoG) and its leading donors. The government and nine donors (African development Bank, Canada, Denmark, Germany, European Commission, Netherlands, Switzerland, United Kingdom and the World Bank) developed the multi-donor budget support mechanism. With lessons from past experience, donors seemed willing to look for new forms of development cooperation that will make every dollar of aid go a long way and to where it matters most - poverty reduction. At the April 2002 Consultative Group (CG) meeting held in Accra, the first for the NPP government, there was concurrence that the resources Ghana needed to implement the medium-term poverty reduction strategy and to reach international development targets was extraordinarily high. There was urgent need to boost domestic revenues if there should be any chance of deepening public expenditures in poverty related areas without igniting inflationary pressures. Also needed were general improvements in public financial management. But both the needed revenue and expenditure measures will take time to implement and to see results, especially when the needed measures were themselves part of the entire GPRS process. Both needed to be funded.

(a) The Potential Risks and Benefits of Direct Budget Support

Like any other activity in which different agents must apply imperfect judgments and limited knowledge to a changeable and unpredictable environment, development partnership dialogue is an uncertain art. In it, principles of good practices and management must co-exist uneasily with feel and trust balancing potential gains and risks. While it was acknowledged that project aid delivery had not produced desired results for both development partners and government, direct budget support was a form of assistance with unknown risks, most notably, the potential for collusive coercive behaviour of donors. Donors were aware of the risks associated with direct transfers of resources into the Consolidated Fund to support budget implementation. The risks include the commitment of government to budget implementation, how broad-based is the budget, the technical capacity to implement the budget, the soundness of public finance management, the transparency of government systems and the feasibility of harmonization among donors themselves. Not least is the risk of the fungibility of the funds made available to government. Because once funds are transferred to the recipient government's consolidated account, like any "tax contribution", donors have no direct influence on how the resources are

used, or the care with which they are managed. The ultimate objective then was to reach an understanding of the modalities of this new mechanism that will allow support and enhance the ability of the government to deliver its programmes and activities and to address the institutional problems that hinder the effective delivery of public services. That much was uncontroversial.

With respect to both multilateral and bilateral donors, there were precedents to active budget support in Ghana: on grants basis, the Netherlands, the United Kingdom, the European Union and Denmark, and on loan basis the World Bank, African Development Bank and the IMF. These have had mixed outcomes and the lessons learnt would inform future initiatives. These included general policy shortfalls requiring waivers, reporting and accountability shortfalls by sectors, shortfalls in release of matching funds, high administrative and transactions costs, delays on donor disbursement, and donor competition and rivalries.

In many respects reform is a complex and slow process. The opportunity that direct budget support provides in policy dialogue is an important avenue in encouraging gradual improvements in government systems, building institutional capacity and strengthening efforts and commitment of people and government to their own progress. Gradualism and learning will be seen as central to improving government systems, building desired capacity, and encouraging buy-in by line ministries and departments (their managers and front-line civil servants) who must be brought closer to any reform process if only because they must adopt, implement and sustain desired innovations in government systems.

With direct budget support, general or sector specific, donors may also see themselves on a personal level with citizens of the receiving country who also contribute resources through taxes into a common pool to finance development. Donors in effect become ‘special taxpayers’ into the recipient country’s consolidated funds, yet cohesive enough to use their ‘tax’ contribution to leverage for policy changes. These potential benefits must of course be balanced against the fiduciary risks involved in channelling money through government systems. There are other advantages even if of less strategic importance. Direct budget support also enables substantial savings in administrative and transactions costs of aid delivery by collapsing different project management and project implementation units into government systems.

To the recipient country, direct budget support strengthens local ownership of the development agenda, reduces the proliferation of donor conditionalities, reduces the unpredictability of donor funding and the inconsistency between donor and government budget cycles which often means that the required financial resources are not available when most needed. Finally, the government gains the assurance to carry out multi-year budgeting as envisaged under the medium-term expenditure framework. There was concurrence that the benefit of simplicity, predictability, higher flexibility in the use of funds, better coordination, the potential for higher quality of cooperation between donors and government, and the certainty of support far outweighed the potential risks of coercive collusive behaviour of donors.

(b) The Framework Memorandum (FM).

For direct budget support to work the recipient government must develop a common policy framework to serve as a reference point for development dialogue. In this instance, the Ghana Poverty Reduction Strategy will become an important driver of policy direction, policy dialogue, sectoral reform, poverty reduction as well as a road map to accelerate growth. The second condition is the willingness of donors to harmonize their aid delivery policies and procedures. On the latter, there are two important considerations.

First, there are the donor country specific legal restrictions on whether development assistance can be directed into budgetary support. These restrictions often cover procedures for disbursing funds together with country-specific standard conditions for development cooperation. Second, for those donors who can deliver aid through direct budget support, the issues turn on the country specific administrative and statutory provisions as defined in their bilateral agreements. More often, the nature of cooperation with other donors in the field depends on the operational procedures and regulations of each donor. These considerations determine the scope of harmonization. The next challenges turn on how much can be harmonized and harmonized around what? Harmonization was sought in the following key areas: common funding commitment procedures, common disbursements mechanism, common missions and policy dialogue, common reporting requirements and the set of policy reform measures and poverty reduction goals that will be used to assess progress of GPRS implementation. And to be effective, all these will be harmonized around the government's budget cycle.

The Framework Memorandum governing the grant, credit and loan agreements through direct budget support was based on three key assumptions.¹¹ First, that the GPRS articulates a coherent set of policy objectives, programmes and activities that will guide the economic policy-making to accelerate growth and poverty alleviation in the medium-term. Second, that the GPRS identifies the key areas of policy focus and the priority setting process. Third, that the central government budget will be the main tool to reach the GPRS objectives, to tackle the priority sectors, and to implement all programmes and activities as defined in the GPRS. And finally that the priority sectors identified will be protected in the budget.

The FM delineated three over-arching requirements for the government; namely, (a) maintain an appropriate macro-economic framework usually within the context of a PRGF arrangement with the International Monetary Fund; (b) develop an appropriate monitoring and evaluation system which will be used to assess progress on the implementation of the GPRS and to provide feedback for the further strengthening of the strategy; and (c) ensure that progress is made in reforms represented in the progress assessment framework as mutually established from year to year. Noteworthy, the FM also provided for (1) clauses against corruption in order to ensure transparency, accountability and probity in the use of public resources; (2) for conflict resolution mechanisms;¹² (3) for modalities of dialogue and reporting mechanisms from both government and DPs.

(c) Performance Indicators

On the premise that direct budget support will be based on ex post measures of performance, a key principle is that government and partners agree on performance indicators that form the basis of disbursements. They must agree on the formula for disbursement and the mechanisms for disbursement. In Ghana, the latter are all spelt out in the framework agreement. Disbursement is made in two equal transfers. The base disbursement in the first quarter is determined by a positive outcome of the annual IMF/PRGF review in the previous year. The performance disbursement is based on satisfactory assessment of achievement of prior indicators jointly

¹¹ *The framework memorandum was accepted by the Government of Ghana and Development Partners and became operational in June 2003.*

¹² *Conflicts are to be settled by means of dialogue and consultation. The government and partners will promptly consult with the other participants whenever a partner proposes to suspend or terminate, in whole or in part, support to the GPRS. If a partner invokes remedial measures or if support is no longer available, the government will promptly review and make necessary revisions to the program, in consultation with the other partners, to ensure that the expenditure framework corresponds with the available resource envelope.*

chosen by government and donors and on the government side jointly agreed to by the implementing Ministries, Department and Agencies (MDAs).

Table 2: The Maiden Policy Matrix: 2003

<i>Objective</i>	<i>Trigger</i>
1. Overall Objective: Improve Financial Management	
BPEMS implemented in all ministries	1. A computer based financial management information system operational on a pilot basis: MoFEP and CAGD
Improved quality and usefulness of financial reports produced by CAGD	2. Monthly financial reports (commitments and expenditures) produced, reconciled with the BoG within 8 weeks.
Transparency and value for money in public expenditure	3. Procurement Bill submitted to Parliament
2. Translation of the GPRS into the Budget	
Total budget is consistent with the expenditure priorities outlined in the GPRS.	4. Shift from 2002 to 2003 discretionary budget broad sector allocations is consistent with the GPRS 5. Budgeted Poverty Reduction Expenditure of GoG (including HIPC) increases over the 21.7% of the total Government Expenditure in 2002.
Regular M&E of GPRS implementation	6. Annual Review of the GPRS implementation conducted by MEPRC.
3. Public Sector Reform	
Efficiency and service delivery of civil service improved.	7. Census of public sector employees completed. 8. Independent Review of Public Sector Reform considered by the steering committee 9. Develop policy to encourage deployment of teachers and health workers to remote and rural areas.
4. Decentralization	
Establishment of a decentralization policy framework to improve service delivery.	10. Local Government Service Bill laid before Parliament
5. Governance	
Improved transparency and accountability	11. Freedom of information Bill submitted to Cabinet by Attorney General
Improved operational efficiency of key institutions dealing with governance and corruption	12. Real increase in the GoG budget allocation to good governance statutory bodies (for example, CHRAJ, Audit Service, Electoral Commission, Office of Parliament and the Media Commission)
<i>Notes: (1) Table is derived from the maiden policy matrix of the 2002/2003 Framework Memorandum. (2) MoFEP = Ministry of Finance and Economic Planning, CAGD = Controller and Accountant General Department, GoG = Government of Ghana</i>	

The performance indicators set out in Table 2 are of three types: input, output, or process indicators. In other words the indicators may represent a set of actions, activities or measures that are spelt out as inputs to a policy implementation, as steps to have been taken as measures of progress, or as expected outcomes. Performance indicators thus may be a set of qualitative

verifiable stages in the process of reform or quantitative measures of input or outcome. Where donors want to support the autonomous efforts of partner governments, the performance indicators may consist of very limited set of measures which have very high likelihood of being met or as achievable. Table 2 summarizes the performance indicators in the maiden direct budget support arrangement.

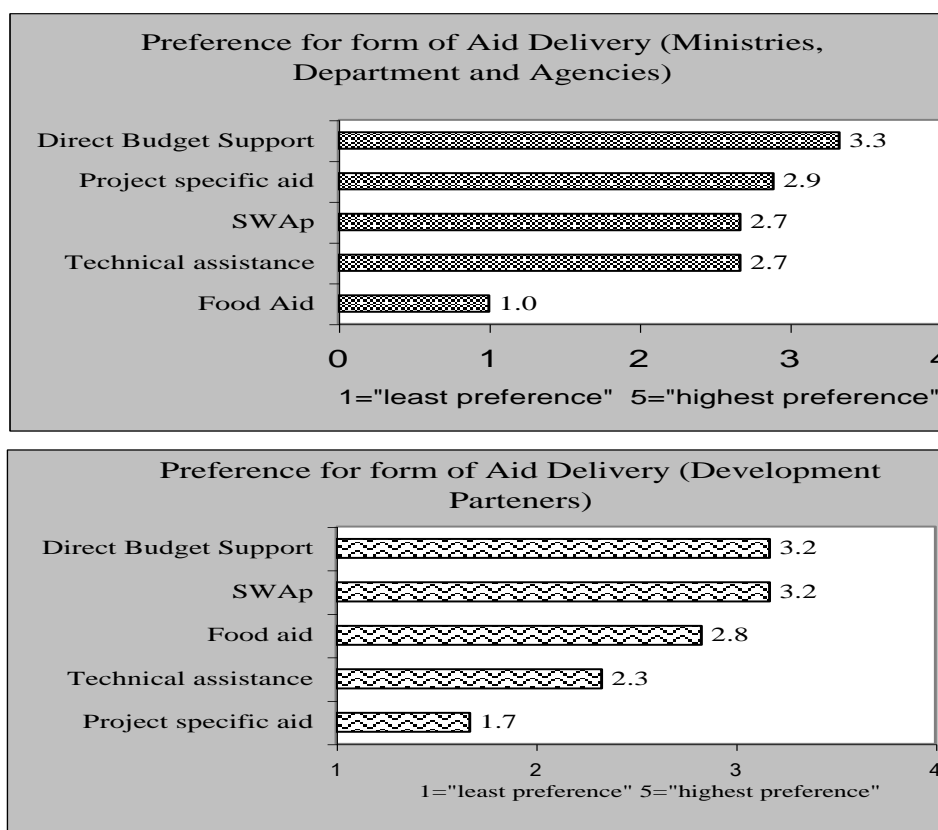
The indicators were the outcome of joint consultations and emanate directly from the GPRS. And this is a key element of budget support. The elements of the performance indicators must reflect what the recipient country wants to do and has good reason to carry them out. Second the elements must be selected based on consultations on the one hand among donors and on the other hand among implementing government departments since it is the Ministry of Finance and Economic Planning which invariably plays the lead role in these contract dialogue. These consultations establish the bases for maximum cooperation on both the donor and government side. In the case of the latter, consultations are the means of developing the political will in moving the policy dialogue forward. Consultations benefit the development of the policy matrix in terms of sequencing, what is achievable within the planning time frame, and, not least, improve understanding of government systems as they apply in the different MDAs.

In this instance the elements of the maiden performance matrix focused on the “baby steps” necessary for the successful implementation of the GPRS. They were drawn from the five key elements of the GPRS; namely, public finance management, linking the GPRS to the budget, public sector reform, decentralization and governance. The specific 12 indicators can be re-arranged into three *input triggers* (4, 5 and 12), seven *process triggers* (1-3, 8-11) and two *outcome triggers* (6, 7). The triggers were about taking steps to lay the legislative framework, shifting aggregate spending, and developing strategies in each of the areas of crucial central reforms. They focused on processes of institutional development, budget execution, accuracy and timely financial reporting, improved transparency and accountability in government system. The poverty leverage was achieved by focusing on the translation of the GPRS into the budget, on budget design and the allocation of discretionary budget allocation in line with the GPRS, as well as on monitoring poverty outcomes and ensuring that the steps to improving the delivery of public services to local level are being taken.

5. Survey Findings

A way to measure success is whether the direct budget support is achieving the positives which are the basis for its dominance over other forms of aid delivery. The following survey of perceptions is half the story. A survey to determine the progress and challenges in the second year of implementation was conducted by the author in June-July 2004. On the government side, the respondents were the line ministries and agencies with a higher response rate among the more active participating institutions. On the donor side the survey covered all development partners with about a third of them responding.

Figure 4



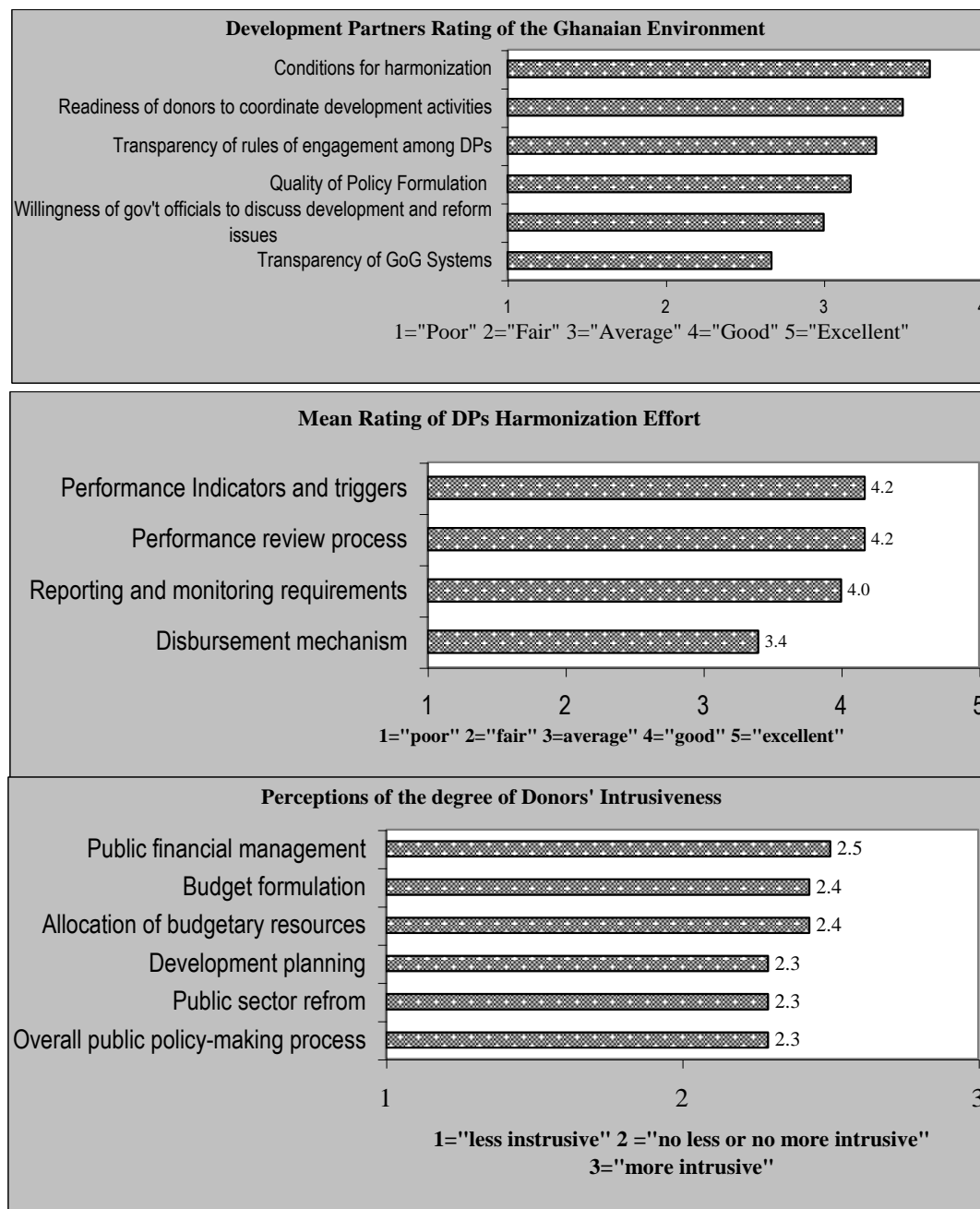
In Figure 4 donors ranked direct budget support, SWAp, food aid, technical assistance and stand-alone project aid in a descending order of preferences. On the government's side, direct budget support was the most preferred and commodity aid specifically food aid the least preferred. Noteworthy, on the government side, stand-alone project aid was preferred to SWAp

and to technical assistance in equal measure. Although stand-alone project aid is administratively cumbersome with high transaction costs, it does offer greater overhead benefits directly to the implementing ministry or agency than SWAp, which tends to spread the benefits across different sector institutions, with less control by any single one of them.

There is a hidden yet powerful resistance to integrating projects into ministries programme of action. In a weak aid coordination environment, each government ministry, department and agency believes that it can maximize its budget by seeking out projects on bilateral basis with donors. The potential benefits to such project arrangements include overhead and administrative expenses and the top up allowances to the project implementing and monitoring units. MDAs are prone to accepting offers of project aid even when such are driven by donors' priorities rather than those of country government's. Donors, on the other hand, least preferred stand-alone project aid.

Overall level of satisfaction of the direct budget support arrangement was ranked as good to excellent by 63% of respondents. The top panel of Figure 5 suggests that the overall conditions for harmonization, the readiness of donors to coordinate their development activities, the transparency of rules and the quality of policy formulation were ranked as above average to satisfactory by donors. From the middle panel, donors' efforts at harmonization were judged as good to very good. The risks of donors' intrusiveness in policy making are apparent in the bottom panel. However, nearly 75% of respondents rated government negotiating stance as reasonably good, strong or very strong, reflecting in part the growing strength of internal coordination. For responding MDAs, 71% were concerned that direct budget support has the potential to make the recipient country more aid dependent. Only 14% thought that the aid contract makes Ghana no less or more dependent than it has always been.

Figure 5



Noteworthy, nearly half of the responding MDAs were not satisfied with how the performance indicators were developed. Some suggested that the indicators were selected to impress donors. Truth, however, is that the maiden policy matrix was developed with high achievability in mind and also to facilitate learning in the making of the new aid delivery mechanism. There was symmetry of interest between donors and government. Donors must have felt that as long as the

indicators are in line with the implementation of the poverty reduction strategy, with proper monitoring and evaluation, the “baby steps” should provide useful feedback for the next steps. The selection of the performance indicators also recognized that it is better to pursue incremental policy leveraging, hoping to make modest adjustments to the indicators, on year-by-year basis as donors’ comfort level with, and understanding of, government systems increase. Certainly, the performance indicators must move gradually away from input and processes triggers to more activity-based processes and outputs, which reflect medium-term strategic policy outcomes with well-defined trends against which progress could be measured.

Nearly 3 out of 4 of the MDAs noted that the direct budget support arrangements somehow may diminish country-led coordination. The belief is that donor-led aid coordination may become stronger partly because of the high level engagement of donors in policy-making. We see from the bottom panel of Figure 5 that donors were judged to have become more active in discussions in public financial management, budget formulation, and in the allocation of budgetary resources. In the middle panel, donors’ efforts at harmonization were judged to have improved in the areas of setting performance indicators, common review missions, and in reporting and monitoring mechanisms. Respondents acknowledged that the amount of paperwork performed for donors and the time spent in meetings have decreased. However, other activities such as procedural requirements and the number of sector projects remained nearly the same. This should be expected in the transition stage of the aid delivery arrangements. Nearly all respondents acknowledged the increased participation of donors and MDAs in development dialogue and a general improvement in the quality of the dialogue. There is a noticeable shift away from the more political and diplomatic level of dialogue that takes place in the Mini-Consultative Group setting to the more technical and development oriented dialogue which provides greater room for policy path experimentation. Since direct budget support provides for open dialogue, all donors benefit equally from the information flow. By its setup, it provides a more structured process level of participation for all development partners.

Has the direct budget support delivered where it counts? In 2002, a year before the MDBS was introduced, less than half of planned budget support was disbursed. Disbursements rose to 90% of the planned amount in 2003, and about 100% in 2004. Contributing to the predictability of disbursements is the harmonization of disbursement triggers, the use of the two tranche system –

a fixed tranche that depends on a small number of triggers and a variable tranche.

Figure 6

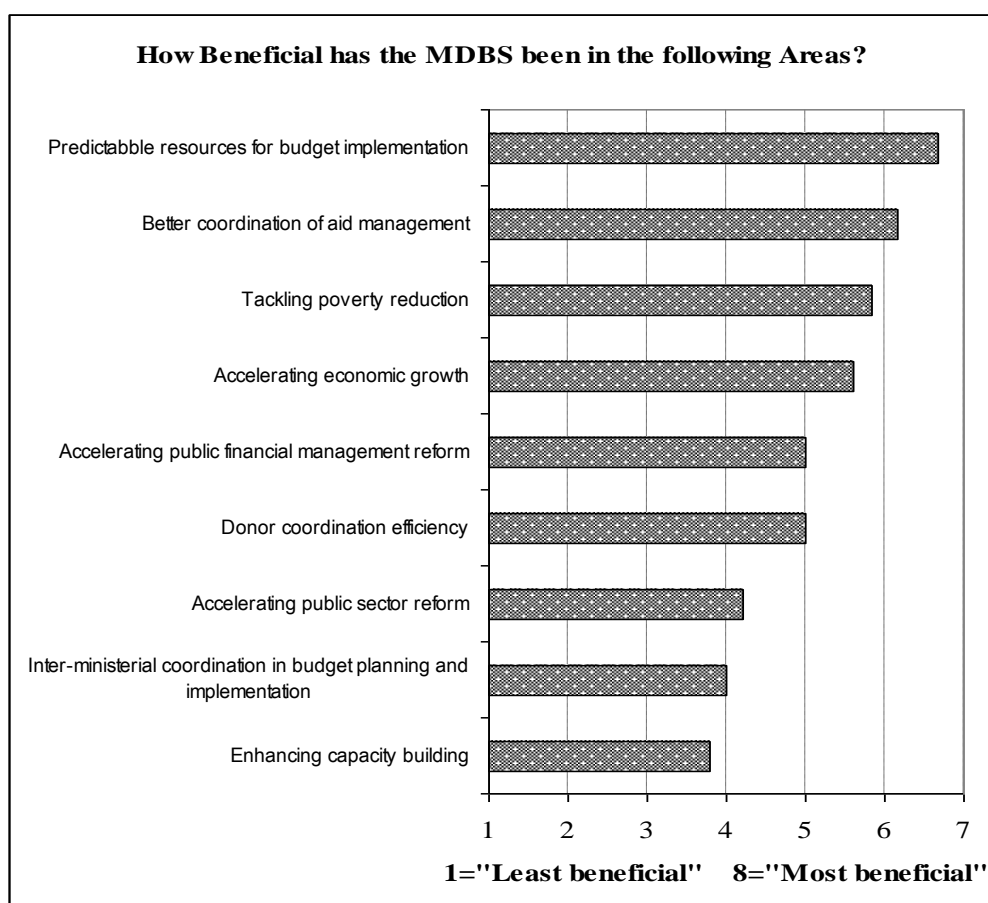


Figure 6 summarizes the mean ratings of the impact of the direct budget support contract on various key activities and policy areas from the point of view of government respondents. Their assessment is that the process has contributed to greater predictability of resource inflow for budget implementation, improved aid coordination, effective tackling of poverty, enhanced growth prospects, accelerated public financial management reform and improved efficiency in donor coordination. The effect on public sector reform, inter-ministerial coordination in budget planning and capacity building, however, were ranked as minimally beneficial.

While acknowledging progress in public financial management and budget implementation, donors noted a number of risks. These include the slow progress in overall public sector reform and to a lesser extent public financial management. Second is the reluctance of MDAs in

rejecting project assistance and their slow response to embracing the direct budget support approach. Key MDAs were noted not to have incorporated all the relevant triggers and targets in policy making and implementation into their programme of action. Sectors such as roads, water, energy, agriculture and natural resources have found it more difficult to engage in the MDBS process. According to Walters (2005) this partly reflects the reliance of these ministries on donor financing systems and project management units that historically divert their attention away from any meaningful engagement with the national budgeting process.

On the donors' side, there is a new transaction costs in making the process to work particularly among themselves. The degree of donor flexibility varies, more so for the bilateral donors than for the dominant donor, the World Bank. The latter's perceived inflexibility perhaps reflects in part the limited degree of local decision-making autonomy. The consensus building approach often means more negotiations. This has its downside. It has meant making fewer decisions on which there is a consensus. However, one respondent acknowledged that "the time spent in discussions amongst donors has sharpened the focus of donors' contributions to policy dialogue and has raised the game of individual participants". It has also served to reduce the data requests and clarifications that used to be directed towards government often at the inappropriate level. There is also the problem of coordination and the assignment of responsibility among donors with respect to who takes the lead role in the different aspects of the MDBS process. Differences in the technical capacity of resident staff of the different development partners partly account for this. It is reasonable to assume that these are all part of the teething problems in a new paradigm of aid delivery.

6. Conclusions

Aid delivery mechanisms though less talked about are vitally important for the effectiveness of development assistance. The argument of the paper is not that project aid, food aid, SWAs and DWAs are inherently detrimental to the development process. But rather, direct budget support may dominate for a number of reasons. It is the administrative complexities, the high transactions costs and information requirements, the weak coordination between donors and recipient government agencies, the weak coordination within government systems, the tendency to by-pass government systems, and the weak incentives for accountability and transparency

that limit the effectiveness of aid delivered through other channels. Direct budget support reduces transactions cost, makes for better internal coordination of resource use, builds recipient's capacity to design and implement desired strategies, and provides an avenue for high level policy dialogue that can focus attention on and, in discrete steps, accelerate desired improvements in government systems.

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