REPUBLIC OF GHANA

JOINT REVIEW OF PUBLIC EXPENDITURE AND FINANCIAL MANAGEMENT

OCTOBER 2011

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Abbreviations and Acronyms

APR	Annual Progress Report
BoG	Bank of Ghana
BPEMS	Budget and Public Expenditure Management System
CAGD	Controller and Accountant General's Department
CG	Central Government
COFOG	Classification Of the Functions Of the Government
CST	Communication Service Tax
CY	Calendar Year
DA	District Assembly
DACF	District Assembly Common Fund
DCE	District Chief Executive
DDF	District Development Facility
DEO	District Education Office
DHS	Demographic and Health Survey
DMHIS	District Mutual Health Insurance Scheme
DPs	Development Partners
DVLA	Driver and Vehicle Licensing Authority
EITI	Extractive Industries Transparency Initiative
EXECO	Executive Committee
FAA	Financial Administration Act
FAR	Financial Administration Regulations
FWSC	Fair Wages and Salaries Commission
GAS	Ghana Audit Service
GDP	Gross Domestic Product
GES	Ghana Education Service
GET	Ghana Education Trust
GFSM	Government Finance Statistics Manual
GH¢	Ghana Cedi
GIFMIS	Ghana Integrated Financial Management and Information System
GLSS	Ghana Living Standards Survey
GPRS	Growth and Poverty Reduction Strategy
GSGDA	Ghana Shared Growth and Development Agenda
GUSS	Ghana Universal Service Structure
HIPC	Heavily Indebted Poor Countries
HR	Human Resource
ICT	Information and Communication Technology
IGF	Internally Generated Fund
IMCC	Inter-Ministerial Coordinating Committee
IMF	International Monetary Fund
IPPD-2	Integrated Personnel and Payroll Database
JSS	Junior Secondary School
LI	Legal Instrument
MDAs	Ministries, Departments, and Agencies
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative

MMDAs	Metropolitan Municipal District Assemblies
MoE	Ministry of Education
MoFEP	Ministry of Finance & Economic Planning
MoH	Ministry of Health
MLGRD	Ministry of Local Governments and Rural Development
MTEF	Medium-Term Expenditure Framework
NDPC	National Development Planning Commission
NHIC	National Health Insurance Council
NHIF	National Health Insurance Fund
NHIS	National Health Insurance Scheme
NRL	National Reconstruction Levy
NPL	Non Performing Loan
OHCS	Office of the Head of Civil Service
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PBB	Program Based Budgeting
PDC	People's Defence Committee
PFM	Public Financial Management
PNDC	Provisional National Defence Council
PSC	Public Service Commission
RF	Road Fund
SAs	Subvented Agencies
S/MTAP	Short and Medium Term Action Plan
SSNIT	Social Security and National Insurance Trust
SOEs	State-Owned Enterprises
SSS	Senior Secondary School
SSSS	Single Spine Salary Structure
TIMSS	Trends in International Mathematical and Science Study
TOR	Tema Oil Refinery
TSA	Treasury Single Account
TVET	Technical Education and Vocational Training
US$	United States of America Dollar
VAT	Value Added Tax
WHO	World Health Organization

THE REPUBLIC OF GHANA:

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The Joint Review of Public Expenditure and Financial Management was coordinated under the supervision of a steering committee chaired by Enoch Hemans Cobbinah (Chief Director, Ministry of Finance and Economic Planning) and comprising Simeon Patrick Kyei, Samuel Arkhurst, Hellen Allotey, Seth A. Botchway, Kwabena Boadu Oku-Afari, Nelly Mireku, Charles Edem Dzetu, Andrews K. Kufe, Kenneth Ababio, Thomas Mbun, Helmut Schoen, Angela Farhat, Ruud-Vander Helm, and Peter Wefers. The Review included a data collection effort, a data validation workshop, the drafting of the report, its dissemination and endorsement through a restitution workshop.

The Joint Review was conducted by a team led by Sebastien Dessus, and comprising Felix Oppong, Ayishetu Terewina, Ernestina Aboah-Ndow, Ismaila Ceesay, Katherine Bain, Chinedum Nwoko, Ken Sigrist, Michael Wilson, Daniel Twerefou and Hudu Siita, and benefited from comments and suggestions from Ishac Diwan, Miria Pigato, Smile Kwawukume, Eunice Yaa Brimfah Ackwerh, Karima Saleh, Chris Jackson, Rumana Huque, and Jonas Parby. Ruud van Helm, Renaud Selingman and Jorge Araujo peer reviewed the report at concept and decision stages. The team is also thankful to the participants at the various workshops especially Effie Simpson Ekuban, Alhassan Iddrisu, Eva Mends, Kwame Quandahor, Tony Ampofor, Nat Khing Tachie, Samuel Aidoo, Joseph Banson, Augustus Amoo, Johnson Mawuko Alifo, Irene Danquah, George Kofi Baah, Kwame Agyapong, Angela Micah, Joseph Antwi and Allan B. Van-Segbefia.

OVERVIEW

In the last decade, Ghana made significant progress to reduce income poverty, and provide greater access to education and health services to its population. Accelerated economic growth, the abolition of school fees, and the creation of the National Health Insurance Scheme significantly contributed to such progress. By 2010, Ghana was on track to meet poverty, nutrition, school, gender parity and safer water related Millennium Development Goals, while recording accelerated progress in terms of child mortality since 2003.

Such progress was notably achieved through fiscal rapid expansion. Between 2004 and 2008, public expenditure grew from 20 to 24 percent of GDP, to finance the extension of, and access to, health and education public networks, close the infrastructure gap and foster decentralization. A number of earmarked statutory funds were created to secure the allocation of public revenue to these sectors. After several years of public wage containment, the gained fiscal space was also used to raise remunerations to levels in line with public sector employees' expectations. Between 2004 and 2008, the wage bill grew from 4.7 to 7.6 percent of GDP. The acceleration in spending was particularly pronounced from 2005, with the successful completion of the MDRI and HIPC debt relief initiatives which provided large fiscal space to the authorities. In 2007, Ghana further relaxed its external budget constraint by accessing international financial markets through the successful issuance of Eurobonds.

But a series of shocks in 2008 revealed the unsustainable nature of the fiscal stance and underlined new public financial management issues. Floods and droughts in late 2007, the rise in global commodity prices, and the closure of access to international financial markets in September 2008 all exerted pressures on fiscal accounts. But they also revealed the unsustainable structural nature of the ongoing fiscal expansion (and related economic expansion, through public demand stimulus), given the need for strong correction to close external and fiscal financial gaps. Faced with this sudden and unexpected downturn, the Government embarked on a multi-year stabilization program in 2009. The Government, the civil society and development partners also realized the need to improve transparency, executive accountability and oversight of public financial management systems, to avoid fiscal overshooting to remain unnoticed in the future, as had been largely the case in 2008.

With oil and stabilization efforts, as well as recent access to middle-income status, Ghana is expected to soon regain fiscal space. Stabilization efforts engaged since 2009, and the production of oil since late 2010 will eventually create space for further fiscal expansion. Part of the gain in fiscal space will also come from greater domestic resource mobilization, as it became clear with rebased GDP numbers that the scope for greater revenue collection was large in Ghana. Public private partnerships and external non concessional borrowing opportunities are also being revisited with Ghana's recent access to middle-income status. In turn, it is anticipated that risks of debt distress, public and external, currently assessed as moderate, will continue to be contained in the future, providing some scope to meet Ghanaians' expectation's for better service delivery and infrastructure while keeping consumer price inflation at single digit levels.

But recent fiscal stabilization gains and forthcoming new revenues should not distract Ghana from improving the quality of its public expenditure. Continued attention needs to be paid to improving public expenditure management, effectiveness and efficiency. First because fiscal stabilization efforts undertaken so far will only have lasting impact with increasing social returns to public expenditure. The extent of fiscal consolidation required to ensure macroeconomic stability while maximizing growth remains an open-ended debate, depending on views one can have on the impact of public expenditure (and its financing) on growth through supply side effects – the very subject discussed throughout this review. But it is likely that the nature of the adjustment in 2009 and 2010 – mostly compressing investment, while continuing to accumulate arrears, has had some negative impact on Ghana's public and private productive capacities – thus long term growth potential. Second because increasing resource mobilization – taxation, will meet resistance if not accompanied with improved service delivery. And third because the forthcoming oil rent could exacerbate already existing difficulties to generate positive externalities through public spending (political capture, public financial management, and macro-economic instability).[1]

Unlike public financial management issues, attention paid to public expenditure outcomes has been less systematic in the recent past. There is a wealth of literature on public financial management systems in Ghana[2], which contains a number of policy recommendations. The latter were embraced by the Government, which is implementing the Ghana Integrated Financial Management and Information System (GIFMIS), with a view to improve budget comprehensiveness and consolidated cash management, monitoring and control of outstanding commitments, and payroll management. It is expected that these efforts will reduce aggregate and compositional budget deviations and prevent the accumulation of arrears. In contrast, there is a large information gap on public expenditure outcomes. Indeed, the regular and comprehensive review of public expenditure, from an effectiveness, efficiency, equity and sustainability perspective, is lacking in Ghana. Reports on outturns remain infrequent, and do not comprise functional classifications. Major Statutory funds for health or education are not part of the consolidated fund (and do not have same reporting mechanisms), making aggregation of expenditure by program cumbersome. Annual progress reports (APRs) from the National Development Planning Commission do not establish a link between expenditure and outcomes, beyond the alignment of expenditure to the successive Poverty Reduction Strategies broad priorities. At the sector level, only a few Ministries publish APRs, although all are required to do so. Decision making on domestically-financed public investment projects does not systematically oblige careful cost benefit analysis, the computation of financial and social economic returns, or the publication of completion reports and impact evaluations. The adequacy of the public sector labor force (in terms of skills composition, remuneration, and location) to ongoing and emerging challenges remains un-assessed.

This Joint Review of Public Expenditure and Financial Management is an attempt to fill this gap and re-focus attention on public expenditure effectiveness. The review aims at providing a comprehensive picture of public expenditure patterns. It focuses on a set of sectors, such as health and education, as well as on two important cross-cutting issues from a policy perspective, the wage bill and the fiscal decentralization. It complements other recent reports which address in more details some specific aspects of public expenditure. These include (i) the poverty report of 2011 which discuss geographical disparities and social protection effectiveness; (ii) the review of targeting mechanisms in 2010 which assesses the benefits incidence of major public programs, including health, education, social programs and price subsidies; (iii) the Ghana infrastructure country diagnostic of 2010 which identify infrastructure priorities, and potential gains stemming from

[1] See World Bank, 2009b.

[2] External Reviews of Public Financial Management, 2005, 2006, 2007, 2009; Public Expenditure and Financial Accountability, 2006, 2009; Debt Management Performance, 2009; Public Expenditure Tracking Surveys in health and education delivered in 2009; Auditor-General's annual audits on public accounts, etc.

reduced inefficiencies in utilities (from under-pricing in particular) and greater maintenance, and (iv) sector status reports on education and health in 2011. In the absence of readily available and comprehensive data sets on public expenditure, the production of this review required a massive and highly labor intensive data collection, re-conciliation and aggregation effort, involving many central and local public agencies.

It is expected that the GIFMIS will ease public expenditure review in the near future, by being able to comprehensively and consistently report on actual expenditure of public institutions using the various classifications needed. This would include in particular regular public reports on fiscal outturns, using economic and functional classifications, and covering the different elements of the budget (consolidated fund, statutory funds); it would also include comprehensive reports on actual expenditure disaggregated per district. Eventually, such a capacity to comprehensively and consistently report on public expenditure (using the harmonized charts of accounts, consistent with international standards) will pave the way for program-based budgeting, which authorities decided to adopt from 2013 onwards.

Efforts towards greater transparency should also improve executive accountability. The Government of Ghana acknowledges the need for and usefulness of greater transparency. Indeed, poor access to information critical for decision making is a key factor in preventing formal and informal accountability mechanisms. Since 2009, the Ministry of Finance & Economic Planning has addressed the need to provide quality information on a timely basis by publishing, on a regular basis and in a user-friendly manner fiscal outturn reports on its website. The Government also submitted to Parliament in 2010 the Freedom of Information Bill, which could become the basis for an evolving environment based on transparency and accountability in Ghana. Its implementation will require improving the capacity of individual MDAs to provide and respond to requests for information on a regular basis. Finally, the Government followed through on its commitment to transparency and accountability by extending the principles of Extractive Industries Transparency Initiative[3] to the oil and gas sectors in 2011.

The Review identifies several areas, which would require particular attention from policy makers.

As constituting the bulk of public expenditure, the management of human resource should continue to receive utmost attention. The public sector labor force is Ghana’s main asset to improve service delivery. It also captures most of the Government revenue – 57 percent in 2008, leaving little complementary resources for goods, services and investment. As such, the high wage bill does not only impact budget execution and macroeconomic stability, but also the quality of public expenditure, in particular in areas where it expanded rapidly, i.e. health and education services in rural and deprived areas, where complementary investment could not follow in similar proportion. In primary education, there are clear signals that increased access was accompanied with deterioration in average learning outcomes. At the same time, average individual remunerations in the public sector continue to be low, the result of a relatively compressed salary structure with most of public civil servants placed in its lower grades. Expectations for salary increases are thus high, and have been mostly met through an atomized collective wage negotiation system, in the absence of effective performance management systems. In subvented agencies where

[3] Based on the undergone validation activities (for the mining sector) and the report submitted by the Government, the EITI board declared EITI compliant on October 19, 2010.

payroll management is disconnected from central management, internally generated funds and various allowances are also used in some cases to “top-up” salaries. Between 2000 and 2008, average individual remunerations in the public sector grew by 17 percent annually in real terms, much faster than GDP growth per capita (about 3 percent). It is not clear that such an increase was accompanied with concomitant improvement in service delivery to citizens.

With the single spine pay reform, the Government intends to address problems of payroll management. The objective of the reform is to address disparities, distortions and restore equity in the pay structure by placing all public sector employees on a vertical structure and ensuring that jobs within the same job value range are paid within the same pay range. The Government hopes that it will be able to manage its wage bill more efficiently and with more certainty and minimize industrial relations tensions with the introduction of this new pay structure. It also aims at establishing a clearer relation between pay and job description and performance, which brings a number of challenges.

Human resource management is further complicated by the difficulty of the center to manage extended human networks (health, education), supposedly deployed to local governments. But in the absence of social accountability mechanisms, clear delineation of functions between central and local governments, and discretionary power from districts, many public sector employees are frequently absent, in deprived districts in particular. It is often argued that, beyond incentives in the form of higher remuneration and career promotion, the absence of amenities in deprived districts - good schools and hospitals for staff children, incentives for spouses, are major brakes to effective deployment of human resource throughout the country.

Fiscal decentralization instruments act effectively as instrument of fiscal redistribution, but only constitute a small share of total district expenditure. The District Assembly Common Fund and the District Development Facility funded together 10 percent of total district assemblies’ expenditure in 2008 (a total of Ghc52 per capita), the remainder originating mostly from de-concentrated expenditure. Poor districts received more than rich districts, the latter being able in contrast to generate higher levels of internally generated funds. With a view to empower districts in the design and execution of their local development plans, the share of DACF resources currently managed by the center – 45 percent of the Fund in 2008, could be reduced. Improved incentives and capacity to internally generate funds is another avenue under consideration, in order to eventually raise the amount of resources available and at the discretion of local governments.

Statutory funds capture most of domestically-financed public investment expenditure, leaving little room of maneuver to Government for policy making. Ghana Education Fund, the Road Fund, and the District Assembly Common Fund are earmarked Statutory Funds, legally financed through fixed tax revenue shares. While effective to protect resource allocation to intended sectors, these funds also add rigidities to budget execution, which were felt heavily in 2009 and 2010 when the Government had to curtail growth in public expenditure. Moreover, as reporting directly to Parliament, it is difficult to envisage effective program-based budgeting with such arrangements. This issue will become more pregnant as donors’ concessional financing of investment projects declines over time.

Oversight and management of Subvented Agencies (SAs) in Ghana remains a challenge and there is a need for clarifying their mandates and ensuring better control over their payroll. In 2008, the 132 Subvented Agencies were representing 19 percent of the overall public sector labor force and 35 percent of the Government total wage bill (salaries and allowances). SAs were also receiving 82 percent of total allowances paid to public sector employees. The SAs are financed through block grants, meant to cover salaries, allowances and expenditures. However, since few SAs are integrated into the integrated payroll system, there is no way to control headcount or expenditures, and this resulted in the past in the very rapid increase in SA wage bill, through increases in allowances in particular. The Government initiated a process to integrate the payroll of SAs into the integrated payroll system. However, progress in integrating major agencies (in terms of number of employees), has been slow.

1. GHANA'S MACROECONOMIC AND FISCAL DEVELOPMENTS

This Chapter discusses Ghana's efforts in 2009 and 2010 to restore macro-economic stability through fiscal consolidation. It underlines that a substantial fiscal adjustment was undertaken, and yielded important results in terms of foreign currency reserves position, consumer prices and exchange rate stability. The adjustment mostly took the form of expenditure containment, and had initially a significant impact on overall economic activity through its negative impact on aggregate demand. This effect was compounded by the absence of relay from the private sector, which found it difficult to access credit from a domestic financial sector crippled with non-performing loans, the latter originating for a large extent from the continued accumulation of public expenditure arrears. Meanwhile, Ghana improved domestic resource mobilization, though from a low base.

A. RECENT MACROECONOMIC DEVELOPMENTS

1. **Ghana's recent macroeconomic developments have been ultimately driven by the radical fiscal stabilization program engaged in 2009**. Fortunately, the program benefited from a positive climatic and external environment and support from development partners which mitigated the negative impact of compressed public demand on economic activity. In contrast, the reduction in public financing needs did not trigger a strong private supply response, in light of banks' difficulties to extend credit to firms as grappling with substantial non performing loans inherited from 2008 and before.

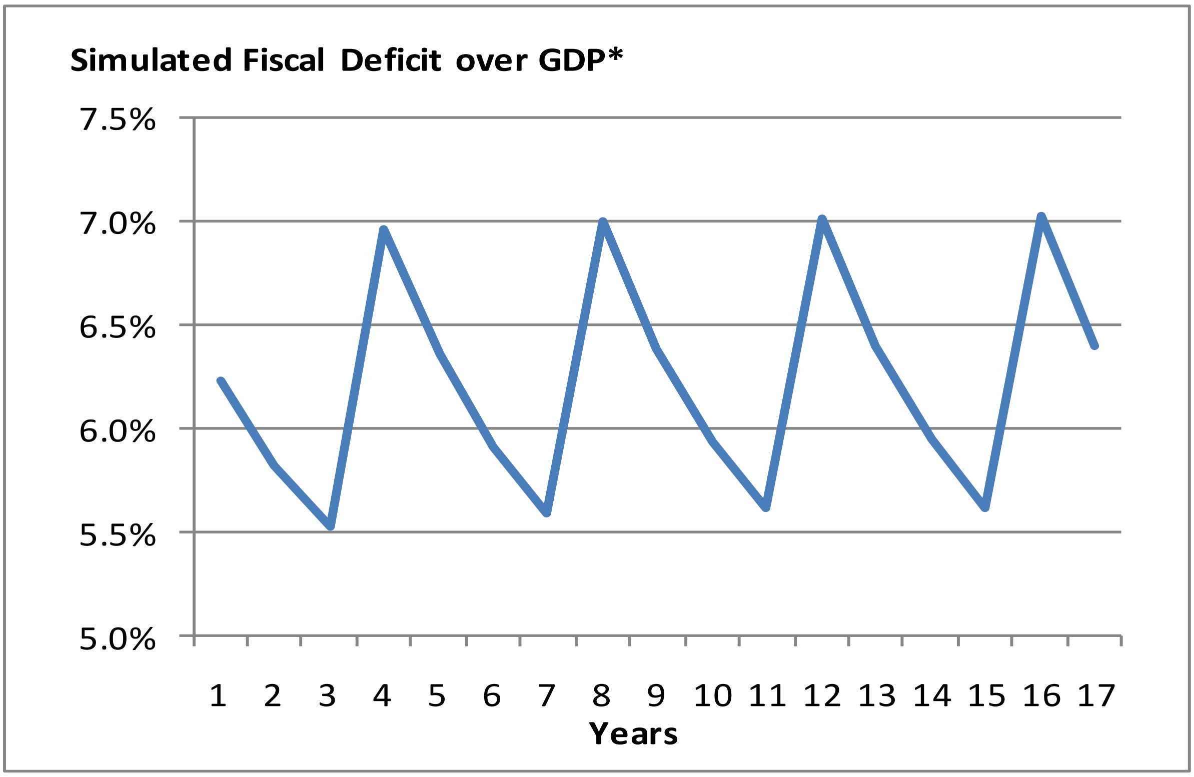
2. **In 2008, Ghana's macro economic situation strongly deteriorated.** End year consumer price inflation accelerated from 12.8 percent in 2007 to 18.1 percent in 2008, gross foreign reserves at the Bank of Ghana (BoG) dropped by US$0.8 billion (to US$2.0 billion or 2.3 months of imports), and the exchange rate depreciated rapidly against major currencies – 19.6 percent against the US dollar and 16.0 percent against the Euro. Meanwhile, an unprecedented major financial crisis was unfolding in the World, adding to uncertainties surrounding Ghana's economic outlook.

3. **Retrospectively, one can attribute the deterioration of 2008 to a combination of domestic and external factors.** In a nutshell, large domestic demand pressures, fuelled by expansionary fiscal and monetary policies led to the overheating of the economy. On a commitment basis (that is, by including net arrears and outstanding commitments contracted over the year), public expenditure rose by 55 percent in 2008. In the same year, credit to the private sector rose by 48 percent. Public demand pressures were to some extent caused by a series of negative exogenous shocks in 2008, including: commodity price increases which pressed the Government to (i) reduce import taxes on food products, and, (ii) raise subsidies to utilities to offset oil prices increases in the absence of cost-recovery mechanisms through electricity tariff adjustment. Others are floods and the energy crisis in 2007, which prompted the Government to undertake large investments in roads and energy to respond to emergency needs of the country. But these were also reflecting ongoing structural trends of fiscal expansion, in recurrent expenditures in particular, see Chapters 3 and 4.

4. **Last but not least, elections-related expenditures likely plaid a significant role in the fiscal slippage of 2008.** In light with political business cycles theory, which predicts that incumbent Government will run expansionary fiscal and monetary policies prior to elections, it is likely that elections in 2008 contributed to the fiscal slippage, as it did during previous

elections.[4] Indeed, econometric analysis run over the period 1991-2010 strongly suggests that, in election years (1992, 1996, 2000, 2004, 2008), fiscal deficit (on a cash basis) over GDP was on average 1.5 percentage point higher than in the year before; and that the three years following the elections were used to bring back the deficit to its initial level.

Figure 1: Fiscal Deficits Are Significantly Higher During Election Years



Source: World Bank staff calculations. Note: (*) Simulated fiscal deficit over GDP based on the estimated model over the period 1991-2010: *defy*-*defy*(-1) = 0.013+0.17 *elec*-0.27 *defy*(-1); R2=0.292; DW=1.744, where *defy* is the fiscal deficit over GDP and *elec* a dummy variable equal to 1 in election years and 0 otherwise.

5. **Increased public and private demand (including for imports) and commodity price spikes widened the current account deficit (which culminated at 10.8 percent of GDP by end-2008).** Meanwhile, the sudden global rise in sovereign spreads in the last quarter of 2008 coincided with a reversal in foreign capital flows - notably in disfavor of 3-5 year treasury bills subscriptions opened to non residents - which contracted the capital account surplus and exerted strong pressure on the balance of payments, foreign currency reserves and the exchange rate. The project to float a new Eurobond on international financial markets (following the previous issuance of US$750 million in 2007) was also abandoned in light of the rapidly deteriorating global financial situation. Compared with 2007, the Balance of Payments capital and financial account contracted by US$155 million in 2008.

6. **The sudden revelation of the gravity of the macroeconomic situation, which was left largely unnoticed, probably contributed to a further deterioration in the first half of 2009**. Following the election of a new Government in January 2009, the macroeconomic situation was largely exposed to the public. Economic agents and citizens, who had been enjoying rapid economic growth in 2008 (8.4 percent growth in real GDP), were caught by surprise, suddenly realizing the unsustainable stance of the economy. The lost of trust in the

[4] See G. Nankani (2008) for a discussion of election year macroeconomic challenges in Ghana.

economic information system[5] and doubts about the capacity of the new administration to rapidly tackle the problem (in a particularly hostile global environment) probably contributed to the continued depreciation of the Ghana Cedi in the first half of 2009. In turn, imported inflation continued to fulfill inflation anticipations, at a time when domestic pressures started to ease, thanks to stabilization efforts from the Government, and reduced sources of financing for the private sector and households, see below.

7. **In response, the Government elected in January 2009 immediately adopted a multi-year macro-economic stabilization program.** The strategy comprised immediate actions in 2009 to restore expenditure control mechanisms and contain domestically financed capital expenditure, while engaging structural reforms in the public sector and energy. These intentions were reflected in the successive Budget Laws 2009, 2010 and 2011 approved by Parliament, targeting end-year fiscal deficits (on a cash basis) at 5.5, 4.3 and 4.1 percent of GDP in CY09, CY10[6] and CY11.

8. **The Government plan was supported by exceptional assistance from the World Bank and the International Monetary Fund**. On June 30 2009, the World Bank Board of Executive Directors approved the US$300 million equivalent Economic Governance and Poverty Reduction Credit, which triggered a first tranche disbursement of US$150 million. On July 15, 2009, the IMF Board approved a 3-year arrangement under the Poverty Reduction and Growth Facility (thereafter renamed Extended Credit Facility) for Ghana in an amount of US$600 million equivalent to support the Government's stabilization program, with an immediate disbursement of U$100 million equivalent. In September 2009, an additional US$450 million equivalent was deposited by the IMF at the Bank of Ghana, following the decision taken earlier in 2009 by the G20 to raise special drawing rights allocations to all developing countries. This exceptional assistance came in addition to disbursements committed in 2008 by the members of the Multi-Donor Budget Support group, for a total of US$375 million in 2009. From US$2.0 billion by end-2008, foreign currency reserves at the Bank of Ghana rose to US$3.2 billion by end-2009 (and US$4.7 billion projected by end-2010), as a result of (i) exceptional foreign assistance, (ii) fiscal stabilization and tightened credit compressing import demand, and (iii) improving terms of trade (cocoa and gold prices enjoying historically-high levels while oil prices dropped compared with the peak of 2008).

9. **The credibility of the announced Government stabilization plan, combined with its early effects on domestic demand, contributed to halting the depreciation of the Ghana Cedi.** By July 2009, the upward trend of depreciation of the Ghana Cedi, which had lost 36 percent against the US dollar over the period July 1, 2008-June 30 2009, was stopped. Official Development Assistance to the Balance of Payments and reduced domestic demand pressure (both public and private) also contributed to the stabilization of the exchange rate. In turn, price levels also stabilized, confirming in retrospect the major influence of imported inflation on consumer prices in the first half of 2009. From the peak of 20.7 percent recorded for the period July 2008-June 2009, year-on-year price inflation progressively decelerated to 8.6 percent in December 2010.

[5] By August 2009, the discovery of a larger than anticipated amount of expenditure arrears and outstanding commitments accumulated in 2008 further underlined the shortcomings of monitoring and information systems on fiscal developments, see Chapter 2.

[6] Or equivalently 9.4 and 7.5 percent in CY09 and CY10 before national accounts revision.

10. **Restored fiscal credibility and improving inflation expectations also helped the lowering of interest rates on Treasury bills.** With price inflation under control, reduced exchange rate risks and reduced financing needs from the Government (net domestic financing halved between 2008 and 2009 in proportion of GDP), interest on Treasury bills progressively dropped. By December 2010, 6-month treasury bills were subscribed at 12.7 percent, down from 28.8 percent in July 2009. Meanwhile sovereign bonds average maturities increased, suggesting greater investors' confidence in Ghana's medium term prospects. With improved inflation expectations, the BoG also reduced its policy rate, from 17.0 percent in December 2008, to 13.5 percent in December 2010.

11. **Compared with 2008, economic growth strongly decelerated in 2009 with fiscal stabilization.** Real GDP growth decelerated from 8.4 percent in 2008 to 4.7 percent in 2009, largely as a result of the fiscal consolidation effort which strongly contracted aggregate demand. Not accounting for possible (negative) multiplier effects, the negative growth in public primary expenditures (excluding transfers, and in spite of a significant increase in foreign financed capital expenditure) between 2008 and 2009 (-24 percent in real terms), cost about 2.7 percentage points of real GDP growth in 2009. In contrast, fiscal expansion in 2008 (+20 percent in real terms) – not accounting for arrears accumulation or multiplier effects, added about 2.4 percentage points of growth in 2008 through stimulated aggregate demand. Thus, fiscal consolidation contributed significantly to the growth deceleration observed between 2008 and 2009, underlining the great influence of fiscal cycles on growth fluctuations in Ghana.

12. **Fortunately, economic activity was supported in 2009 and 2010 by positive terms of trade, good climatic conditions, favoring agricultural and hydro-electric production, and relative isolation from financial turmoil**. Not being greatly exposed to international financial markets (on both assets and liabilities sides), Ghana's financial sector (mostly banks) was also able to withstand the global financial crisis, and benefited from the booming net export receipts (exports minus imports, +US$2,516 million in 2009 compared with 2008), which largely offset the decrease in capital inflows and remittances (respectively US$439 million and US$182 million compared with 2008). Banks' balance sheets continued to expand rapidly in 2009 and 2010, while remaining highly liquid and significantly elevating capital adequacy ratios, notably in light of raised capital to meet the new statutory minimum capital requirements.

13. **Nevertheless, reduced financing needs from the Government did not crowd in private investment.** Although the negative short-run impact of public expenditures containment on economic growth was expected, one could have also anticipated this effect to be at least partially offset by increased private consumption and investments with declining interest rates. This effect however did not materialize, as banking credit to the private sector has stagnated since 2008. One major reason for this lack of transmission of monetary policy to banks' lending lies in the explosion of banks' Non Performing Loans (NPLs), which grew from 7.7 percent of gross loans in December 2008 to 17.6 percent in December 2010. In turn, prudential regulations prompted banks to provision possible loss from NPLs,[7] thus constraining their capacity to extend further credit to the private sector and State-Owned Enterprises (SOEs). In retrospect, the rapid expansion of credit in 2007 and 2008 in a high inflation and high interest rate environment created conditions for the subsequent asset

[7] Banks ratio of loan provisions to gross loans increased from 6.4 percent in December 2008 to 9.4 percent in December 2010, after having peaked to 14.9 percent in March 2010, when NPLs were also at their highest (20 percent of gross loans in February 2010).

deterioration, as risk management regulations and practices did not improve commensurately. Another reason is the inability of the banking sector to rapidly convert loans to the Government into investment, and consumption loans to new private borrowers given the predominance of small and medium enterprises in Ghana, not considered creditworthy by the banking sector.

14. **Furthermore, a large portion of banks' NPLs could directly be attributed to the accumulation of public expenditure arrears since 2008 (International Monetary Fund, 2011).** These include impaired assets due directly to built-up public arrears to contractors and SOEs, and indirectly to arrears to vendors not paid by the affected contractors and SOEs. Arrears to contractors and outstanding commitments to SOEs accumulated in 2008 and forwarded to 2009 amounted to respectively GH¢ 830 million and GH¢ 670 million, or a total stock of GH¢ 1,500 million (5.0 percent of GDP), excluding outstanding commitments to statutory funds (GH¢ 300 million). By end-2009, such stock had gone up to GH¢ 2,360 million (6.5 percent of GDP) - largely on account of the increase in Government liabilities to SOEs, and to GH¢3,050 million by end-2010 (6.6 percent of GDP). In the event, State-Owned Banks saw their financial situation deteriorate given their high exposure to State-Owned Enterprises, Ghana Commercial Bank in particular, given its large exposure to the Tema Oil Refinery.

15. **Thus, the impact of recent fiscal cycles on Ghana's growth volatility cannot be underestimated.** The extent of fiscal consolidation required to ensure macroeconomic stability while maximizing growth remains an open-ended debate, depending on views one can have on the impact of public expenditure (and its financing) on growth through supply side effects – the very subject discussed throughout this report. With fiscal containment, Ghana managed to stabilize the macroeconomic situation, most likely at some cost for growth in the short run. But it is clear that, even without stabilization, Ghana would have had to endure in 2009 the impact of arrears on aggregate demand through reduced credit to private sector.

16. **Following the sharp adjustment of 2009, GDP growth strongly rebounded in 2010 to 7.7 percent.** While undertaking a number of structural reforms in public financial management (see Chapter 2), public sector (see Chapter 4 and 5) or energy (see next section), the Government modestly increased its demand for goods and services in 2010, thus contributing, unlike in 2009, positively to aggregate demand in 2010. Meanwhile, oil-related investment and other expenditures (in oil industry and/or in other sectors in anticipation of a booming aggregate demand in 2011, as first oil became a reality in December 2010), and continuously favorable climatic and terms of trade (gold, cocoa) conditions triggered a sharp rebound in economic growth. The latter also benefited from a progressive resumption in banking credit to the private sector, as deposits expanded rapidly and higher capital requirements were fulfilled.

Table 1: Selected Economic and Financial Indicators, 2008-10

	2008	2009	2010
	(annual changes, unless otherwise specified)		
National accounts and prices			
Real GDP	8.4	4.0	7.7
Real GDP (non oil)	8.4	4.0	7.7
Real GDP per capita	5.7	1.4	5.0
Consumer price index (annual average)	16.5	19.3	10.7
External sector			
Exports, f.o.b. (percentage change, in US$)	26.3	10.8	35.2
Imports, f.o.b. (percentage change, in US$)	27.3	-21.6	33.0
Export volume (excluding oil)	16.9	2.6	55.2
Import volume	6.9	-3.5	43.8
Terms of trade	-9.3	33.0	4.8
Ghana Cedi per U.S. dollar (end of period)	1.2	1.4	1.5
Money and credit			
Net domestic assets	48.3	3.9	16.2
Real private sector credit (% annual changes)	25.4	0.5	17.1
Broad money (excluding foreign currency deposits)	31.2	21.2	45.7
	(percentage of GDP, unless otherwise specified)		
Investment and saving			
Gross investment	21.5	20.7	19.7
Private investment	13.2	13.9	14.0
Central government investment	8.2	6.8	5.7
Gross national saving	12.0	16.7	12.8
Private savings	9.2	13.4	10.4
Central government savings	2.8	3.3	2.4
Foreign savings	10.8	4.0	7.0
	(millions of US$, unless otherwise specified)		
External sector			
Current account balance (millions of US$)	-3,543	-1,034	-2,761
Gross international reserves (millions of US$)	2,036	3,165	4,725
Total donor support (millions of US$)	1,434	1,790	1,644
Memorandum items:			
Nominal GDP (millions of US$)	28,528	25,978	32,311
Nominal GDP (millions of GH¢)	30,179	36,599	46,236

Source: MoFEP.

B. BUDGET EXECUTION IN 2009 AND 2010

17. **In 2009 and 2010, budget execution was driven by the imperative to reduce fiscal deficits, in a period of growth and inflation deceleration**. While policy options to rapidly improve resource mobilization were limited, rigidities in expenditures patterns – most of them being statutory (debt service, statutory funds) – prompted the authorities to severely compress non statutory domestically financed capital expenditures. Efforts were also made to contain the growth in the wage bill, and reduce subsidies to utilities through tariff increases.

Table 2: Central Budget Execution 2008-10, Revenues and Grants (% of GDP)

	2008	2009	2010
Total Revenue and Grants	16.04	16.52	16.75
Direct taxes	4.16	4.69	5.31
Personal income tax	1.74	2.11	2.19
Self-employed tax	0.23	0.20	0.22
Corporate tax	1.79	1.81	2.14
Mineral royalties	0.20	0.25	0.33
National stabilization fund / NRL	0.00	0.08	0.14
Airport tax	0.04	0.06	0.08
Other (fees, taxes, oil royalties)	0.16	0.18	0.21
Indirect taxes	6.01	5.32	5.29
Domestic VAT	1.38	1.29	1.40
Import VAT	2.22	2.17	2.10
National Health Insurance Levy	0.71	0.71	0.68
Petroleum tax	1.28	0.76	0.55
Excise duty/other indirect taxes	0.19	0.14	0.25
CST	0.23	0.24	0.30
Trade taxes	2.38	2.08	2.48
Import duty	2.25	2.04	2.27
Exports - cocoa	0.13	0.05	0.20
Nontax revenue	0.42	1.26	1.17
Fees and charges	0.25	0.21	0.41
Dividends and transfers	0.17	1.05	0.76
Grants	2.72	3.01	2.34
Project grants	1.33	1.49	1.28
Program grants	0.85	1.09	0.62
Flows from multilateral. funds (HIPC & MDRI)	0.54	0.43	0.43
Other Revenues	0.35	0.16	0.16

Source: MoFEP.

18. **On the revenue side, direct tax collection improved. From 4.2 percent of GDP in 2008 to 5.3 percent in 2010.** In particular, collection of personal income and corporate taxes increased, as a result of adjustments in the personal income tax bounds, increases in public sector salaries shifting them into higher tax bounds, and auditing of self assessing company which yielded positive dividends. The reintroduction of a national stabilization fund, the increase in airport tax rates and a booming mining sector also contributed to raise direct tax revenue.

19. **Indirect taxes suffered from growth and inflation deceleration.** Import VAT and duties in particular suffered from the import bill contraction in 2009, before rebounding in 2010. Domestic VAT followed the same evolution. The decision to lower taxation on petroleum products in 2009 also cost revenue, and was only partially offset by the increase in the communication tax rate and excises.

20. **Non tax revenue increased with cocoa, higher user fees and one-off dividends payments.** User fees and charges (road tolls notably) were raised in 2010, and the good cocoa harvests allowed The Ghana Cocoa Board to reverse higher dividends to the Consolidated Fund in 2010. In 2010, the Central Bank also reversed some dividends accumulated in previous years.

21. **Grants, which were front-loaded in 2009, declined in 2010 in proportion of GDP.** Program grants in particular were raised in 2009 in support of stabilization efforts. The drop in exchange in 2009 also contributed to increase the value of grants expressed in Ghana Cedi. This effect was not prolonged in 2010, as the exchange rate stabilized.

Table 3: Central Budget Execution 2008-10, Expenditure and Arrears Clearance (% of GDP)

	2008	2009	2010
Total Expenditure	23.95	20.55	22.62
Wages and salaries	6.59	6.77	6.88
Goods and services (a)	2.15	1.70	2.08
Subsidies to utilities (b)	0.70	0.00	0.22
Social Transfers	2.91	1.65	1.99
Pensions	0.49	0.51	0.47
Gratuities	0.18	0.18	0.19
Social security	0.53	0.43	0.29
National Health Fund	0.85	0.42	0.76
Other transfers	0.86	0.11	0.28
Reserves fund	0.91	0.46	1.02
Domestic debt interest costs	1.60	2.11	2.43
Foreign debt interest costs	0.65	0.71	0.68
Domestically financed capital expenditures	6.11	2.70	3.14
Non statutory	3.32	0.78	0.77
Ghana Education Trust Fund	0.68	0.38	0.53
Road fund	0.34	0.33	0.27
District Assemblies Common Fund	0.84	0.42	0.89
Petroleum related fund	0.01	0.01	0.01
HIPC financed expenditure	0.61	0.56	0.53
MDRI financed expenditure	0.31	0.23	0.16
Net lending and Equity	0.00	0.00	0.00
Foreign financed capital expenditures	3.04	4.44	4.40

Source: MoFEP.

22. **With limited improvement in revenue and grants collection, most of the fiscal adjustment took place on the expenditure side, domestic investment in particular.** Indeed, the Authorities almost stopped financing non statutory domestically financed investment expenditures, which dropped from 3.3 percent of GDP in 2008 to 0.8 percent in 2009 and 2010 (but led to a net accumulation of arrears to private contractors as some

investment projects were not halted or contracts not cancelled). The increase in foreign-financed capital expenditures, from 3.0 to 4.4 percent of GDP between 2008 and 2009/2010, partially cushioned this compression. MDRI and HPIC capital expenditure were also compressed in 2009 and 2010, as well as goods and services (item 2) expenditures in 2009, before rebounding in 2010 to ensure proper service delivery and maintenance.

23. **A second important source of expenditure adjustment was the accumulation of outstanding obligations vis-à-vis statutory funds.** With limited financial resources, the authorities deferred statutory payments to the various Statutory Funds in 2009, the Social Security, the National Health Fund, the Ghana Education Trust Fund, and the District Assembly Common Fund in particular. In 2010, this trend was partially reversed. The proportion of earmarked revenue released to Statutory Funds increased compared with 2009, but was not complete – thus new inter-Government arrears were accumulated, see Table 4, and exceeded those cleared.

24. **Unlike in previous years, wage bill and utilities subsidies pressures were largely contained in 2009 and 2010.** In particular, the authorities imposed a net hiring freeze (to the exception of trainees in health and education) in 2009 and negotiated modest salary increases with unions in both 2009 and 2010. Nonetheless, the implementation of the single spine pay reform as of January 2010 created some obligations – wage arrears – to public sector employees not immediately migrated in 2010 to the new salary structure, which the Government estimates at 0.6 percent of GDP by end-2010. The need to cover electricity utilities' operational losses through subsidies was reduced in 2009 as petroleum world prices dropped and rains abounded, and eliminated from mid-2010 through increase in electricity tariffs sufficient to ensure cost-recovery.

25. **Meanwhile, domestic debt service rose with increased reliance on domestic financing.** The high reliance on domestic financing in 2008 translated into higher domestic debt service in 2009 and 2010, in spite of declining interest rates on sovereign issuances observed since mid-2009 (as Government financing needs were declining, see below, and commercial banks could not extend credit to the private sector, as already discussed).

26. **From 8.4 percent of GDP in 2008, the cash deficit went down to 5.8 percent in 2009 before it bounced back to 7.4 percent in 2010.** In 2009, authorities also cleared 1.7 percent of GDP worth of arrears in 2008. Meanwhile, they accumulated an additional 2.4 percent of GDP vis-à-vis contractors, and Statutory Funds – thus a net arrears accumulation of 0.7 percent of GDP (against 4.5 percent in 2008), excluding SOEs. In 2010, the authorities cleared the equivalent of 1.4 percent of GDP worth of arrears, and accumulated another 3.2 percent– thus a net accumulation of 1.8 percent of GDP, excluding SOEs. On a commitment basis, the deficit went thus down from 12.5 percent of GDP in 2008 to 6.5 percent in 2009 and 9.2 percent in 2010.

Table 4: Central Budget Execution 2008-10, Cash and Commitment Deficits (% of GDP)

	2008	2009	2010
Expenditure minus revenue	7.92	4.02	5.89
Arrears clearance	0.47	1.71	1.39
Private Contractors	0.47	0.99	0.81
Statutory Funds, Pensions and Wages	0.00	0.72	0.58
VAT refunds	0.09	0.09	0.10
Cash deficit	8.47	5.82	7.37
New arrears accumulation	4.48	2.37	3.18
Private Contractors	2.75	1.05	1.73
Statutory Funds, Pensions and Wages	1.73	1.31	1.45
Net arrears accumulation	4.01	0.65	1.80
Private Contractors	2.28	0.07	0.92
Statutory Funds, Pensions and Wages	1.73	0.59	0.87
Commitment deficit	12.48	6.48	9.17

Source: MoFEP.

Table 5: Central Budget Execution 2008-10, Cash Deficit Financing (% of GDP)

	2008	2009	2010
Cash Deficit	8.47	5.82	7.37
Discrepancy	0.44	-0.19	-0.88
Cash Deficit Financing	8.91	5.63	6.49
Divestiture receipts (net)	2.34	0.02	-0.96
Foreign (net)	0.57	2.61	2.61
Exceptional financing (debt relief, bilateral)	0.26	0.16	0.20
Domestic (net)	5.75	2.85	4.63
Banking system	4.16	2.09	2.10
Non-bank	1.59	0.75	2.53

Source: MoFEP.

27. **Altogether, Government resort to domestic bank financing declined in 2009 and 2010, from 4.2 percent of GDP in 2008 to 2.1 percent in 2009 and 2010.** Reduced financing needs, and higher net foreign financing (from Development Partners in particular through front-loaded budget support) contributed to lower banks' deficit financing. In 2010 though, the urgent need to clear part of Tema Oil Refinery (TOR) arrears[8] (Changes in obligations to SOEs are accounted as financing elements), and higher cash deficit prompted the Government to resort to non-bank domestic financing (through the issuance of domestic treasury bills for non-financial institutions notably) to cover the financing gap.

28. **By end 2010, the stock of Government expenditure arrears amounted to 9.1 percent of GDP, including 2.8 percent of GDP to private contractors**. The remainder was between Government entities, Central Government, Statutory Funds and State-Owned Enterprises, possibly facilitating their consolidation and formalization to reflect Government priorities.

[8] In 2010, the Government cleared the equivalent of 0.96 percent of GDP vis-à-vis TOR (GH¢445 million), to settle part of the refinery's debt vis-à-vis the Ghana Commercial Bank and allow the resumption of its operational activities. The financing of the operation was obtained with the issuance of a Ghana Cedi denominated 3-year Treasury bill for non residents carrying a 15.0 percent annual interest.

Table 6: End-year Outstanding Stock of Public Expenditure Arrears, 2008-2010 (% of GDP)

	2008	2009	2010
Contractors	2.75	2.33	2.77
Roads	0.41	0.51	0.67
Non Roads	2.34	1.82	2.09
Statutory Funds	1.00	1.41	1.61
Ghana Education Trust Fund	0.16	0.22	0.31
District Assembly Common Fund	0.12	0.26	0.25
National Health Fund	0.33	0.38	0.25
Social Security	0.36	0.55	0.81
Others	0.03	0.00	0.00
State-Owned Enterprises	2.22	4.12	3.83
Tema Oil Refinery	1.33	2.87	2.72
Volta River Electricity	0.52	0.65	1.01
Others	0.37	0.59	0.11
Pensions	0.73	0.60	0.28
Wages	0.00	0.00	0.57
Total	6.70	8.46	9.07

Source: MoFEP.

29. **Meanwhile, formal Government debt to GDP rose from 33.6 percent of GDP to 37.4 percent between 2008 and 2010**. The increase was particularly pronounced from 2008 to 2009, for external debt notably, the result of front-loaded donors' financial assistance and exchange rate devaluation. Debt calculations do not include arrears, or contingent liabilities (such as debt contracted by SOEs but not publically guaranteed).

Table 7: Gross Public Debt to GDP, 2008-2010 (% of GDP)

	2008	2009	2010
Domestic debt	17.36	16.68	17.91
External debt	16.23	19.55	19.48
Total	33.59	36.22	37.38

Source: MoFEP.

2. PUBLIC FINANCIAL MANAGEMENT DEVELOPMENTS

Based on a large set of recent diagnostics, and building from lessons of the past, the Government launched in 2009 a new generation of public financial management reforms, with a view to improve budget execution and thus budget credibility, severely affected by large overall budget deviations, compositional variances, and arrears accumulation. Reforms, anchored around the Ghana Integrated Financial Management Information Systems, GIFMIS, focus in particular on budget comprehensiveness and consolidated cash management, monitoring and control of outstanding commitments, and payroll management. In support of implementing these reforms, the re-invigoration of external audit oversight mechanisms is expected to strengthen the executive accountability framework.

A. INTRODUCTION

30. **Under GPRSII (2006-9), the Government devised the Short and Medium Term Action Plan (S/MTAP: 2006-9) for public financial management reform.** Reforms focused on addressing fiscal policy management, budget formulation and implementation, payroll and personnel management, aid and debt management, revenue management, and capacity building. The S/MTAP recognized that the thrust of the reform agenda, in the short term, was to be anchored on the implementation success of (a) an IT-based Budget and Public Expenditure Management System (BPEMS), (b) Integrated Payroll and Personnel Database (IPPD-2), (c) integration of the MTEF into the IFMIS platform, and (d) Treasury Realignment. In addition, consolidated success achieved by the internal Audit Agency and the Public Procurement Board was highlighted as key to supporting the accountability and transparency aspects of the reform.

31. **However, poor governance and weak accountability systems undermined the successful implementation of the S/MTAP.** Positive developments commenced to accrue in the areas of (i) unreported extra-budgetary expenditure, (ii) good and timely public access to key fiscal information, (iii) adherence to a fixed, coherent, and respected budget calendar, (iv) reduction of average debt collection ratios for tax arrears and regularity and timeliness in revenue transfers to the Consolidated Fund, (iv) increased comprehensiveness in the reporting on the debt portfolio, (v) improved timeliness of in-year budget implementation reports and annual financial reports, and (vi) greater effectiveness of and timely external audit scrutiny. Yet, S/MTAP also failed to deliver on a number of key actions that together could have uplifted the PFM performance in the country. Among these actions are the following challenges: (a) inability to apply the guiding principles of a well structured Treasury Single Account for a more comprehensive and consolidated management of cash for all public expenditures supported under the Government budget, (b) uneven capacity to fully implement commitment accounting and controls and hence document, report on, and minimize the potentials for, expenditure arrears – arrears that result to opaque financing and add to the distortion of macro-fiscal stability, (c) lack of provision of a consolidated fiscal picture in respect of revenues and expenditures against the five separate and distinct funds of the Government; (d) failure to adopt and implement a GFSM2001-compliant uniform chart of classification for budgeting, accounting and fiscal reporting across all Government formations for better and more informed fiscal decision making; (f) weak enforcement of the provisions of the FAA (2003) and FAR (2004) in expenditure management, resulting in constant annual disclaimers by the Auditor General on the audited financial statements of MDA; and (g) reconciliation weakness impacting the reliability of financial statements including the public debt.

32. **In response to these identified challenges, the Government adopted in 2009 and started to implement the GIFMIS Charter**. The Charter is premised on (a) the need to capture all public finances at the center and across all local Governments; (b) the establishment of a uniform chart of accounts (for budgeting, accounting, and reporting) that is compliant with IMF GFSM2001 and COFOG; (c) developing and implementing re-engineered business processes for Government expenditure management that are best practice; (d) integration of applications, including personnel management and payroll database, on a single upgraded Oracle financial platform; (e) the need to consolidate the reporting of all Government finances across the five Funds, and (f) strengthening the MTEF and introducing a program-based budgeting system that supports improved fiscal management and service delivery outcomes across sectors. The Government intends to achieve these set of goals and thus create the environment most conducive to improved accountability and transparency, and also set the base for transition to the widespread use of country PFM systems for all donor-funded operations. The Government initiative to implement GIFMIS has been receiving financial and technical support from a number of DPs.

33. **Continued attention from Government, at both technical and political levels, will be needed to address the potential challenges that accompany the successful implementation of GIFMIS.** The project might indeed face implementation delays due to slow progress from various parts of Government in adopting the re-engineered reforms necessary to bring the priority FM systems' modules to their productive status. But, efforts to strengthen the demand side of governance around the budget could also guard against future slippages and, at the least, provide some additional transparency in a more timely fashion about where and when expenditures deviate from plans.

B. PFM PERFORMANCE AND PROSPECTS

34. **The External Review of the Public Finance Management (World Bank 2010a) and Public Expenditure and Financial Accountability (PEFA, Ecorys Macro Group 2010) reports of 2010 confirmed that Ghana enjoys a well grounded and formulated legal and regulatory framework for PFM.** Key amongst the established laws and regulations that have been enacted as off-shoots of the 1992 Constitution of Ghana are the following: Financial Administration Act (FAA, 2003), Financial Administration Regulations (FAR, 2004), Public Procurement Act (2003), Audit Service Act (2000), the Internal Audit Agency Act (2003), Internal Revenue Act (2000) and its successor - the Ghana Revenue Authority Act (2009). Inherent in the application of the key elements of the framework, however, is the need for uniform compliance with the dictates of the Acts and Regulations. The institutional framework for PFM is equally strong in Ghana with the distinct separation of powers that supports a well functioning PFM system, notwithstanding capacity constraints pervading a number of potential high performing institutions.

35. **However, they also confirmed that budget credibility was weak.** The very large deviations between budgeted revenues and realized revenues in 2009 (a structural weak performance in revenue mobilization and/or revenue forecasting) accounted, to a large extent, for the significant curtailment of releases of budgetary expenditures for MDA predictable commitments. Revenue outturn, during 2009, was an overall receipts shortfall of 5.7 percent against the budget. This, notwithstanding, the Government cleared much more arrears than that budgeted, in light of the discovery of a higher stock than anticipated - see Chapter 1. In essence, arrears accumulation strongly undermined budget credibility - and thus the ability of the Parliament to exert their prerogatives based on credible budget plans, at the aggregate level, but also at the more disaggregated level (expenditure composition), given the need for

in-year adjustments in budget execution. In addition, one of the root causes of weak budget credibility in the past has been the inability to comprehensively record year-end commitments and fully budget for them in subsequent year's budgets. Table 8 shows that while the government had consistently improved on the deviations between original budget and actual cash-based primary expenditures (i.e., excluding debt service) over the fiscal years 2008-2010, the expenditure compositional variance remained high.

Table 8: Budget Deviations, 2008-10

	2008	**2009**	**2010**
Primary Expenditure Deviation (%, PI-1)	32.3	12.5	0.4
Expenditure Composition Variance (%, PI-2)	15.7	22.8	15.1

Source: World Bank staff calculations based on MoFEP data. PI-1: Aggregate expenditure outturn compared to original approved budget, PI-2: Composition of expenditure outturn compared to original approved budget

36. **Besides, arrears – that is late payments against contracts already performed - undermine Government's reputational relationship with the business community, with potential impact on the cost of goods and services purchased by the Government.** In response, MoFEP has begun in 2009 to implement a contract management database within the operational confines of expenditure commitment control with a view to (a) assuring the availability of more accurate data on outstanding obligations arising through commitments entered into by MDAs, (b) enhancing the effectiveness of the cash management system being practiced at the MoFEP and the CAGD, and (c) assuring the liquidation of the obligations on more timely basis to avoid carry over to subsequent fiscal years. Yet, the issue remained that some MDAs, Roads & highways and Energy in particular, still continued to enter into commitments without first receiving commencement certificate. In October 2010, the Office of the President instructed all MDAs to seek authorization from MoFEP, through commencement certificates, before undertaking any investment activity.

37. **Going forward, the Government has committed itself to adopting and implementing a Program-Based Budgeting (PBB) framework.** The PBB is planned to replace the existing activity based budgeting system and align the sector programs better for more efficient service delivery definitions and outcome measures. A concept note was since prepared and the overarching principles for implementation have been defined. The government has commenced piloting the implementation in two MDAs for the fiscal year budget 2011, with the potential to roll-out to remaining MDAs by 2013.

38. **When successful, the PBB will help to reverse a number of key weaknesses inherent in the budget management process in Ghana and enable better allocation of resources to priority programs based on clear policy choices**. The adoption of the framework and the methodical implementation of its underlying principles will foster (i) transition to better value for money in public spending, (ii) improved executive accountability (with a greater focus on results) for service delivery according to government priority programs, and (iii) enhanced budget comprehensiveness and realism as well as increased flexibility in allocation of resources across choices within competing programs. The challenge however is to secure a sustained buy-in for a thorough and coherent implementation of the framework amongst stakeholders, as well as generate and report on program performance to feed into the reformulation of strategies for better results. Consensus building across government is fundamental to its success and requires capacity building of the key MDAs. Fortunately, the framework has highest political approval and implementation financing has been secured from DPs within the GIFMIS project.

39. **Despite recurring gaps, Ghana continues to score well on the comprehensiveness and the transparency of its budget.** The PEFA report of 2010 underlines that, except for the lapses related to the timing differences in reporting of expenditure arrears as well as the weaknesses in consolidation of overall Government fiscal/financial reports, Ghana scores very well in transparently reporting on all Government operations[9]. This is again confirmed by a review of the budgets for 2009 and 2010. The budget documentation for 2011 provided reasonably adequate information, though only at the fiscal operations aggregate levels within the MTEF, on the provisional outturn of 2009 and 2010 for the first 3 quarters, the budget for 2011, and the estimates for the next two outer years. The budget statement provided the key macroeconomic assumptions on which the budget and budget forecasts were made. The budget also used a classification system which, while not directly consistent with GFSM2001, was COFOG-compliant. Nevertheless, the comprehensiveness and transparency of the budget could be better fostered by (i) ensuring a consistent presentational budget format over the years for coherent comparison, (ii) breaking down the detailed budget and actual expenditure figures according to MDAs instead of presenting them only at the aggregate levels, (iii) accurately presenting credible foreign aid amounts as part of public receipts and within the financing data.

40. **While budgets have become more policy-based since the adoption of the first Ghana Poverty Reduction Strategy (GPRS I), their efficiency is held back by limited ability to cost strategies and the lack of an effective monitoring and evaluation mechanism.** The costing of sector strategies remains elusive, so as the feedback process relating to achievements or otherwise of service delivery objectives defined in the hybrid structure of the activity based and line-item budgeting arrangement in place. The underlying institutional arrangements to support a policy based budget process, beyond allocating resource across main pillars of the successive national development strategies (GPRS I, GPRS II, GSGDA) are weak despite the adoption of a single stage coordinated budget process for recurrent and development budgets. The Annual Progress Report from the National Development Planning Commission (NDPC) does not establish a link between budget execution and development outcomes.

41. **Until 2010, Ghana had a chart of classification for budgeting and accounting that was largely consistent with COFOG standards, but not with GFSM2001 standards in the absence of bridging tables.** Also, there was no uniform chart of accounts across the whole Government. In 2010 however, the Government adopted a new uniform chart of budget and accounts classification consistent with GFSM2001 (from GFSM1986 previously), which was used to execute the Budget 2011. Consistency of a harmonized chart of budgeting, accounting and reporting framework across Government is required to support the Government decision making as well as comparability of service delivery outcomes and related costs between different Government priorities.

42. **Inter-Governmental fiscal relations continued to suffer some setbacks.** The Ghana Shared Growth and Development Agenda (2010-13) espoused the necessity to enhance service delivery through greater focus on local governance. Through this vision, it is expected that legal and institutional framework of local Governments will be strengthened and, by extension, the fiscal transfer arrangements will be improved. As at present, local governments (Metropolitan, Municipal and District Assemblies, MMDAs) receive transfers from the District Assembly Common Fund, DACF, while their personnel Emolument and Administrative budgets remain under the Central Government Consolidated Fund. With the

[9] The PEFA 2010 report extended its analysis only up to FY 2008.

timing of payment flows for these transfers hardly predictable and not properly aligned to the budget calendars of the MMDAs, planned service deliveries are negatively impacted. The other sources of revenues for MMDAs – mainly Internally Generated Funds, IGF – are largely insufficient to support MMDAs' assigned service delivery mandates. A fiscal decentralization unit was established at the MoFEP that will help to move the fiscal transfer agenda forward and, in association with the Local Government Finance Department of the MLGRD, the political and administrative decentralization arrangements. See Chapter 5 for a more detailed discussion on fiscal decentralization.

43. **The Controller and Accountant General Department, CAGD, is responsible for providing a uniform basis of approved standards and procedures to guide the management of public finances.** These responsibilities emanate from the dictates of the FAA (2003) and FAR (2004). Pursuant to these mandates, the CAGD produced a Government Accounting Manual in 2008 to serve as the operational reference document for conducting accounting and reporting activities in Government – MDAs and MMDAs. These Manuals were reviewed by the Ghana Audit Service in September 2009, and were, by October 2011, to be formally disseminated before end-2011.

44. **Accounting for and reporting on public expenditures is split between various institutions, making it difficult to get a comprehensive picture on Government spending.** While the CAGD is legally mandated to account and report on expenditure incurred under the Consolidated Fund (including the reporting on bulk transfers made in respect of statutory funds) and assist MDAs and MMDAs in the preparation of their own accounts, the CAGD does not interpret its legal mandate as the accounting and reporting on expenditures incurred by Statutory Funds (the Social Security, the Road Fund, the National Health Fund, the Ghana Education Trust Fund, and the District Assembly Common Fund), donor funded projects, and internally generated funds from MDAs and MMDAs. As a result, the overall picture of Government finances is not readily available, and Government accounts are fragmented across a number of commercial banks, making cash management limited in scope. In most countries, a government agency (usually the Ministry of Finance), assumes that responsibility and comprehensively report on all public funds.

45. **The CAGD has been consistently meeting the basic reporting requirements under the FAA (2003) and FAR (2004).** The CAGD has consistently been preparing monthly and annual financial statements on the Consolidated Fund, to be rendered for audit. While the FAA and FAR require the monthly statements on the Consolidated Fund to be submitted to Parliament and the Auditor General within 15 days after each month-end and the CAGD does largely comply with this for the period April – October each year, these statements are, in practice, submitted late – within 10 weeks after month-end during the periods November – March each year. The CAGD explains that delays in this period result from the extraordinary burden attached to budget preparation (November-December) and annual financial statements for audits (January-March).

46. **The overall quality of the statements on the Consolidated Fund prepared by the CAGD is consistent with the International Public Sector Accounting Standards**. Despite known weaknesses in terms of scope of the statements (as they exclude donor-funded projects), comparability with the budget estimates, and reconciliation deficiencies, the overall quality of the statements on the Consolidated Fund prepared by the CAGD is consistent with the International Public Sector Accounting Standards – cash basis of financial reporting – except for: (i) want of consolidation (inaccurate definition of "entity") and, (ii) lack of inclusion of third party transactions. This same standard is not true for MDAs and MMDAs,

however. Most MDAs prepare and submit their monthly financial statements to the CAGD and their annual financial statements for audit, but on uneven timelines. The quality of these reports is equally uneven across MDAs. In respect of MMDAs, while they generally render monthly accounts, there still remain some concerns about the quality of presentation, comprehensiveness, as well as their reliability. A growing number of MMDA annual financial statements remain delayed for audit, sometimes for over a year, but these constitute less that 15-20 per cent of the MMDA population (according to Ghana Audit Service). This highlights, to a large extent, the capacity weaknesses at MMDAs, grounded on their staffing strength and quality, in addition to the absence of enforcement of compliance. Strengthening the financial management capacity of some MMDAs is being planned for further support under the Ghana Local Government Capacity Support project.

47. **Addressing weaknesses in the budget management (including budget execution) is being foreseen under the GIFMIS project that has commenced implementation.** This project, as highlighted above, arose out of the Government's declared commitment to address key weaknesses in the Government's PFM systems and practices as identified by a number of internal and external diagnostic studies. Using the Oracle E-Business Suite Financial software, and supported by improved organization and business processes, GIFMIS will serve as the official system of record to meet the Government budget, financial accounting and reporting, disbursements, internal control, and auditing requirements. A strong institutional arrangement - Revenue and Expenditure Steering Committee - has been set up to provide strategic direction and guidance on the PFM Reforms.

48. **The GIFMIS will utilize the new harmonized and GFSM2001-compliant chart of accounts for all financial transactions throughout the country – MDAs and MMDAs.** It will provide the opportunity for the CAGD as well as spending ministries, departments, agencies and local Governments, to enhance commitment control through the widespread use of the 'Purchase Order' module and be also able to exercise systems-based budget discipline, including the maintenance of records helpful in planning against accruing expenditure arrears. It would cover the Budget Preparation phase of the PFM cycle which, inter-alia, includes calculation of program and project costs; compilation of budget proposals from spending agencies; and printing of Budget Documents. Systems functionality would cover the recording of transactions related to initial budgets, budget revisions, budget releases, commitments, purchase orders, contract details, receipt of goods and services, vendor invoices, payment authorizations linked to hard-budgets, payment instructions to the Bank, revenues and other receipts, on-line bank reconciliations, monitoring of treasury and bank balances, automatic posting of all transactions, enforcement of controls, accounting and comprehensive reporting – all with the security assurance that these functions are performed by authorized staff only.

49. **While formal effectiveness of the donor financing of the GIFMIS project was only in November 2010, the government had taken it upon itself to initiate and implement a set of readiness actions since September 2009.** Despite the lack of donor funding at the time, an interim strategy, modeled on the basis of the GIFMIS Charter, was approved by the Government and implementation thereof commenced in January 2010. Development work continued and was initially primarily focused on the chart of accounts and budget classification structure, and the planning for a phased implementation of Performance Based Budgeting. The period between March and June 2010 witnessed a considerable progress on the GIFMIS interim strategy implementation, examples of which were in the areas of: training strategy and planning, testing strategy and planning, accounting operations

and control, MDA monthly accounting, data collection and migration, business process reviews, prototype development, fixed assets registers, and finalization of the conceptual model design.

50. **Further progress in the implementation of the GIFMIS interim strategy has been achieved during the second half of 2010 in a number of areas.** The Chart of Accounts has been approved by the Minister of Finance and Economic Planning; the Oracle Functional and Technical contract BPEMS staff have been redeployed to the CAGD as part of a renewed organizational arrangement; new computer hardware servers have been procured; project plans and strategy have been updated; and, a standard system for assets registration that will eventually allow loading of capital assets into the Oracle Fixed Assets module as part of the Phase III GIFMIS strategy has been developed. Equally, the business processes for BPEMS, first prepared in 2000, were reviewed and updated as the future baseline business processes with substantial business re-engineering of processes that would form the backbone of operational analysis and design in the implementation of the upgrade version of Oracle Release 12. Going forward, the main objectives, the achievement of which are on track, are to realize a Government-wide implementation of the General Ledger by the middle of 2011 and a further implementation of the remaining critical financial modules from the autumn of 2011, to a full operation of these in the MDA's and Regional Sub Treasuries by the beginning of 2012.

51. **One of the major strategic objectives of the GIFMIS project over its three-phase implementation arrangement is the deployment of suitable computerized systems for the MMDA's in order to assist them in achieving standardization in accounting for and reporting of all expenditures and revenue transactions**. To this end, a mini-study was therefore undertaken in early December 2010 with a view to gaining an on the ground insight into the operations of the MMDAs and establish a clear focus on all the accounting transactions both for expenditure and revenue, the sources of revenue, the disbursement arrangements for revenue and the reporting of revenues and expenditure transactions against the various sources of revenue. The next steps will include the implementation of a complete roll-out of the GIFMIS during phase III (2013-2014) to all 170 MMDAs to enable them establish and maintain a more comprehensive and reliable system of financial management.

52. **As a relatively large country, expenditure processing in Ghana, under strict commitment control arrangements would need to be decentralized to allow for better prospects in effective service delivery.** The Government payment transactions are processed by the CAGD, 28 treasuries located in line Ministries and some MDAs, 10 regional treasuries responsible for servicing the regional branches of the MDAs, and 170 district treasuries responsible for processing transactions generated by the district level units of the MDAs and the MMDAs. The GIFMIS will, accordingly, be implemented in a centralized architecture at a central site in Accra at the MoFEP and will be connected via a Wide Area Network to each of the expenditure processing centers as above defined. While expenditure processing for Accra-based MDAs is designed to be decentralized, issuance of cheques for MDA expenditures will remain centralized at the CAGD at least for the medium term consistent with the GIFMIS design.

53. **The attempt to move the agenda of reforms, using systems, has its risks, however.** One of the risks relates to systems connectivity which is currently not seamless beyond Accra; second, there is the capacity issue that the project intends to mitigate through training; and third, the responsiveness to change after many years of manual systems with discretionary powers of applying controls is fraught with uncertainties. Nevertheless, the

project also plans to manage these risks through, among other interventions, an intensive and extensive change management support, coupled with incentives.

54. **Government's preparedness to receive the system, while creating the state of preparedness to embrace it, is critical to systems success and an affirmation of its commitment to reforms.** As a prelude to commencing the full implementation of the GIFMIS, starting with the MDAs as of the second quarter of 2011, the Government has identified three key reform areas that would need special focus to allow for a better and enhanced readiness to embrace the system when it rolls out. These include (a) measures aimed at introducing a Treasury Single Account (TSA) covering all public finances; (b) a more enhanced cash management system for improved liquidity management; and (c) the establishment of a National Revenue Authority. Since 2009, the government (through a memorandum of understanding signed between the Minister of Finance and Economic Planning and the Governor of the Bank of Ghana) subscribed to a strategy to initiate the full establishment of a TSA in three phases. Phase 1entails the bringing together all government bank accounts held with the BoG in Accra under a unified single treasury account; phase 2 aims at including all government accounts in all 5 BoG branches outside Accra; and phase 3 planned to bring on board all government bank accounts held with all commercial banks into a TSA mode. While phase 1 was largely achieved, phases 2 and 3 remain unaccomplished, as being revisited (as of September 2011).

55. **IGFs as well as donor-funded projects are included as part of the pact signed between the Minister of Finance and Economic Planning and the Governor of the Bank of Ghana to support the implementation of the TSA.** The challenges in the implementation of this pact are numerous and include (a) the need to revise some legislations including that of the IGF, and (b) the elimination of distortions and resistances to transitioning to the use of country systems (instead of 'ring-fenced' financial management of donor-aided project funds) to enable a more holistic accounting and reporting of overall Government finances.

56. **At the request of the Government of Ghana to be considered among the Use of Country Systems for procurement candidate countries, the World Bank fielded two missions in 2009 and 2010 to continue the dialogue with the government according to the approved assessment methodology and tool.** The results of the assessment tool indicate the continuing need for Ghana to improve the efficiency of the public procurement system by (i) strengthening the legislative framework, (ii) streamlining operations, (iii) enhancing institutional development capacity, and (iv) developing transparency. The Government has agreed on the need for an amendment process for strengthening the complaint mechanism, establishing debarment procedures, publication of public procurement notices on a dedicated website, improving filing and recording, and developing a capacity strategy. Issues still under discussion include the executive discretionary powers in the Procurement Law, the need for representation of the private sector in the regulatory and complaint bodies, and the approval process for single-source and limited tendering. .

57. **Strengthening internal management of MDAs and MMDAs through the establishment of effective internal audit functions has been in progress since the enactment of the Internal Audit Act (2003).** All but two Ministries, 125 out of 149 Departments and Agencies, and 155 out of 170 MMDAs, have functioning internal audit units, although they have uneven impacts despite their compliance with standards aligned to those of the Institute of Internal Auditors. There is evidence to confirm that, notwithstanding increased audit coverage by internal auditors, follow-up successes on internal audit reports

have been low (about 17 percent in 2010), notwithstanding the existence of Audit Report Implementation Committees in 75 percent of MDAs and 81 percent of MMDAs.

58. **The Internal Audit Agency is relatively well resourced, has developed and disseminated an Internal Audit Manual, and supports the internal audit units in MDAs and MMDAs through a relatively strong regulatory arrangem**ent. Capacity building activities have since been implemented to focus internal auditors on systemic and control checks as a support to internal management of Government entities. Nonetheless, there is scope to further strengthen the professional capacity of internal auditors to focus on systemic issues and enhance their impact through better collaboration with the external auditors as well as improve the responsiveness of their clients in addressing audit issues raised.

59. **The legal framework for external audit, as derived from the 1992 Constitution, is contained in the Audit Service Act (2010).** The Ghana Audit Service has endeavored to meet the legal requirements of submission of the audited accounts and audit reports on the Consolidated Fund and the MDAs to Parliament within three months of receipt of the audited accounts – i.e. within six months of the end of the fiscal year. Overall, the audits are conducted using INTOSAI[10] standards, and the scope and nature of the audits performed has been improving. The audit reports on the Consolidated Fund and MDAs for 2009 have, since June 2010, been submitted to Parliament. There are timeline weaknesses however in completing audits of MMDAs. These audits are completed and submitted to Parliament at different times well after the end of the fiscal year due essentially to (a) the lack of adoption of concurrent audit arrangements within the available capacity of the audit service staff – about 800 staff members, (b) the inherent delay by the auditees to submit completed and reliable financial statements on time, and (c) the long response time that auditees take to respond to audit queries prior to finalizing the audits.

60. **The scope of the audit of the GAS extends beyond financial audit to performance audit for a select number of service delivery entities.** There is still scope for strengthening the performance audit regime in order to enhance service delivery efficiency and expenditure effectiveness. During the course of audit for 2009, the Audit Service conducted audit of the payroll. Also, efforts have been made to conduct some public procurement audits, focused on financial and compliance aspects. Additional effort, though, is required to gross-up the capacity of the auditors in the technical areas of procurement with a view to contributing more actively to the value additions expected of audits of key service delivery sectors like transport and communications and health service delivery.

61. **Audit findings continue to point to major weaknesses in accuracy and reliability of financial records**. Reconciliation issues that span several years including: inconsistencies of public external debt records, significant differences in the reported consolidated fund account balances held with the BoG, anomalies in the pensions, payroll figures and public account balances, and understatements or overstatements of receipts and expenditures remain as recurring issues highlighted in audit reports. Due to these and a host of other observations by the GAS during its audit of the financial statements on the Consolidated Fund, the audit report for 2009 was qualified, just as the opinion on the accounts for the preceding years was.

62. **Building the capacity of the GAS to conduct audits of financial management systems being designed under the GIFMIS is a critical time sensitive requirement if fiduciary assurances on the public finances can be better enabled**. The Auditor General

[10] International Organization of Supreme Audit Institution.

is aware of the knowledge gap in systems audit and is, with the support of development partners, gearing the GAS to acquiring the required skill sets to conduct audits when GIFMIS goes into full-live production. The GAS medium and long term strategy does include this form of capacity building measure, along with others, to foster audit efficiency and effectiveness.

63. **Parliamentary follow-up on audit reports in respect of the Consolidated Fund and MDAs has improved in 2009.** In 2009 and 2010, the Public Accounts Committee of Parliament (PAC) began to expeditiously dispose of the accounts and audit reports of the Auditor General for 2007, 2008, and 2009. The level of transparency in the review and public hearing process and the subsequent resolution of issues have been of good practice as PAC deliberations have, since 2007, been open to the public and presented on television – a factor that by itself reinforces the potential for safeguarding public finances. There are, nonetheless, significant delays in the finalization of the reports of the Committee on both the Consolidated Fund and the MDAs, while the reviews of the reports and accounts of the MMDAs remain intermittent and not comprehensively addressed.

64. **Efforts were made by the Government to meet citizens' demand for a more open budget process.** In 2009, MoFEP started to put quarterly reports on budget execution on its website. There have been, however, only a few hits, and these data seem to go largely unused, possibly reflecting a lack of demand for, or capacity to use, such data to engage citizens in meaningful discussions on budget execution.

3. EDUCATION AND HEALTH EXPENDITURE AND OUTCOMES

Ghana's relatively high and growing level of public expenditure in health and education is effectively reflected in the population's higher demand and access to related services. The rapid expansion in health and education networks, however, was not without consequence on the quality of the services delivered. With rapid increases in school enrollments, learning achievements, already low by international standards, suffered. Absenteeism in rural areas, insufficient teachers' training, and lack of resources for goods and services (textbooks) notably explain these trends. Expansion has also been making management, technical and supervision of personnel increasingly challenging, when control of extensive spatial networks in conducted from the center. These challenges are further exacerbated with difficulties in payroll management and poor social accountability mechanisms, and reflected in uneven deployment of human resource throughout the country. Public health faces similar challenges, including that of the financial sustainability of the National Health Insurance Scheme, under pressure from growing demand not covered by beneficiaries' contributions. In these two sectors, there is a need to progressively shift from expansion to better and more equitable service delivery.

A. GHANA'S SPENDING EFFORT IN PERSPECTIVE

65. **The Government of Ghana has been devoting a large and growing share of its budget and GDP to health and education in the recent years**. Both health and education public expenditures have increased in proportion of GDP between 2004 and 2008. In 2008, the sum of these two items was approaching 7 percent of GDP. This figure can be considered conservative, as not including foreign-financed capital expenditure in these sectors, as well as those originating from internally generated funds, MDRI and HPIC funds, for which comparable data by sector is not available. The 7 percent figure however includes Development Partners' budget support funds eventually dedicated to these sectors as well as capital expenditure from Statutory Funds, such as Ghana Education Trust Fund and the National Health Insurance Fund.

Table 9: Budget Functional Classification, 2004-8 (% of GDP)

	2004	2008
Total Expenditure	20.57	23.95
Health	0.93	1.68
Education	3.72	5.15
Other Sectors	4.48	6.55
Transfers and Subsidies (less NHIF)	2.70	2.06
Reserve Fund	0.00	0.91
Interest Payment	2.69	2.25
HIPC Expenditure on Domestic Investment	1.45	0.61
MDRI Expenditure on Domestic Investment	0.00	0.31
Foreign Financed capital expenditure	3.72	3.04
Expenditure from Internally Generated Funds by sectors	0.88	1.06
Petroleum and other expenditure	0.00	0.33

Source: MoFEP and CAGD.

66. **The review of progress towards the Millennium Development Goals (MDGs) depicts a picture of quick progress, but on sanitation and health.** The income poverty,

hunger, primary completion, gender parity at school and access to water goals (MDG1a, MDG1b, MDG2, MDG3 and MDG7a respectively) are on track to be met by 2015, if not already met (MDG7a).[11] At the same time, other important MDGs, such as sanitation (MDG7b), child (MDG4) and maternal mortality (MDG5) are still off-track.

67. **In the last decade though, accelerated progress was observed through the comparison of demographic and health surveys in 2003 and 2008**: under-5 mortality was reduced from 111 deaths per 1,000 births to 80, the proportion of malnourished under-5 children was reduced from 18 to 14 percent, and the proportion of medically assisted deliveries went up from 47 to 59 percent. Thus, progress on maternal mortality was also significant between 2005 and 2008, with a decline from 503 to 451 per 100,000 live births in the pregnancy-related mortality rate. Compared with other countries with similar initial conditions, Ghana can be ranked among the best performers for its reduction in under-5 mortality between 2003 and 2008.[12] Had this trend started in 1990, the MDG4 would be in sight.

Table 10: Ghana's Progress towards the Millennium Development Goals

Observation	Initial		Most Recent	
MDG1a. Poverty headcount ratio, national poverty line (% of population)	51.7	1992	28.5	2008
MDG1b. Malnutrition prevalence, weight for age (% of children under 5)	27.4	1993	13.9	2008
MDG2. Primary completion rate, total (% of relevant age group)	61.2	1991	88.7	2009
MDG3. Ratio of girls to boys in primary and secondary education (%)	78.5	1991	95.0	2009
MDG4. Mortality rate, under-5 (per 1,000)	119.7	1990	80.0	2008
MDG5. Pregnancy-related mortality rate (per 100,000 live births)	740	1990	451	2008
MDG7a. Improved water source (% of population without access)	44.0	1990	16.2	2008
MDG7b. Improved sanitation facilities (% of population without access)	96.0	1993	87.6	2008

Source: NDPC.

68. **Ghana's spending effort is broadly aligned with comparator countries in education and health.** At 5.1 percent of GDP, public education expenditure in Ghana compares well with Sub-Saharan African neighbors, including middle income countries such as Mauritius and South Africa (where private education is also more developed). The comparison is less favorable for health, for which Ghana lags behind many comparators, including Kenya, Tanzania, Senegal, South Africa and Mauritius. In Ghana, public health expenditure accounts overall for about half of total health expenditure, which also include private and out of pocket expenditure. However, public health expenditure reported here do not account for public expenditure undertaken out of the Ministry of Health or the National Health Insurance Scheme, such as, for instance, military health. All in all, WHO estimates public health expenditure at 2.3 percent of GDP in 2008, and total health spending at 4.5 percent of GDP, including private and out of pocket expenditure.

[11] When at least two observations are available after 1990, with a sufficient number of years separating them, the World Bank determines whether a country is on or off track to meet a given MDG by 2015. To do so, it compares the progress recorded so far with that needed to reach the MDG, under the assumption that progress becomes increasingly difficult the closer countries get to the goal. Technically, this is equivalent to comparing the annual growth rate between 1990 and today with the constant growth rate required to reach the MDG in 2015 from the situation in 1990.

[12] See World Bank (2008).

Table 11: Public Health and Education Expenditure Cross-Country Comparison, 2008*

	Health	Education
Ghana	1.68	5.15
Cote d’Ivoire	1.00	4.60
Kenya	1.99	N/A
Tanzania	3.50	6.83
Uganda	1.65	3.77
Senegal	3.20	5.09
South Africa	3.57	5.13
Mauritius	2.04	3.57

Source: World Development Indicators and MoFEP. Note: (*) or most recent available year.

69. **The wage bill dominates health and education expenditure, and captured a substantial part of its growth.** As discussed in more details in Chapter 4, the rapid increase in the wage bill since 2000 was driven to a large extent by these two sectors. Demographic growth and social demand for services drove Government employment and remuneration, complemented by the political will, supported by the Development Partners, to achieve the education and health MDGs. As a result, the two services together accounted in 2008 for 71 percent of public sector employment and 4.8 percent of GDP, up from 67 and 2.6 percent in 2000. As discussed in the next sections, such an increase in spending was accompanied with major progress in terms of access to education and health services, and related outcomes. But this was also not without consequence for the quality of service delivery in these sectors.

Table 12: Public Health and Education Wage Bill and Employment, 2008

	2000	**2004**	**2008**
In percentage of GDP (%)	2.6	3.3	4.8
In percentage of Public Employment (%)	67.1	68.6	71.1

Source: MoFEP and CAGD.

70. **Education illustrates well the difficulties and dangers of rapid expansion through employment growth.** Class size and teacher: student ratios, often prescribed as international norms (the “Fast Track Initiative” norms, for example), require that the number of teachers increase with students’ enrollment growth. When social demand for education has increased abruptly due to policy decisions – such as the abolition of fees and charges for parents in 2004 – the education system has been pressured to recruit large numbers of teachers, usually untrained, in a short span of time. Furthermore, the wage bill growth has been “crowding out” non-salary recurrent expenditures essential for the quality of instruction such as to in-service training for teachers, ICT, books and materials. Rapid expansion in the number of teachers also make management, technical and supervision of personnel increasingly challenging, when control of extensive spatial networks in conducted from the center. These challenges are further exacerbated with ongoing difficulties in payroll management (see Chapters 2 and 4), and poor social accountability mechanisms in the absence of effective inter-governmental transfer mechanisms (see Chapters 2 and 5). These challenges are reflected for instance in inequitable regional distribution of education and health personnel in favor of richest regions and significant teacher absenteeism.

B. EDUCATION

71. **As a newly-declared middle income country, the importance of high quality education in Ghana is more important than ever**. Labor incomes significantly rose since 1990, mostly the result of longer working hours, productivity gains in the cocoa sector and a large shift of the labor force to the urban informal sector and micro-enterprise. But this model of development cannot be sustained indefinitely, and the necessary diversification of the Ghanaian economy will call for more and better educated skilled workers (World Bank 2009a).This concern is well reflected in the increased allocation of resource to the sector in both relative and absolute terms. Yet, at 80 percent, the share of personal emoluments in total public education expenditure is extremely high, limiting the amount of spending on important non-salary expenditures which are key to improving the quality of education delivered (in-service training; instructional inputs such as books and ICT). With fees abolition and related wage bill growth, the share of goods and services in total education expenditure was halved between 2004 and 2008, from 6 to 3 percent. Government policy is that each student possesses official textbooks for English, Mathematics, and Science. The data on textbooks per student is “fragmentary” (MoE, 2010) but it appears that primary students have less than two textbooks on average while JSS students have about 2.5 textbooks. Studies cited by the Ministry of Education (MoE, 2010) also suggest that availability of books is even lower in deprived areas such as the North. This is a grave handicap to learning as students are obliged to share and cannot study at home.

Table 13: Actual Public Education Expenditure, Economic Classification, 2004-8

	2004	**2008**	**2004**	**2008**	**2004**	**2008**
	% of GDP		% of total expenditure		% of total education expenditure	
Personnel Emoluments	2.84	4.11	13.81	17.16	76.4	79.8
Administration (*)	0.17	0.21	0.82	0.89	4.50	4.10
Service	0.23	0.15	0.82	0.89	6.20	3.00
Investment	0.48	0.67	1.12	0.64	12.9	13.1

Source: MoFEP and CAGD.

72. **Between 2004 and 2008, the share of education expenditure going to primary education increased from 30 to 43 percent.** Table 14 shows total and recurrent outlays, enrollments and per capita costs for the different education levels/programs for the period 2004-2008. In primary education enrollments increased rapidly, adding over one hundred thousand students each year over the four year period, as a result of the “bump up” in enrollment in 2004, due to the abolition of fees. The additional number of teachers required, while high, was reduced by the application of the automatic promotion policy which prevented the build-up of students repeating a grade - and in turn, better gross completion rates, which grew from 76 percent in 2005/6 to 87 percent in 2009/10. Consequently, Ghana has been able to keep the student/teacher ratio stable at 30:1, comparable to Cambodia (2006) and bettering the Fast Track Initiative norm of 40:1. In contrast, Kenya’s ratio was 43:1 in 2004, increasing under enrollment pressure to more than 50:1 in 2008. Meanwhile, Ghana’s public expenditure per student in primary school was maintained constant in nominal terms, thus significantly declining in real terms, as consumer prices increased by 71 percent between 2004 and 2008.

Table 14: Education Expenditure and Enrolment per Level, 2004-8

		2004	2008
Primary	Total Expenditure (GH¢ million)	131	543
	In percentage of total education expenditure	30%	43%
	Recurrent expenditure (GH¢ million)	121	484
	Enrolment (thousands)	2,446	3,042
	Per Capita Expenditure (GH¢)	54	55
Junior Secondary School	Total Expenditure (GH¢ million)	82	225
	In percentage of total education expenditure	19%	18%
	Recurrent expenditure (GH¢ million)	74	202
	Enrolment (thousands)	952	1,064
	Per Capita Expenditure (GH¢)	86	211
Senior Secondary School	Total Expenditure (GH¢ million)	82	152
	In percentage of total education expenditure	19%	12%
	Recurrent expenditure (GH¢ million)	67	122
	Enrolment (thousands)	333	458
	Per Capita Expenditure (GH¢)	250	331
Technical Education and Vocational Training	Total Expenditure (GH¢ million)	4	9
	In percentage of total education expenditure	1%	1%
	Recurrent expenditure (GH¢ million)	2.5	7.9
	Enrolment (thousands)	21	40
	Per Capita Expenditure (GH¢)	205	225
Tertiary Education	Total Expenditure (GH¢ million)	143	326
	In percentage of total education expenditure	32%	26%
	Recurrent expenditure (GH¢ million)	122	235
	Enrolment (thousands)	100	202
	Per Capita Expenditure (GH¢)	1,223	1,158

Source: MoFEP, MoE and CAGD.

73. **Junior Secondary School (JSS) enrollments also grew over the period, though much less rapidly than for primary education.** In turn, in JSS the student/teacher ratio has remained favorable at 20:1 and the completion rate has improved by 10 percent in the period, to almost 70 percent. As maintaining its share in total spending, per capita expenditure in JSS rose from GH¢ 86 to 211 between 2004 and 2008, that is, at a higher rhythm than consumer price inflation.

74. **Senior Secondary School (SSS) enrollments have been steadily climbing, but are still low compared with market demand for qualified graduates (World Bank 2009a).** Only one child in 15 of the age cohort is enrolled in SSS, likely due to opportunity costs to parents and lack of learning readiness. The low output of qualified secondary graduates and the misalignment of their skills with the market place is likely a major disincentive to potential investors in Ghana, particularly those that require math and science skills.

75. **The SSS program is under-funded, with a unit cost of just GH¢333 in 2008, a quarter of the unit cost of high education (GH¢1,158), and 80 percent of it spent on personal emoluments.** This results in a meager amount of GH¢65 per student per annum to meet the costs of other instructional inputs such as IT equipment, science equipment, consumables such as chemicals and propane, electricity and water as well as services such as maintenance contracts.

76. **Achievements in science, math and ICT are particularly poor and efforts to address this have not succeeded, in part, due to lack of funding.** A Ghana Education Service report (GES, 2010) reviews the experience of the "science resource centers". Based on experiences in the US and the UK, 109 centers were located strategically to serve clusters of senior high school, equipped with labs and computer rooms, and staffed by specially trained teachers. However, half of the teachers left education for the private sector, not long after training. The approach failed for other reasons: schools' inability to finance transport for students and their inability to pay for support services such as IT technicians

77. **The introduction of ICT is woefully behind in Ghana with a student computer ratio of 44:1 and strong regional variations.** While 80 percent of senior secondary schools have computer laboratories, only 43 percent of their computers were operational in 2008. Nationally, the student/computer ratio was 44:1, with a variation of 50:1 to 33:1 at the regional level. At the school level, one school has only one computer for its 650 students while the most favored school provides one computer for every three students. Only 8 percent of computers are linked to the Internet. Most schools have at least one staff member assigned to teaching IT skills but over 30 percent of these teachers have received no special training. More than half of the schools receive no IT support services.

78. **Enrollments in Technical Education and Vocational Training (TVET) have doubled in the period from 21 to 40 thousands but unit costs have remained unchanged in nominal terms.** Compared with traditional apprenticeship, TVET generates higher private economic returns and a greater probability to become a wage earner (World Bank, 2009a). However, the number of students enrolled in TVET is also much smaller than that enrolled in apprenticeship (about 200,000), and quality needs to be protected or even improved for TVET to further expand and meet demand. Between 2004 and 2008, expenditure per student dropped significantly in real terms, and the 2009 review of employment opportunities notes employer dissatisfaction with the graduates of vocational training.

79. **Enrolments in tertiary education are skewed towards the humanities.** Polytechnic and teacher training enrolments were 38,000 and 25,000, respectively, for total (all branches) of 202,000 in 2008. A further 30,000 students were engaged part-time in distance learning-but comprehensive data on their chosen discipline is lacking. As of 2008, university and polytechnics enrolments remained heavily skewed toward the humanities (62 and 68 percent respectively), much above targets retained by the Government for 2020, which are 60 percent of all university students and 80 percent in the polytechnics and post-secondary vocational institutes enrolled in science and technology. Downstream, only 25 percent of post-graduate students are enrolled in sciences and technology.

80. **The weaknesses in SSS sciences and technology instruction have negative consequences for student preparedness for tertiary education.** Low tertiary enrollment in sciences and technology can be mainly attributed to the dearth of qualified SSS graduates, lack of remedial courses to bring them up to entry level (although some polytechnic are beginning to offer such courses), the lack of instructors and lab/workshop technicians in both

SSS and in tertiary, and the shortage of well-equipped labs/workshops. Failure to limit entrants to the humanities is also a factor, leading to continuing imbalances.

81. **Both home-grown and international tests suggest that the quality of education in Ghana is extremely low and that boys out-perform girls across all regions.** Table 15 presents Ghana's National Education Assessment results, for English and Math in grades 3 and 6 in 2005 and 2007. Thus, of G6 students who reach P6, just over 1 in 4 achieves proficiency in English, and 1 in 10 in Mathematics. Besides, boys outperform girls across all regions by often large margins, hinting at lower attendance rates by girls.

Table 15: National Education Assessments, 2005-7

	2005			2007		
	Mean	Minimum Competency	Proficiency	Mean	Minimum Competency	Proficiency
P3 English	38.1	50.5	16.4	37.6	50.1	15.0
P3 Mathematics	36.6	47.2	18.6	35.0	42.6	14.6
P6 English	43.1	63.9	23.6	44.2	69.7	26.1
P6 Mathematics	34.4	42.7	9.8	35.7	46.2	10.8

Source: MoE.

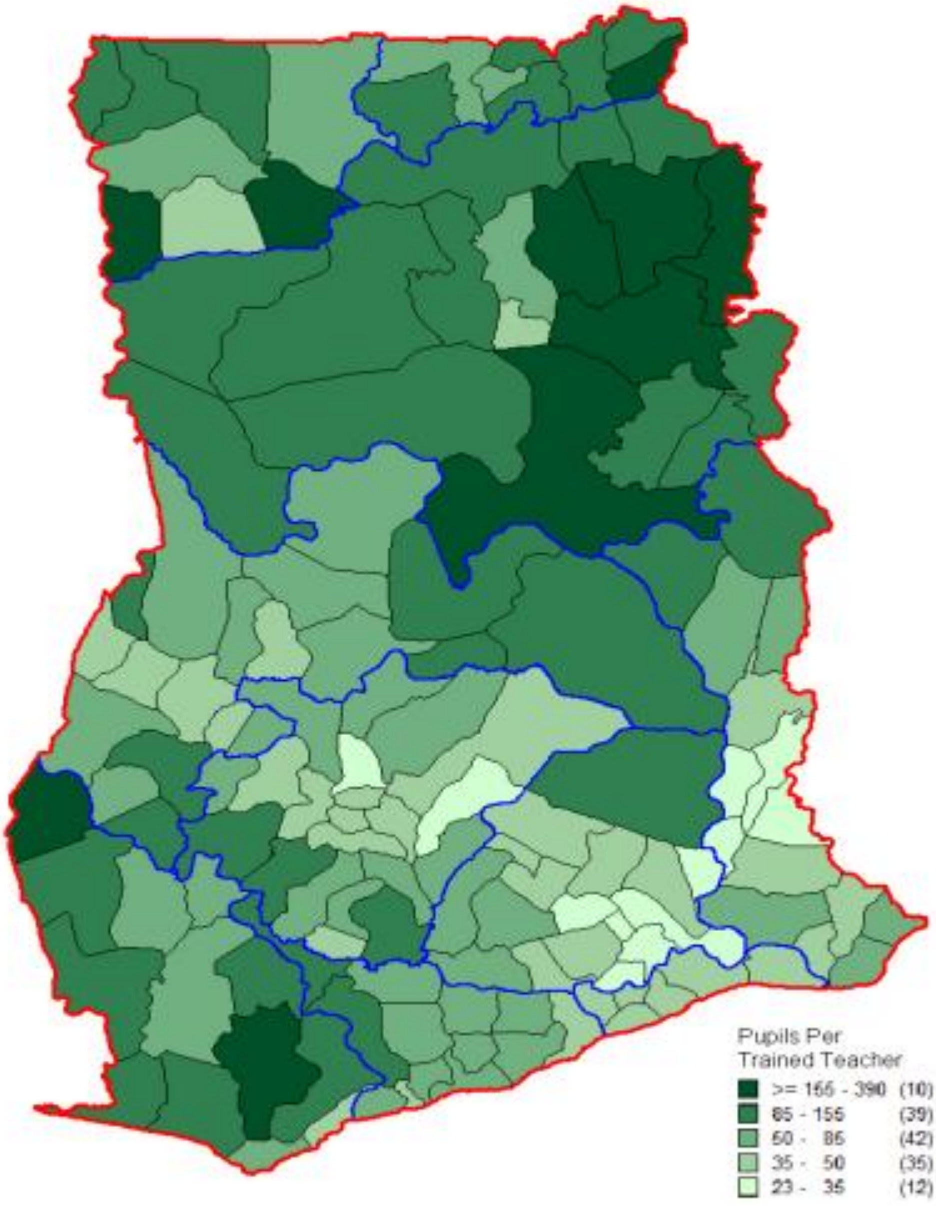
82. **The few international comparisons which figure Ghana confirm that attainment levels do not bode well for a middle income country.** The most complete and recent data set on youth literacy (15-24 age group) is that of UNESCO's Global Monitoring Report (UNESCO, 2009). The youth literacy rate, deflated by those who never attended school, is a robust measure of the impact of basic education on youth and of their readiness for the work place. Ghana did not fare well in the country standings for the period 1995-2004. The respective percentages of literates were: Ghana 71 percent; Uganda 77, Rwanda 78, South Africa 94 and Mauritius 95 percent. An international review of students able to read when they left primary school found Ghana (at 18 percent) lagging other SSA countries: Kenya 72 percent, Uganda 47, Mali 43, Benin 40, and Ethiopia 22 percent (Global Partnership for Education, 2010).

83. **Ghana's results in the Trends in International Math and Science Study (TIMSS) assessment were also weak.** The threshold of competence in science at G8 was 400. Ghana achieved an average score of 276, just ahead of South Africa, 264, but behind Botswana, 336, and the Philippines, 378. This performance suggests that the BECE pass rate which hovers around 62 percent could in fact conceal a lower level of learning achievement, arguing for better achievement assessment instruments. There has been no systematic assessment of learning in the sciences, technology and IT at the secondary level but it is clear that those who enter these branches at the university and polytechnic levels are unprepared, leading to high failures rates and dropping out.

84. **The low quality of education is also reflected in Ghana's low economic returns to education.** Various studies attest to Ghana's low economic returns to education, at both micro and macroeconomic levels. Indeed, it is estimated based on households surveys (GLSS5, 2005/6) that one additional year of schooling adds about 4 percent to individuals' earnings, against 8 to 12 percent on average in developing countries (Lejarraga, 2010). In Cameroon for instance, the rate of return to education is in comparison estimated at 12 percent. World Bank (2009a) analysis based on GLSS suggests that private economic returns to education are insignificant for primary and junior high education, only to become positive

at higher levels (SSS, TVET, and post-secondary education). World Bank (2011a) also underlines the poor returns to education in the North of Ghana, and the fact that recent achievement to reduce the gap between the North and the South in terms of access to school did not entail any significant reduction in geographical economic disparities between the two parts of the country.

Figure 2: Pupils per Trained Teacher Ratios in Primary Schools, 2008/9



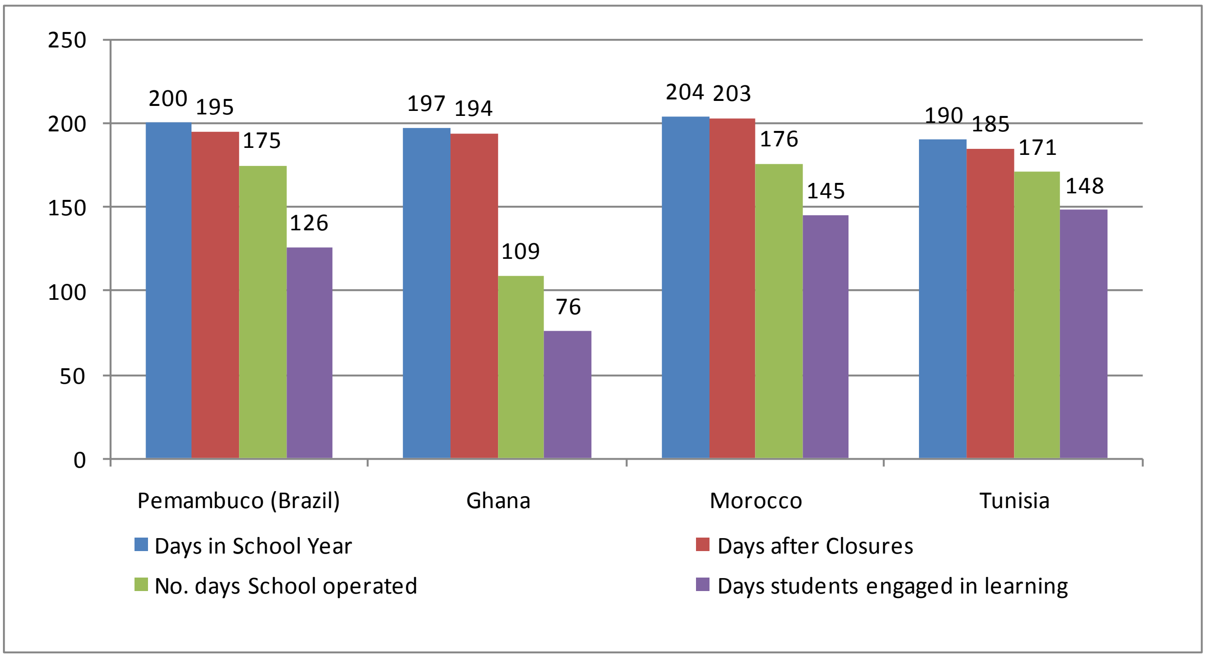
Source: World Bank (2011b).

85. **Teacher numbers, quality and performance on the job are the most important determinant of the quality of education.** In recent years, the large increase in school enrollments was not accompanied with rising pupil-teachers ratios, as the number of teachers also rose fast. Thus, in primary education, enrollment rose from 2.5 million to 3.7 million between 2001 and 2008, but the pupil-teacher ratio staid at 32. However, the proportion of

un-trained teachers went from 35 to 52 percent over the same period for both public and private schools, and from 23 to 42 percent in the public sector alone. In turn, regions and districts where enrollment growth was the highest are also those where pupil per trained teachers in primary schools are the highest, the North in particular. This is reflective of Ghana's inability to deploy its resources where utmost needed, trained teachers being reluctant to accept postings in districts deprived from good infrastructure.

86. **Furthermore, teachers' absenteeism is pervasive. It is closely related to education in rural schools; poor teacher morale and poor work environment (World Bank 2011b).** The average teacher absentee rate, as a survey by the Center for Democratic Development (2008) indicates, was 27 percent. The underlying grounds for the high absentee rate explained by (i) lack of supervision, (ii) sickness/medical checkups (iii) collection of salary, (iv) frequent funeral attendance, (v) long distances to school, (vi) religious practices (for instance, Friday prayers among Muslim teachers), (vii) schools with scarce resources such as toilets and potable water (viii) Schools not near to lorry/bus stations and healthcare facilities, (ix) rural teachers engaging in activities related to farming.

Figure 3: Effective number of School Days in Ghana and Comparators



Source: Abadzi (2007).

87. **Absenteeism compounds the already much reduced share of official school days available for learning and contact hours for Ghanaian students.** Abadzi (2007) found the share of official school days available for learning in Ghana significantly lower than in comparator countries/regions. Ghanaian primary school students receive 400 instructional hours a year, less than half the lower end of the international norm of 850-1000 instructional hours a year deemed necessary to deliver instruction. Teachers' absenteeism is considered as one of the most frequent manifestation of "quiet corruption" in Sub-Saharan Africa, damaging long term development prospects and particularly affecting the poor who are more dependent on public services.

88. **Planning and personnel management systems are not sufficiently capacitated to replace absent teachers.** Teachers may leave post (for further studies or at the end of their assignment for teaching assistants), or be temporarily absent for legitimate reasons, e.g.

sickness or maternity. Standard practice is for local school districts to identify a pool of substitute teachers, such as retired teachers or other individuals with the required educational level. The MoE has no such arrangement. It does, on the other hand, plan to reduce teacher study leave by offering distance learning. School principals, selected on the basis of seniority and/or teaching performance, do not receive training for the complex job of running a school.

89. **The poor quality of education is particularly felt by the poorest children.** In recent years, greater access to school benefited the poor. In 2003, the prospects of children in the poorest quintile of not going to school were about 10 times that of children from the richest quintile – 37.8 against 3.9 percent. These prospects likely improved since as 95 percent of Ghana's children were enrolled in 2008/9, against 80 percent in 2001/2. But disparities persist, as children from poor families start school later, with important negative consequences on their ability to complete a given cycle. Besides, learning outcomes in poor regions are significantly lower than in rich regions. The data show that the districts with the poorest performance on NEA were in the Northern regions; scores in math were 15 points lower than the national average and less than half compared to the top scoring districts in the country. These districts had primary pupil trained teacher ratios of 150 to 200. In these remote areas, schools are typically small, with enrollments typically less than 100. This means that often only every second or third school in the region has a trained teacher. Among other hardships, more than half of students don't have access to a treated water source, a situation linked to higher incidence of disease.

90. **With the assistance of the New Partnerships for Africa's Development (NEPAD), a school feeding program was introduced in 2004.** The program provides one meal a day to children attending the school in 'deprived' districts, with the expectation that it will increase school enrollment and retention rates. 'Deprived' districts are defined as those lacking in minimum educational infrastructure. Since 2004-05 the program has been extended, to cover in 2010 over 990 schools (or over 500,000 school children) throughout the country, and 17 percent of children in primary schools. Various studies suggest that this program has a positive and significant impact on enrollment and retention rates. Overall though, the program is not well targeted towards the poor, as it is estimated that only 21 percent of benefits accrue to the poor (World Bank 2010b).

91. **The program has been subjected to much harsh criticism in the recent past for its high implementation costs.** Initially considered expensive with respect to international standards[13], due to significant fixed-cost investments (e.g. kitchens, vehicles) and the development of large administrative and logistical structures, the program eventually reduced its unit costs by expanding the number of beneficiaries and procuring food locally (unlike importing it initially).

92. **The allocation of covered schools is skewed in favor of better-endowed regions, and the poorest North is still under-covered by the program.** In 2008, 20 percent of children attending primary school in the South could receive a free lunch, against 6 percent in Northern Ghana. Moreover, the North –- South divide was growing as the number of beneficiaries had increased by 42 percent in the South since 2006, against 22 percent in the North. The program uses a range of variables to target beneficiary schools, including road

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[13] In India's Tamil Nadu state, noon meals in every village are cooked by unemployed, poor and destitute women, who incidentally improved their own livelihoods as wage earners by cooking meals for children. Also, wages paid were less than market wages for unskilled labor. Because it is inexpensive, it has been sustained for over 25 years without any problem, and has been extended to all the schools in the state without donor support.

access, availability of electricity, access to potable water, telecommunication non-coverage, unavailability of health facilities within a 15 km radius, low enrollment rates, conflict or flood prone areas, and poor school infrastructure. But lower school density and enrollment rates in Northern Ghana disfavor children from this region.

93. **The MoE introduced the Capitation Grant program for public primary and junior secondary (basic education) schools in 2005/06 at the level of GH¢3 per student per academic year with a view to encourage enrollment and empower local schools management.** Capitation grants aim to compensate for fees and charges previously paid by parents. The transfer of financial resources are designed to plan and carry out school development activities (ranging from provision of latrines to remedial classes in math) designed and prepared jointly by parents, teachers and school principals. The amount of capitation grants a school receives is based on projected enrollments at the start of the academic year. This estimate is the basis for the transfer of 50 percent of the funds, at the start of the first term. Subsequent transfers are dependent on the submission of data on actual enrolments. Funds for the second and third terms are based on that confirmation and are supposed to be paid at the start of term.

94. **This program is assessed as highly successful, inasmuch as it significantly increased enrollment of both boys and girls.** The value of the cash grant was increased by 50 percent in the budget of 2009. The program was originally targeted to the country's poorest and weakest 40 districts. Now the program has been extended to cover the entire country. However, as with all other programs, regional inequity persists with the capitation grant program as well. Enrollment rates in Northern Ghana are still among the lowest, which means that large numbers of children are out of school and hence receive no benefits from the capitation grant program.

95. **Despite the policy of fee-free tuition in basic schools, many districts still charge levies as a means of raising funds, for example, for school repairs, cultural and sporting activities.** The capitation grant was designed to give priority to quality improvement, not to finance essentially out-of-school activities but many schools are using it to cover the costs of cultural and sports activities. Schools spend up to a third of the grant on such activities, usually without any reimbursement. If they collect levies, they are required to return equivalent funds for these expenditures to the DEO, which rarely happens and poor parents are still out of pocket whether funds are reimbursed by the DEO or not. World Bank (2011a) noted that parents finance a range of schooling expenditures including lunch, uniforms, examination fees and transportation, which sum to a much larger amount than the capitation grant.

96. **The 2007 Education Sector Public Expenditure Tracking survey (PETS) provides an overview of the flow of funds from the Ghana Education Service (GES) to basic education schools, via district education offices (DEOs) and.** The PETS also examined the flow of funds from the DACF to the DAs, and then to schools, as well as fund utilization by schools. Three types of expenditure were monitored: the capitation grants, school books and expenditures for services and civil works, financed by allocations from the District Assembly Common Fund (DACF).

97. **The PETS found that capitation grants distributed by MoFEP to the GES and then to DEOs revealed no "leakage" or delay from the centre to the district but delays from the DEO to the school occurred.** This, along with the inexistence of records of these transfers, suggests that the capacity at the district level to manage funds needs to be

improved. The delay in transfer of funds from the DEO to schools was of one to two months, the third tranche of payment arriving very late in the school year, with negative implications for non-salary school expenditures. Moreover, the DEOs failed to keep records on the distribution of funds with regard to 50 percent of the schools surveyed. Record keeping was especially poor for the transfer of funds to schools in the Central and Upper West regions. This lack of data about the distribution of funds to schools raises serious questions about accountability at the DEO level, with funds actually received by schools falling both short and in excess of DEO allocations.

98. **The PETS also shows that there were large inconsistencies in DACF's records of allocations and that large amounts of funds were retained at the center.** The inconsistencies seem to have been in favor of the DAs, with amounts received higher than amounts dispatched. DACF reported that it retained 42 percent of the VAT proceeds at the center, although it is not clear why but is a clear violation of the goal of empowering DAs to identify, plan and execute expenditures at the local level. It is possible that some of the funds "retained" were later dispatched to the DAs, accounting possibly for the reported over payments. As noted in the PEFA 2010, financial reporting by the DAs is weak.

99. **About 40 percent of DACF funds were allocated for school construction (Item 4), mainly for urgently needed classrooms and sanitary facilities, identified in DA budget requests, although only 11 percent of the funds received were expended for these ends**. This delay in allocation was attributable to delays in revenue collection – on which DACF is based. This raises the question of the suitability of DACF funding for construction. When civil works are delayed by more than a few months in a tropical climate, there is serious deterioration of plaster board, wood and wiring. There is also a negative knock-on impact on the cash flow of the small local contractors involved.

100. **Goods and services expenditures (Item 3) were also characterized by inconsistent record keeping, with only one third of funds accounted for, frequent delays in fund transfers, and thus a low rate of execution**. In terms of funds dispatched to the Regional Education Offices (supposedly enjoying better capacity than the DEOs in terms of financial management), only one third of funds was accounted for in their expenditure returns.

101. **These large anomalies in both allocations and executed expenditures argue for in-depth examination of efficiency of DACF procedures and their implementation**. In fact, the PETS calls for the DACF to be "put under public scrutiny". The corollary is a review of DA spending, especially in the light of the recent 2010 findings of the Accountant General relative to DA failures in reporting and possible misallocation and misuse of funds.

C. HEALTH

102. **The heath sector budget underwent a fundamental re-structuring in 2005, with the effective implementation of the National Health Insurance Scheme (NHIS) established in 2003, see Box 1.** The introduction of the NHIS strongly contributed to the increase in public health expenditure, from GH¢120 million in 2004 to GH¢507 million in 2008. The National Health Insurance Fund's expenditures added GH¢ 314 million to the Ministry of Health (MoH) 2008 budget, out of which GH¢155million to district schemes, GH¢39 million to partner institutions, GH¢5 million for administrative and operating expenditures, and GH¢ 115 million returned to the reserve fund (see Table 18).

103. **The introduction of the NHIF has resulted in a major positive change in the pattern of health expenditures, allowing the share of non-salary recurrent expenditures to rise from just 10 percent to 42 percent between 2004 and 2008**. The high 2004 ratio of emoluments to total budget salary had seriously impacted negatively on prevention and treatment and the introduction of the NHIF set the scene for the empowerment of district schemes to deliver prevention and treatment at the grassroots through a new systems of re-imbursement supported by income sensitive contributions by clients.

104. **The NHIS has undoubtedly increased health care utilization.** Between 2006 and 2007, outpatient utilization increased by as much as 28 percent and as of 2009 NHIS was providing 41 percent of the total funding for curative care. In comparison with most other countries where health insurance was launched, Ghana's NHIS undoubtedly made much rapid progress and covers a substantial segment of the population – 62 percent of the population registered at NHIS in 2009 according to administrative data. In particular, exemptions granted to children, and delinking their enrollment to their parents' registration status, is a notable advance in protecting children against catastrophic health shocks. Out of the 62 percent of the population registered, three-fourth, or about 47 percent of Ghana's total population, had valid cards in 2009, and thus effective access to health care through NHIS. This compares with a figure of 11 percent of the population in 2006, according to NHIS administrative data.

Box 1: The National Health Insurance Scheme

In 2003 the National Health Insurance Act established a National Health Insurance Scheme (NHIS) to provide basic health services for Ghana's residents, working through District Mutual Health Insurance Schemes (DMHIS). The DMHIS enroll members, administer services and collect contributions from those who can pay through means-testing, The Act also created the National Health Insurance Council (NHIC) as a regulatory body overseeing the NHIS. Key responsibilities of the NHIC are: the registration and licensing of DMHISs; Health Insurance identification cards; mode of payment by contributors; qualifications of managers and principal officers; financial deposits; matters related to health care benefits; means tests for indigents; accreditation of health care providers; procedures for resolving disputes; matters related to suspension and termination of members; matters related to quality assurance; payment of tariffs to health care providers and health institutions; grants and subsidies from the NHIF. The Act also created the NHIF, financed by a 2.5 percent annual levy on the revenues of the Social Security and National Insurance Trust (SSNIT). The SSNIT receives 17.5 percent of annual payroll for formal sector workers, as well as returns on NHIC investments.

Table 16: Actual Public Health Expenditure, Economic Classification 2004-8

	2004	2008	2004	2008	2004	2008
	% of GDP		% of total expenditure		% of total health expenditure	
Personnel Emoluments	0.81	0.90	3.94	3.77	87.29	53.71
Administration	0.04	0.07	0.21	0.28	4.62	4.00
Service	0.06	0.64	0.28	2.67	6.22	38.15
Investment	0.02	0.07	0.08	0.29	1.87	4.15

Source: MoFEP and CAGD.

105. **The scheme is not equitable in providing access to the poor, even if exemptions are relatively well targeted**. Using household surveys data, one can estimate that only 12.4 percent of NHIS subsidies accrued to the poor (World Bank, 2010b) in 2006. This is consistent with a recent in-depth study in two Southern districts which suggests that the proportion of adults who have ever registered with NHIS was lowest in the poorest quintile, and increased with socio-economic status (Asante and Aikins, 2007). The study noted that the most important reason for not registering with NHIS is that the premium is too expensive. A

participatory monitoring and evaluation report of NHIS in 2008 substantiated the above finding that affordability was the main barrier to registration, even if, in the meantime, progress was observed in terms of poor households' registration with NHIS (in 2008, about 30 percent of the population in the poorest quintile was registered with NHIS, against about 47 percent of the richest quintile). To some extent, the NHIS provision to exempt the indigent from NHIS fees helped improved equity in access to public health. However, only 2 percent of those registered belong to the 'indigent' category, whereas 25-30 percent of the population lived below the poverty line. At the same time, there is evidence that the fee exemptions extension (introduced in 2008 for children and to all pregnant women) have improved access for poor women. Previous research has demonstrated that exempting pregnant women from paying for delivery care in public, mission, and private health facilities in Ghana reached the poor despite being universal in application and was cost-effective (Witter, 2009). Given Ghana's continued high maternal mortality rate, this evidence is encouraging.[14]

106. **More generally, benefits incidence analysis suggests that poor's access to public health rose between 1992 and 2006, in clinics in particular.** Access to hospitals services, on the other hand, remained mostly concentrated among non poor, suggesting persistent difference in access to the highest quality of services. In 2008, 90 percent of women in the poorest quintile received preventive services for reproductive health, against 99 percent of women in the richest quintile. But in the same year, less than 30 percent of women from the poorest quintile were assisted when birth delivering by a skilled provides, against 90 percent of women from the richest quintile. And the same pattern is true for access to emergency obstetric services.

Table 17: Public Health Benefit Incidence Analysis, 1992-2006

	Hospitals		Clinics	
	1992	2006	1992	2006
Poorest	9.4	9.1	15.7	18.3
2nd	14.2	15.0	17.1	20.0
3rd	17.7	19.3	20.8	19.0
4th	24.3	23.6	19.2	22.0
Richest	34.4	33.1	27.2	20.8
Total	100.0	100.0	100.0	100.0

Source: World Bank 2010b.

107. **The costs of services, despite membership, continue to hamper the goals of the NHIS with ninety four percent of NHIS survey respondents reported having to pay out-of-pocket for drugs and services.** Twenty six percent men and 17 percent women indicated a need for services not supplied under the NHIS, mainly for access to laboratory services but with 6 percent calling for additional post-natal care. Those indicating a need for additional services were generally better-off and better educated. Overall, 82 percent of women and 77 percent of men with NHIS coverage said that the services were good the last time they were treated at a health facility. Nine out of ten NHIS insured felt that NHIS card holders got better

[14] Future benefit incidence analyses needs to focus not only on the numbers of beneficiaries, but also the burden of disease attributed to those beneficiaries that have been reached. In other words, not only is the number of beneficiaries reached important, but so is the health burden that the type of beneficiary faces. If women or any other group represent a major share of the morbidity and mortality experienced in Ghana, then reaching that group not only represents reaching the current poor but also potentially represents averting future poverty, given the very high correlation between poor health and poverty, which exist in a bidirectional relationship.

service than other clients. Respondents from the wealthiest households had the highest expectations of quality service and about 15 percent of both men and women expressed dissatisfaction.

Table 18: National Health Insurance Investment Authority: Income and Expenditure
(GH¢ Million)

	2007	**2008**
Revenue	220.0	278.0
Investment Income	27.5	36.0
Other Income	0.4	0.05
Total Revenue	247.9	314.0
Expenditure		
Direct Support to Schemes	93.0	155.0
Support to Partner Institutions	31.0	39.0
Operations & Administration	2.7	5.0
Surplus Transferred to Reserve Fund	123.0	115.0
Total Expenditure	249.7	314.0

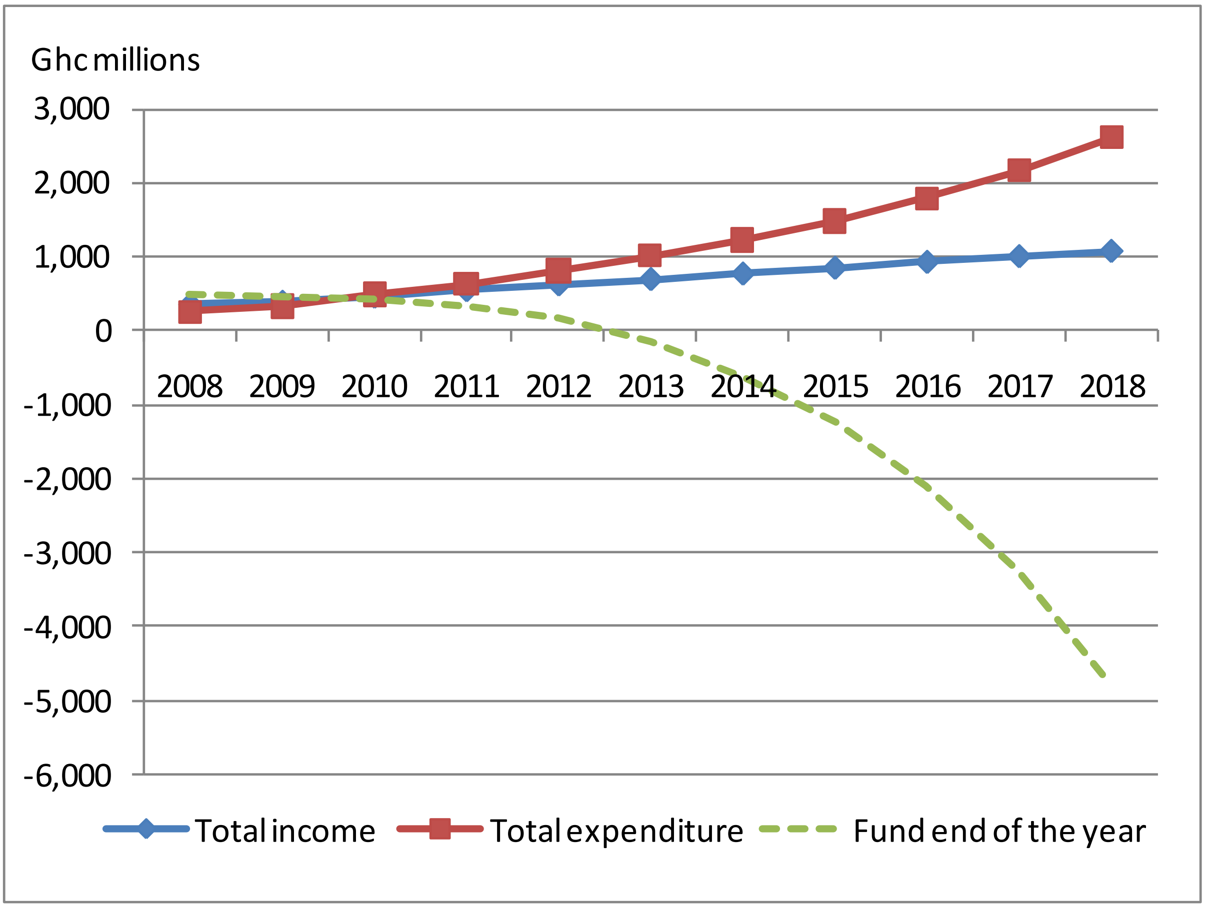
Source: Deloitte 2010.

108. **With a projected growing coverage, the financial sustainability of the scheme will depend on several factors.** First, while the equilibrium between expenditures and reserves was maintained in 2008 and 2009, the level of proceeds from the 2.5 percent of SSNIT proceeds, based on payroll tax revenues, must keep step with the growth of the NHIF, as the population covered continues to expand. The issue here is that at least 70 percent of beneficiaries are exempt from paying a premium.[15] Second, keeping emoluments and the costs of non-salary inputs such as drugs, supplies and services (laboratories and other technical services including data processing and billing) at bearable levels is essential. This will depend on efficient international and national procurement and on gains in operational efficiency (notably with regard to cost recovery[16]). In summary, increasing coverage while assuring financial sustainability will be a complex task depending on careful monitoring of costs, business processes and on the timely development of human and ICT capacity. At current trends and patterns, World Bank simulations suggest that the NHIF could be depleted around 2013, see Figure 4.

[15] Under the scheme, five categories are exempt from paying premiums: the indigent, the elderly, children, pregnant women and social security pensioners. In addition a number of persons in the informal sector are also exempt.

[16] There are wide differences with regard to cost recovery. One modern urban hospital, with up to date information systems registers 95 percent cost recovery, with a billing cycle of six weeks while other regional hospitals recorded 40-60 percent costs recovery with a cycle of 12 weeks.

Figure 4: At Current Trends, the NHIS Financial Sustainability is at Risk



Source: World Bank.

109. **On the whole, the funding levels of non-subvented and subvented expenditures sector-wide, outside the NHIS, remained the same as 2004**. Administrative expenditures (though high at the facility level) increased marginally, to cover the costs of running the NHIF, GH¢11 million to meet the operating costs of the new institution, with other administrative expenditures "flat" at just over GH¢9 million. Participation, payments, client satisfaction and operating difficulties encountered are discussed below. Personal emoluments at the subvented agencies represented 15 percent of total sector emoluments, 90 percent of which were for the staff of the high cost teaching hospitals. Capital investment in 2008, at GH¢21 million, was five times higher, as a result of carry-overs on project financing (health centers, maternity wards and other works), as a result of delays in building permits, in procurement and delayed allocation of funds which stopped work on sites. DACF funds were additional in 2008, with GH¢3 million for services and investment, in part for NHIS- related activities. Growth in MoH's share of Government employment increased by 7 percent in the period. Salaries and wages increased by just one percent, less than the cost of living, adding GH¢4 million for NHIF staff, with no change in the non-subvented and subvented components.

110. **The heath sector in Ghana has enjoyed some improvements in outcomes, including child mortality in recent years (source Demographic Health Surveys 2003, 2008).** Infant mortality is 30 deaths per 1,000 live births (compared with Morocco, 21, Kenya, 52, and Philippines, 25). Under-five mortality in Ghana is 80 deaths per 1,000 live births (compared with Morocco, 29, Kenya, 74, Philippines, 34), one in every thirteen children. There has been a progressive decline in the under-five mortality rate which

decreased from 111 per 1,000 live births in 2003, but it is unlikely that Ghana will reach this MDG. Neonatal deaths account for 60 percent of deaths in infancy.

111. **Childhood vaccination coverage is also making progress.** Seventy nine percent of children age 12- 23 months were fully immunized (compared with Kenya and Philippines, 70 percent in 2008) while only 1 percent received no vaccinations at all. At least 96 percent received the BCG and first dose of DPT and polio vaccines. While the coverage for the first dose of DPT and polio is high, coverage declines for subsequent doses of DPT and polio, with about 86 to 88 percent of children receiving the recommended three doses of these vaccines. Nine in ten children received the measles vaccine and have also been vaccinated against yellow fever. The percentage of children age 12-23 months who have been fully vaccinated increased by 9 percent since 2004. Children whose mothers attended only primary or middle/JSS school are more likely to be fully vaccinated than children whose mothers have no education. The proportion of children fully immunized increases with wealth from 75 percent in the lowest wealth quintile to 84 percent in the highest quintile.

112. **There have been steady improvements in child nutrition, although the decline in consumption of vitamin A and the large regional variations are a cause for concern.** The DHS 2008 found 28 percent of children under five were stunted (Morocco, 24 percent 2004; Kenya 35 percent, 2008) and 10 percent severely stunted. Nine percent of children under five are wasted and 2 percent are severely wasted. Weight-for-age results show that 14 percent of children under five are underweight, with 3 percent severely underweight. Fifty-six percent of children age 6-59 months was reported to have received a vitamin A supplement in the 6 months preceding the survey—a considerable decline from 78 percent in 2003. However, in 2008, 81 percent of children under three living with their mother consumed fruits and vegetables rich in vitamin A, compared to just 43 percent in 2004.

113. **Ghana, like many other countries, however, as a long way to go towards achieving the MDG of dividing by four the maternal mortality rate (MMR).** In Ghana, less than one in two women receive all three maternity care components (antenatal care, delivery care, and postnatal care) from a skilled provider. Although almost all women seek antenatal care from a health professional, only one in two women deliver in a health facility, and three in four women seek postnatal care. The maternal mortality ratio, calculated from maternal deaths identified among the 240,000 households sampled in the 5 years preceding the survey, is estimated at 378 per 100,000 live births (versus 451:100,000 for the preceding 10 year period). In comparison, Morocco's mortality rate in the five years preceding 2005 was 378; and Kenya's mortality rate in the 10 years preceding the 2008 DHS was 488 per 100,000. Worldwide, the maternal mortality rate was 400 per 100,000 in 2009, far from the MDG of 131. In Ghana, maternal mortality at 14 percent is the second largest cause of female deaths after infectious diseases (44 percent). Key components of the strategy to reduce the MMR are ante-natal care, delivery care, post-natal care and access.

114. **Notwithstanding the improvements in access to health care, women continue to identify access as a major constraint with more than seven in ten Ghanaian women reported at least one serious problem in accessing health care.** The two major concerns were costs of treatment and the availability of drugs (45 percent each). The next major concern was the availability of a health care provider (44 percent). Women had equal concerns regarding distance to the health facility and having to take transport (one in four women). Getting permission to go for treatment was the least of women's worries (7 percent). About one in five women considered the lack of a female provider and not wanting to go alone a problem. In general, women with at least a secondary education and women in the

highest wealth quintile were least likely to report having a serious problem in accessing health facilities. The greatest disparity was in transport to health facilities - 50 percent of women in the lowest wealth quintile versus just 13 percent of women in the highest. This suggests that a time, distance and cost continue to be a factor in determining progress in health outcomes.

115. **Ghana has reached its 2010 target of a total fertility rate (TFR) of 4.0 children per woman which is one of the lowest in sub-Saharan** Africa and which is now declining. Almost all women and men in the 15-49 age group (98 and 99 percent) possessed knowledge about family planning. However, the contraceptive prevalence rate (CPR) is still only 24 percent, lagging other middle income countries such as Morocco, 47.6 percent in 2004. Only 40 percent of the demand for family planning was being met. Ghana is making progress but is far from the MDG of universal access to reproductive health.

116. **While the incidence of HIV is a relatively low 2.1 percent, the MDG of halting and reversing the disease remains distant.** Ghana has a long way to go in improving key progress indicators such as use of modern contraceptive protection (men, 29 percent; women, 11.3 percent) and comprehensive knowledge of HIV/AIDS (mane, 34 percent; women, 28 percent).

117. **Halting and reversing the incidence of malaria also remains an MDG which is unlikely to be achieved**. Thirty two percent of pregnant women and 26 percent of all women slept under a mosquito net the night before the survey interview while the percentage for a treated net were 21 and 18 percent respectively (Kenya: 49 and 14 percent). There has been a substantial increase in the use of nets by women and children.

118. **The costs of achieved health outcomes discussed above have been high and, like the education sector, the share of salaries crowds out operating costs, including consumables and technical services (38 percent), with capital expenditures just 4 percent of total expenditures.** The increased cost is attributable to higher levels of remuneration; see Chapter 4, and personnel costs might need to increase further to meet international staffing norms. Staff replacement will also have an impact; some 15,000 health workers aged over 51 are approaching retirement. Fortunately, the increased capacity of training institutions has led to more graduates entering the health work force, with a gradual decline in out-migration in the period 2002-2006. The outmigration of doctors and midwives declined in parallel from a high of about 120 each in 2004 to 60 in 2006.

119. **There are few incentives to ensure performance of health sector workers.** At a workshop for regional and district health directors on decentralization, hosted by MoH in May 2010, (MoH, 2010) it was noted that personnel performance is a major factor in improving the quality of health care in Ghana. The workshop concluded that with assured salaries and annual assessment just a formality, health workers had little incentive to perform.

120. **More equitable deployment of personnel and better personnel management, and a more decentralized management framework at the district level might improve service delivery.** The same workshop stressed the need for more equitable deployment of personnel, performance-based personnel management with evaluation at the district level (while pay remained a central function): "The District Assembly should have authority to hire, fire and manage with technical support from the regional level for maintaining standards, determining training needs, staff upgrading and personnel performance assessment. Adhered to by the District Assembly (it was) also imperative that leaders be

cultivated and retained at the district level in order to support and ensure the effective development of the district health system."

121. **The 2007 PETS found no evidence of leakage but the share of funds released by different districts, the delay in release of funds from the center to regions and districts, the inadequate and late flow of funds from the NHIC to districts, and the delays in disbursement within the NHIS were all identified as major bottlenecks in service provision chains.** The PETS found that while bookkeeping at the MoH and the GHS was "relatively good", there were significant delays, as well as errors in record keeping and bookkeeping at other levels of administration – a finding similar to that of the education sector PETS discussed before. The PETS concludes that while "the analysis does not identify significant leakages in the flow of funds, delays found in the flows of funds are important sources of inefficiencies in the delivery of health services".

122. **Regions and districts received goods and services (Item 3) funds late in the calendar year (fourth quarter), impacting negatively on health centers and regional and secondary hospital operations.** Based on information in the PEFA 2010, one cause of this delay may be the late submission of district budgets and/or budget requests which exceeded the allocation guidelines of the MoFEP and hence required several rounds of revision at the district and then the regional levels (the regional offices have the responsibility for checking district submissions). However, the fact that transfers were made so late in the year also suggests there may have been "bottlenecks" at the level of the MoFEP, since the MoH made transfers soon after the receipt of funds.

123. **The PETS found "important differences" in the share of funds released by districts to sub-districts.** Larger districts disbursed a higher share of the funds they received to sub-districts than smaller districts. While recognizing the possibility of "leakage", the PETS found no evidence. It is possible that larger districts were more efficient, effecting disbursements in a more complete and timely fashion. It is also possible that the apparent "lower share" of funds received by small sub-districts is accounted for by districts spending on their behalf, to get price advantage and also in recognition of the weaker procurement and management capacity in the small sub-districts.

124. **Work undertaken in the preparation of the IDA-financed project in support of the NHIS found long delays in reimbursements, as well as an inadequate service accounting system, making it impossible to track patient use of services over time**. The 2007 PETS overlapped in time with the preparation and appraisal of the IDA Health Insurance Project (confirming the financing, expenditure and operational "bottle necks" which the project seeks to address). These included, inter alia, the lack of management and administrative capacity within the key sub-sector institutions and at the level of the providers; the absence of up-to-date data processing systems for health records and patient tracking, for billing, payment and reimbursement; and the lack of common cost profiles for services between the different participating institutions. A review of reimbursement to providers found that while the average time taken by providers to submit claims was 1 to 4 weeks, it took the NHIS 2.5 months to reimburse them. The review also found that the paper accounting system made it impossible to track patient use of services over time, required to identify case of misuse.

125. **Delays in disbursement also plagued the NHIS.** Under the scheme, the National Health Insurance Authority (NHIA) receives funds (levies) from tax revenues and SSNIT contributions through MOFEP to settle medical claims made by the DMIHSs. Even though,

these earmarked funds are transmitted into the consolidated fund throughout the year, its disbursement to NHIA remains irregular and unscheduled, obliging the Authority to operate on carried-over funds from the previous year's budget and interest on its investment income. NHIA lends a proportion of its income each year through 'fixed Deposits and call on accounts' and utilizes the interest received to meet part of its administrative cost in anticipation of delays in disbursements to it. As reported in the 2007 Pets report, although SSNIT released its contribution in May, August and December 2006 by inter-bank electronic transfer to central government, MOFEP released these funds to NHIA only in the last three months of the year. NHIA reports some improvements after 2008, but disbursements continue to be largely irregular and uneven year after year.

4. THE GOVERNMENT LABOR FORCE AND WAGE BILL

In the last decade, both the Government labor force and wage bill grew rapidly, to meet growing demand for public health and education services in particular. While the number of public sector employees broadly grew at population's pace, individual remunerations, salaries plus allowances, increased much more rapidly, at about 17 percent per year in real terms. Growth in allowances was much more rapid than growth in salaries, and growth in remunerations higher in subvented agencies than in ministries & departments. Still, by 2008, Ghana's average public sector remunerations were lagging behind most regional comparators. In contrast, Ghana's labor force was twice higher than the average of comparators, meeting prescribed international norms in health and education (e.g. pupil-teacher ratios). The wage bill growth, often beyond budget appropriations, finds its origin in the absence of a centralized system for human resource management and salary negotiations. The Single spine pay reform engaged in 2010 aims at providing more cohesion to salary negotiations and coherence and equity to the salary structure. It also aims at establishing a clearer relation between pay and job description and performance, which will require strengthening human resource management processes.

A. INTRODUCTION

126. **In the first decade of the millennium, the Government wage bill grew rapidly.** In proportion of GDP, the wage bill (salaries and allowances, item 1 and item 2) went from 3.9 percent in 2000 to 4.7 percent in 2004 and 7.6 percent in 2008. In proportion of Government revenue (excluding grants), the wage bill went from 32 to 57 percent between 2000 and 2008. Over the same period, the number of public sector employees increased from 371 thousands to 478 thousands, that is, broadly at the same pace than Ghana's population. In 2008, 2.1 percent of the population was employed by the public sector, against, 2.0 percent in 2000 and 2004. Thus, average individual remuneration in the public sector (the wage bill divided by the number of employees) was multiplied by 12 between 2000 and 2008. Accounting for consumer price inflation, individual remunerations were multiplied by 3.6 over the same period, corresponding to an average 17 percent annual growth rate in real terms.

127. **With respect to Sub-Saharan comparators, Ghana stands as an outlier on several grounds.** While Ghana's wage bill over GDP is higher than the average of sampled countries, 7.6 against 6.3 percent in 2008, it is not the highest. But what really distinguishes Ghana from comparators is the size of its public sector labor force in proportion of its total population, twice as high as the average (2.1 against 1.0 percent). In turn, individual remunerations in the public sector with respect to GDP per capita were much lower in Ghana (3.6) than in the rest of Sub-Saharan Africa (7.1) in 2008.

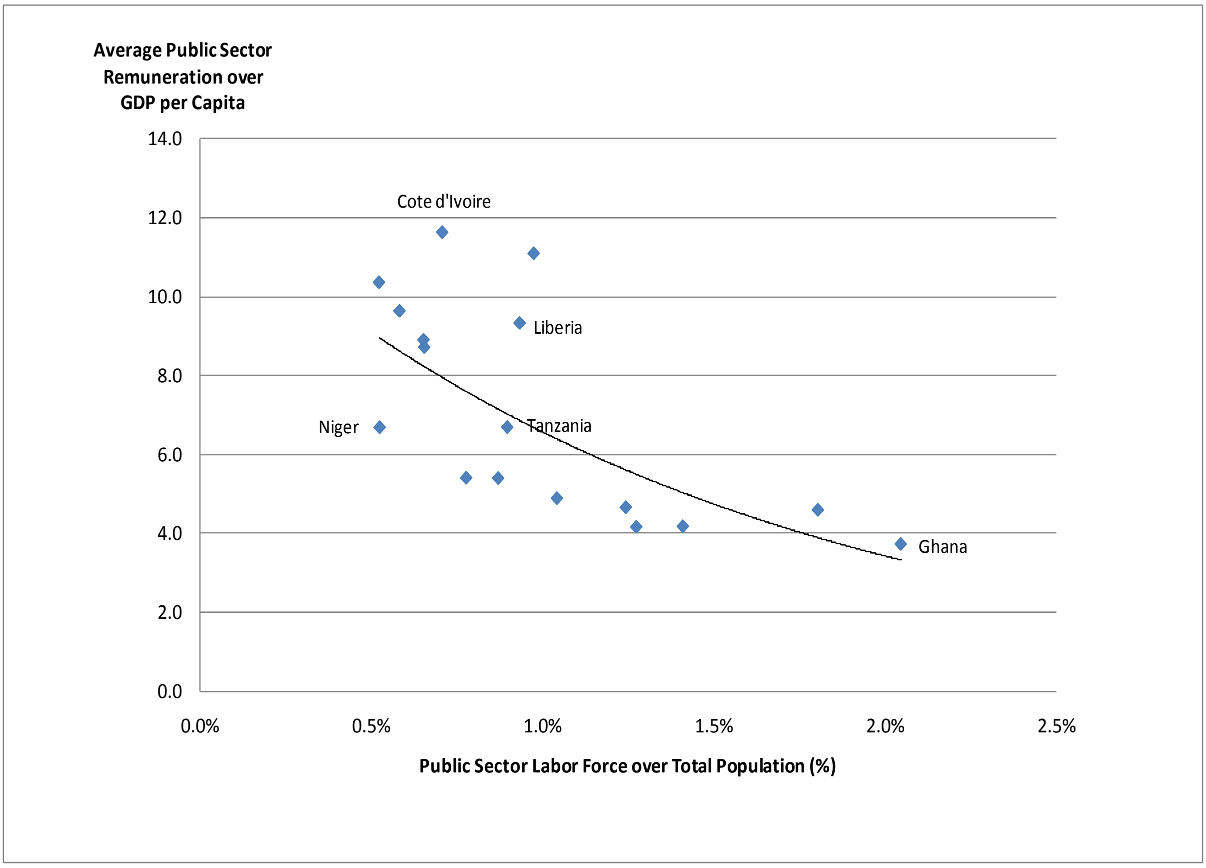
128. **Low average individual remunerations in the public sector have probably contributed to exerting strong pressure on the wage bill since 2000.** Historically, Ghana has afforded building a large public sector labor force by paying public sector wages well below regional norms. However, data since 2000 suggests that the situation has been evolving, with public sector remunerations catching up with other sectors' and factors' remunerations. In 2000, it is estimated that public sector individual remuneration was only twice the level of GDP per capita (against 3.6 times in 2008). As discussed below, various factors have factually been driving increases in the wage bill since 2000.

Table 19: Public Wage Bill and Labor Force, 2000-8

	2000	2004	2008
Wage Bill (GH¢ million)	153.5	606.2	2,308.0
Ministries, Departments	119.3	460.1	1,509.0
Subvented Agencies	34.2	146.1	799.0
Salaries (GH¢ million)	140.2	532.5	2,034.0
Ministries, Departments	111.3	416.5	1,459.7
Subvented Agencies	28.8	116.0	574.3
Allowances (GH¢ million)	13.4	73.7	274.0
Ministries, Departments	8.0	43.6	49.3
Subvented Agencies	5.4	30.1	224.7
Wage Bill as a percentage of GDP	3.9%	4.7%	7.6%
Wage Bill as a percentage of Government Revenue	31.9%	33.9%	57.4%
Public Sector Employment (000s)	371.4	405.2	478.4
Ministries, Departments	303.9	329.0	385.5
Subvented Agencies	67.5	76.2	92.8
Public sector employment as a percentage of population	2.0%	2.0%	2.1%
Public sector individual remuneration, real terms (index 2000=100)	100.0	187.6	356.6

Source: MoFEP and CAGD.

Figure 5: Ghana Has a Large and Underpaid Public Labor Force



Source: World Bank.

Table 20: Public Wage Bill and Labor Force in Sub-Saharan Africa, 2008*

	Public Wage Bill /GDP	Pub Sector employees /Population	Individual Remuneration / GDP per capita
Ghana	7.6%	2.1%	3.6
Gambia	5.3%	1.3%	4.2
Mauritania	5.9%	1.4%	4.2
Zambia	8.3%	1.8%	4.6
Sierra Leone	5.8%	1.2%	4.7
Malawi	5.1%	1.0%	4.9
Mali	4.7%	0.9%	5.4
Guinea	4.2%	0.8%	5.4
Niger	3.5%	0.5%	6.7
Tanzania	6.0%	0.9%	6.7
Benin	5.7%	0.7%	8.7
Senegal	5.8%	0.7%	8.9
Liberia	8.7%	0.9%	9.3
Burkina Faso	5.6%	0.6%	9.6
Togo	5.4%	0.5%	10.4
Guinea-Bissau	10.8%	1.0%	11.1
Cote d'Ivoire	8.6%	0.7%	11.6
Average	6.3%	1.0%	7.1

Source: World Bank. (*): or most recent available year.

129. **Allowances in Subvented Agencies contributed significantly to the overall public sector wage bill growth.** Between 2000 and 2008, remunerations grew faster in Subvented Agencies[17] than in Ministries and Departments, and allowances grew faster than salaries. Growth in Ministries and Departments' remunerations contributed for 65 percent to the increase, against 35 percent for Subvented Agencies. But Subvented Agencies' remunerations were only representing 22 percent of the wage bill in 2000, and therefore grew much faster. Similarly, increases in salaries contributed 88 percent of the total increase in the wage bill, against 12 percent for allowances. But allowances were only representing 9 percent of the wage bill in 2000, and thus grew much faster than salaries. Combining these two effects, allowances in Subvented Agencies contributed for 10 percent to the overall increase in the wage bill, while only constituting 4 percent of it in 2000.

130. **Sector-wise, Education and Health were the major drivers of growth in public sector employment.** In absolute terms, education (+65,000) was the main contributor to the growth in public sector labor force (+107,000) over the period 2000-8. But the education sector did not significantly grow in proportion of the total public sector employment (57 percent in 2000 against 58 percent in 2008) or in proportion of the population (1.2 percent in both 2000 and 2008). In contrast, the health sector saw its share grow in total public sector employment (from 10 to 13 percent) and population (from 1.2 to 1.3 percent) between 2000 and 2008. As a consequence, other sectors (138,000 employees in 2008) declined in proportion of the total public sector labor force. Among them, Ministries (including

[17] As defined by the CADG as self-accounting agencies.

departments and agencies) of Interior, Defense, Local Government and Rural Development, and Finance and Economic Planning take the lion's share, with respectively 42, 23, 17 and 15 thousands employees in 2008.

Table 21: Education and Health Contributions to the Public Wage Bill and Labor Force, 2000-8

	2000	2004	2008
Wage bill (GH¢ million)	153.5	606.2	2,308.0
Education	88.1	363.3	1,170.3
Health	13.8	57.6	290.3
Others	51.6	185.3	847.3
Public Sector Employment (000s)	371.4	405.2	478.4
Education	212.8	235.7	277.8
Health	36.4	42.1	62.4
Others	122.3	127.4	138.2

Source: MoFEP and CAGD.

131. **But from a wage bill perspective, the picture is different, as Education, but also Interior, Defense, and Local Government & Rural Development recorded much lower growth in individual remunerations than other sectors.** Average individual remunerations were multiplied by 10.2 in Education between 2000 and 2008, against 12.5 in Health and 14.5 in other sectors. In this last group, increases for Interior (6.0), Defense (8.7), Local Government & Rural Development (9.0) were modest, contrasting with Finance and Economic Planning (15.5) and the remainder (25.5).

132. **Individual remunerations also grew much faster in Subvented Agencies than in Ministries and Departments.** Individual remunerations in Subvented Agencies (SA) were multiplied by 17 between 2000 and 2008, against by 10 on average in Ministries and Departments. There are about 280 Subvented Agencies in Ghana, which depend for much or all of their funding on an annual subvention payment from the national budget but are not subject to the rules governing budget administration. A breakdown of the SA indicates that they are spread across the system as a whole, but with some preponderance, from a number of employees perspective, in Education (Universities) and Security (Defense, Interior). This organizational form can provide flexibility to the state to deal with specific issues that cannot be managed by a conventional departmental structure. The potential risk, however, is that SA can exploit their freedom to their own benefits, with consequences for budget sustainability and equity among public sector employees. In this respect, the Government initiated in 2008 the migration of SA payroll to the centralized payroll management system, IPPD-2. By 2010, however, little progress had been achieved as major agencies' payrolls, from a number of employees perspective, had not been migrated to IPPD-2.

B. HIRING AND SALARY SETTING MECHANISMS

133. **In light of facts discussed above, it is important to assess strengths and weaknesses of hiring and salary setting mechanisms in Ghana, as the country is now embarking on an ambitious pay reform, the Single Spine Salary Structure.** The pay reform, to be implemented over a five year period (2010-14) aims at addressing disparities, distortions and restore equity in the pay structure by placing all public sector employees on a vertical structure and ensuring that jobs within the same job value range are paid within the same pay range. The Government hopes that it will be able to manage its wage bill more

efficiently and with more certainty and minimize industrial relations tensions with the introduction of this new pay structure.

134. **Hiring processes in Ghana takes places as part of the budget process.** As part of the budget hearings, MDAs submit their human resource plans to MoFEP. Manpower hearings with the Public Service Commission (PSC), which used to precede budget hearings, are not anymore organized on a systematic basis, the PSC nowadays focuses on the appointment and promotions of senior public servants. Before MDAs are actually authorized to hire staff, MoFEP must give its financial clearance to the approved totals, and practical considerations of affordability therefore apply.

135. **Each service within the public sector organizes and manages its own Human Resource (HR) in the absence of central guidance and oversight.** In regard to methods and procedures for MDAs to select candidates to be hired there is no central frame of reference, standards or guidelines. While the Office of the Head of Civil Service (OHCS) provides guidance and manages the career path of all civil servants, the PSC does not set norms and standards to be applied by the services, and no system of central guidance and oversight of their HR management performance is provided. Each organization applies its own set norms, standards and guidelines.

136. **The absence of a centrally managed hiring process makes difficult public sector reform.** As discussed in Chapter 3, Ghana is now at a strategic switching point, where it needs to switch from "extensive" development through increases in numbers, to "intensive" development based on achieving higher productivity from staff. The ageing nature of the civil service (in 2009, 54 percent of the civil service was aged 45 and above), and maybe by extension, of the full public sector (for which no data on age profile exist), might provide the opportunity in the next decade to devote greater resource (selection, incentives, training, professional development through sector mobility) to each individual staff. To accomplish this, oversight functions of human resource management would need to be instituted.[18]

137. **The current management of the payroll rests with the CAGD and the respective sector ministry**. Issues regarding the deletion of names from the payroll and ensuring that names on the payroll are indeed at post rests with the heads of departments/agencies. Each month, departmental heads are required to sign individual payroll vouchers to confirm that those on the pay vouchers are at post. If this process is monitored closely, then the perennial issue of ghost names would be reduced to the barest minimum. A process of sanctioning heads of departments who wrongfully or intentionally sign that a worker is at post even when that worker has resigned from or deserted the post need to be put in place and enforced.

138. **Public sector salaries are negotiated each year and this process commences in the first quarter with minimum wage negotiations between Government (through the Ministry of Employment and Social Welfare), unions and private sector within the National Tripartite committee.** This opens a season of negotiations between Government and unions on public salaries for the current year, including retroactive payments from January. This calendar makes it challenging for the Government to ensure that the wage bill

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[18] One possibility could, for instance, be the creation of a cadre of human resource managers. Properly deployed in MDAs, and given the right professional incentives through their own management system, managers would provide the missing institutional function of referee across the various services in Government, and would allow strategic HR issues to be properly analyzed and addressed. Consideration could also be given to centrally position the Managements Services Division (MSD) of the OHCS either at the PSC or elsewhere to work with all the public services on manpower levels across board.

eventually agreed upon with unions stays within the budget appropriation approved a few months before negotiations, typically in the month of December preceding the fiscal year.[19] Thus, actual expenditures on wages and salaries exceeded budget appropriations by 11 percent in 2006; by 9 percent in 2007; and by 32 percent in 2008. Starting from 2011, Government plans to negotiate with the unions before presenting the 2012 budget to Parliament. If this is successfully carried out, then wage negotiations will be aligned to the budget cycle and will contribute to narrowing the variance between the budget estimates and the actual outturns.

139. **Until recently each service has negotiated its own salary and benefits with the unions, and in addition many Subvented Agencies have claimed the right to negotiate separately from the negotiations undertaken by other bodies in their sector.** An attempt was made to frame and manage this diversity of action within the Ghana Universal Service Structure (GUSS). However GUSS was not legally binding and neither the PSC nor the MESW could enforce their will through that instrument. This fragmented system for negotiating salary levels is believed to have encouraged a spirit of rivalry among services and agencies to get ahead and leapfrog the pay of colleagues in other MDAs, with negative consequences for budget execution, budget sustainability and equity between public sector employees.

140. **Following the formal report by the MESW on the results of negotiations with the unions, MoFEP translates and incorporates the results into the actual wage structure through an expansion of the salary structure for each service**. The salary structure is an arithmetic framework of nominal pay levels arrayed in a matrix by grades (rows) and steps (columns). Theoretically the salary structure could have been used as a central control and budgeting instrument, but services ability to re-shape their structures and the position of staff on it made control and budgeting challenging. This was further compounded by the absence of centralized information on structures and individual staff employed in many subvented agencies.

141. **The capacity of the OHCS to provide coherence to the salary structure has been eroded.** It is the OHCS that traditionally has addressed problems of internal salary relativities within the public sector. In the past OHCS discharged that responsibility through a salary administration unit that undertook comparability and equity reviews. That function was nonetheless abandoned. OHCS has recognized the problem and is seeking to revive this capability but for that to happen it needs first to reach agreement on its future role and scope in relation to HR management across the public sector. There is currently a bare minimum of basic capability for undertaking job description, and hardly at all for job evaluation.

142. **The collection of public revenue through duties, fees, charges, and fines has also become an avenue through which salaries can be topped up, creating further inequity within the public sector.** While some revenue items are duly recorded in the budget document, it is possible that many others are escaping it altogether. It is generally considered that such discretionary use of internal funds is more likely to arise in Subvented Agencies, and for some, may be part of their attraction as an institutional device. In 2005, an Act of Parliament was passed, under which MDAs that collect revenues are supposed to be on an approved list in order to collect IGF. To be authorized to collect IGF, an agency must first get

[19] Until 2005, negotiations were launched before the budget was approved, as the latter was read in Parliament by end March. In 2005 however, the Government advanced to November the date at which the budget is to be read at Parliament, without changing the date at which negotiations are expected to start.

Cabinet approval, followed by Parliamentary approval, and thus have its name added to the list that appends the Act. As part of that process the MDA must reach agreement with MoFEP on the percentage of collected funds to be remitted to the Consolidated Fund, and the percentage to be retained for own (approved) use. An organization that contravenes the above processes knows it can now be compelled to go through the regularization procedures if it comes to the attention of Finance.

143. **The Single Spine Salary Structure (SSSS) reform aims at correcting issues of equity and control**. The Single Spine, unlike the GUSS arrangement has been embedded in law, and the Fair Wages and Salaries Commission (FWSC) has been empowered to implement it, in negotiation with unions. The law empowers the FWSC to take steps to standardize pay and benefits across the public sector through a more organized system. The objective of the proposed Single Spine Salary Structure is to address disparities, distortions and restore equity in the pay structure by placing all public sector employees on a single vertical structure and ensuring that jobs within the same job value range are paid within the same pay range. The Government hopes that it will be able to manage its wage bill more efficiently and with more certainty and minimize industrial relations tensions with the introduction of this new pay structure. As a matter of fact, the single spine salary structure reform is expected to simplify and expedite public salaries negotiations, as limiting the necessary number of negotiations with separate institutions as well as the number of parameters to be negotiated (the base pay and the relativity) to maintain equity once all public sector employees have been migrated to the single spine.

144. **The Government has started the implementation of the Single Spine Salary Structure.** A road map for the implementation of the SSSS was developed in a tripartite workshop in May 2009. Cabinet approved the SSSS in November 2009 and a White Paper was produced. It underlines the importance of ensuring that the cost of the SSSS does not disrupt macroeconomic stability. Thus, the fiscal cost will be phased out in a "pyramid manner, such that as the outer years of implementation are approached, more resources will be made available to public workers until the pay policy is fully implemented in the fifth year" (i.e. by 2014). Since, the SSSS was implemented through an incremental approach.[20] By September 2011, about 69 percent (44 institutions) of the 520,000 public sector employees had been migrated on to the SSSS, and the Government was planning to have migrated the remainder by end-2011. However, the expected decompression of wages under the SSSS (through increased relativities, as mentioned in the White Paper), was postponed to the final years of implementation, as well as discussions and setting of allowances, except that directly linked to salary levels (thus re-classified as part of item 1).

145. **The fundamental Single Spine principle to linking pay with productivity is a rational way to counter union demands for salary increases that are based on apparent relativities and ability to pay.** The FWSC recognizes the utmost need to develop a performance management system, starting from senior management in MDAs. Performance contacts were signed in this regard, to be followed with middle-level managers.

[20] Although public sector employees have been progressively migrated to the SSSS, the SSSS is effective for all public sector employees since January 1, 2010. Hence, retroactive payments shall be honored for those transferred to the SSSS after this date.

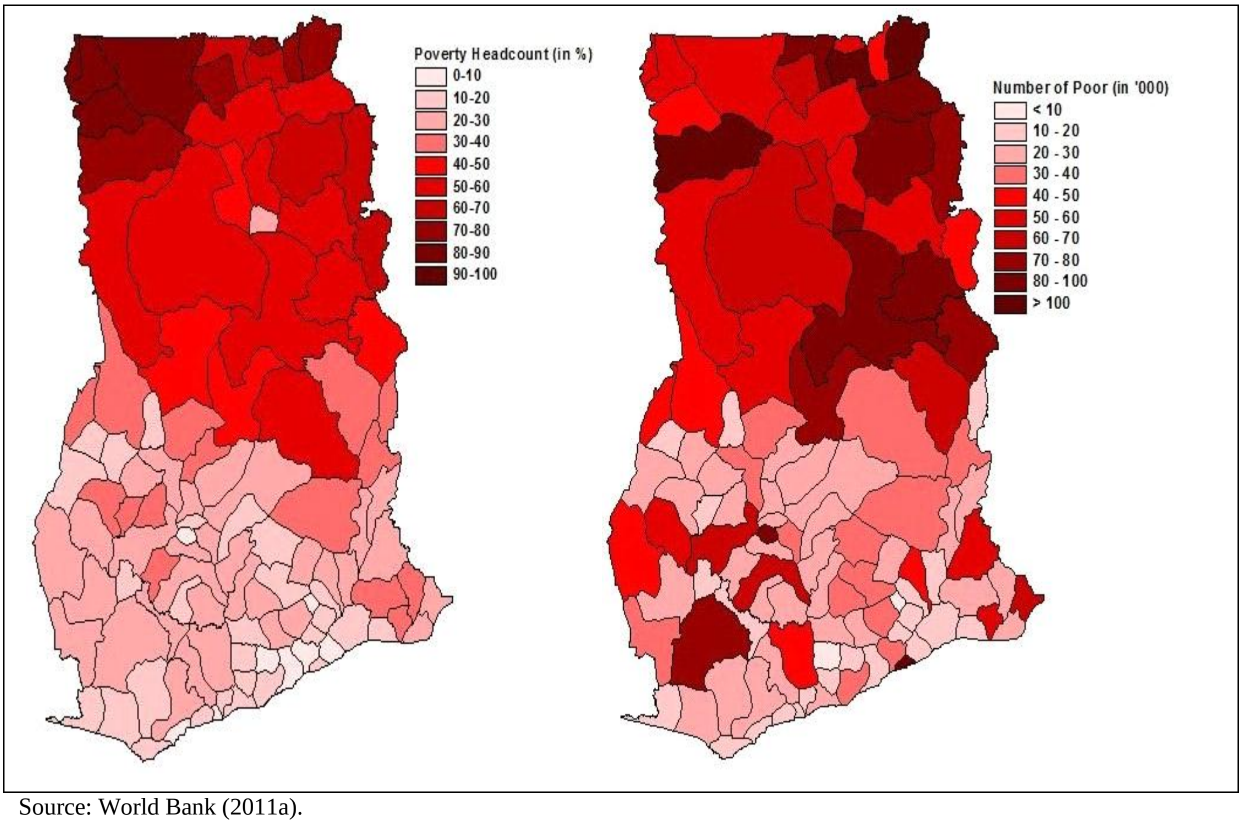
5. FISCAL DECENTRALISATION

Given the multiplicity of fiscal instruments and lack of comparable data, it remains complicated to get a comprehensive picture of public allocation of funds at the district level. Efforts undertaken to address this data gap nonetheless suggest wide geographical variations in resource allocation, which is not surprising given district assemblies' different status and related functions and capacity to generate internal funds, as well as MDAs' (health and education) allocation mechanisms. Nonetheless, the District Assembly Common Fund, and the Districts Development Facility act together as effective instruments of fiscal redistribution between poor and rich districts. Progress towards effective fiscal decentralization requires improved capacity at the local level and effective deployment of human resource out of the center, which cannot precede a clarification of local governments' functions and accountability and increased transfer of fiscal resource to them.

A. INTRODUCTION

146. **This chapter reviews district level expenditure data with a view to creating a picture of the level of fiscal decentralization in Ghana today, highlighting some of the advances and bottlenecks.** The Chapter provides an overview of fiscal transfer mechanisms, discussing their levels of effectiveness and efficiency as instruments of fiscal federalism, based on the observation of actual district expenditure in 2008. The Chapter then examines the emerging decentralization reform agenda before highlighting some policy challenges for consideration.

Figure 6: Estimated Poverty Rates and Number of Poor per districts, 2006



Source: World Bank (2011a).

147. **Given the extent of spatial poverty inequalities in Ghana, many consider fiscal decentralization a as a central tool for further poverty reduction.** The World Bank

Poverty report (World Bank, 2011a) underlines the extent of spatial poverty differences, growing over time between the North and South of Ghana, in spite of important pockets of poverty in Southern cities (Accra, Kumasi). It also emphasizes the fact that Northern regions face greater difficulties to achieve the same developmental outcome with the same fiscal resources than Southern regions. It finally exposes the limited extent of migration flows between poor and rich regions.

148. **This consideration has been very present in the design of inter-governmental fiscal transfer mechanisms, aimed notably at increasing the transfer of resources to local governments, and give them increasing discretion for resource mobilization, planning and execution, as their capacity improve.** This under the premise that locally designed and executed plans can better address local needs and foster executive accountability. Current efforts in these directions build on decentralization efforts initiated since 1878, aimed at integrating traditional and modern state mechanisms[21], with a view to promote balanced development for national unity. In 1983, the Government began a policy of administrative decentralization of central Government ministries alongside creation of People's Defence Committees (PDCs) towns and villages. The PDCs effectively took over local Government responsibilities, especially mobilizing the implementation of local self-help projects. The current decentralization programme began in 1988, when was enacted the PNDC Law 208. The Law sought "to promote popular participation and ownership of the machinery of Government by shifting the process of governance from command to consultation processes, and by transferring power, authority and functions, competence and means/resources to the district level."[22] It created 110 districts (from pre-existing 65) within Ghana's ten regions, each with partially elected district assemblies (DA).

149. **The 1992 Constitution and the 1993 Local Government Act are the two most important current legal instruments on decentralization**. Other instruments, including Legal Instruments (LIs) issued by the Minister for Local Governments derive from them. The Constitution requires Ghana to have a decentralized system of local Government and administration "as far as practicable." It also lays out the aims and principles of decentralization as follows:

- Coordinated transfer of functions, powers, responsibilities, and resources "at all times from the central Government to local units";
- Central Government building of local capacity to plan, initiate, coordinate, manage, and execute policies, with a view to achieving localization of activities;
- Establishment for each local Government, of a sound financial base with adequate and reliable sources of revenue;
- Effective local Government control of persons in its service;
- Opportunity for effective local participation in local governance.

150. **The Government is currently undertaking a comprehensive policy review on all aspects of decentralization (including fiscal decentralization).** The review notably aims at simplifying the intergovernmental fiscal transfer system (with an element of performance based allocation to promote governance and accountability), currently highly fragmented and opaque, (ii) raising capacity and providing a more conducive incentive framework for

[21] In 1878, British colonial rulers introduced "indirect rule", through native political institutions, constituting chiefs and elders as local authorities, with powers "to establish treasuries, appoint staff, and perform local Government functions."

[22] See Kodobisah (2008).

districts to raise internal revenues, and (iii) improving districts' investment planning capacity through composite budgeting.

B. THE INTER-GOVERNMENTAL TRANSFER SYSTEM

151. **The current legal framework defines the objectives, mechanisms and institutions of the inter-governmental transfer system, placing the District Assembly (DA) at its center.** The District Assembly is the highest authority in the district with deliberative, legislative, and executive functions. It comprises both elected and unelected members. Elected members (70 percent of DA members) represent local Governments within the district (zonal/town councils and unit committees), and are directly remunerated by the DA. Unelected members are appointed by the President of Ghana, in consultation with traditional rulers and interest groups in the district. The Member of Parliament from the district is an automatic non-voting member of the assembly. The President appoints the District/Municipal Chief Executive (DCE/ MCE) subject to two-thirds majority approval by the DA members present and voting at the meeting. Similarly, at least two-third majority of all members of the assembly elects the Presiding Officer. DCEs are national officials and they head the administrative and executive arm of assemblies, with support from the executive committee (EXECO), which consists of at most one-third of the assembly membership. As head over the legislative function of the assembly, the Presiding Officer is not a member of the EXECO. There are currently 170 district assemblies including six metropolitan (Accra, Tema, Kumasi, Cape Coast, Tamale, Sekondi-Takoradi) and 40 municipals.

152. **District Assemblies' functions include integrating development plans of all actors into districts' development plans and ensuring their effective coordination.** Broadly, function of DAs include:

- Political and administrative guidance and direction and supervision of all other administrative authorities in the district;
- Deliberative, legislative, and executive functions;
- Overall development of the district and in particular, ensuring the preparation of development plans of the District and the budget for the execution of approved plans;
- Effective mobilization of resources necessary for overall development of the district;
- Promotion of productive activity and social development; and
- Coordination, integration, and harmonization of the execution of all programs and projects under approved development plans for the district and other development programs promoted or carried out by ministries, departments, public corporations and other statutory bodies and non-Governmental organizations in the district.

153. **District Assemblies functions vary according to their degree of discretion.** DA functions also vary depending on their status, rural vs. municipal, vs. metropolitan. Altogether, DA major functions include public health and disease control, primary and middle level education, water supply, waste management and sanitation, agriculture, agricultural extension, animal health, and veterinary services, arts, crafts and culture, local power supply, town and country planning, regulation of buildings, road and street construction and maintenance, maintenance of highways and public buildings, public libraries, regulation of markets, community development, social welfare, disaster relief and management, forestry control and management, tourism, traffic management, fire service, and sport development. However, the degree of discretion granted to DA by the Central Government (CG) differs. Some are de-concentrated, i.e., the Central Government transfers

them to local administrative branches in the District, but these branches continue to be directly financed by the Center and directly report to it. This includes most local regalian functions such as fire service, police, customs, immigration, internal revenue service, but also the provision of most basic service delivery, including in particular health and education salaries. Some are delegated. In this case, Districts Assemblies are responsible to implement Central Government Policies, even if having no say on decision making. This includes notably Provision of primary public health care in consultation with the Ministry of Health; water supply in conjunction with the Ghana Water and Sewerage Corporation, public lighting in conjunction with the Electricity Corporation. Finally, some are devolved. In this case, District assemblies exercise autonomous discretionary powers including over legislation (though subject to the approval of the MLGRD). Examples include internal generation of revenue, planning and construction of public facilities such as roads, parks, and cemeteries, natural disaster relief.

154. **Districts Assemblies can count on various sources of funding to fulfill their functions.** As discussed in the next section, DA benefit from direct releases from Ministries, Departments and Agencies to finance de-concentrated and delegated functions, such as Health and Education, as well as from expenditure (mostly investment expenditure) incurred by vertical statutory funds, such as the Ghana Education Trust (GET) Fund, the Road Fund and the National Health Insurance Fund. DA can also count on the District Assembly Common Fund (DACF), which allocates Central Government revenue to DA to perform devolved functions. The DACF is complemented with the District Development Facility, mostly funded by Development Partners. Finally, DA can generate internal funds, through the mobilization of various tax and non tax revenues.

C. A PICTURE OF ACTUAL DISTRICT EXPENDITURES

155. **There is no readily available comprehensive quantitative information on districts' finance and expenditure in Ghana.** It is expected that the full implementation of the GIFMIS (see Chapter 2) and composite budgeting, see below, will fill this information gap, given its importance to monitor and steer progress in terms of fiscal decentralization. Meanwhile, one can rely on the labor-intensive collection, re-conciliation and aggregation of various data to establish a picture of actual expenditure allocation per district. While imperfect, for various reasons discussed below, and not necessarily portraying the inter-governmental financial system as designed,[23] it however allows visualizing some of its main patterns and outcomes. Thus, the spatial analysis developed in this section rely on the collection of the following actual expenditures for the year 2008:

- Ministries of Health, Education[24], Food and Agriculture, Employment and Social Welfare, Women and Children direct expenditures in Districts, distinguished between Items I to IV (i.e., personnel emolument, administration, services, and investments);
- District Assembly Common Fund (DACF) expenditures directly assigned to Districts;
- Districts Development Facility (DDF) expenditures directly assigned to Districts;

[23] First, expenditures represent financial commitments or due obligations rather than actual or due revenue streams. Second, 'expenditures' in the dataset provided do not have the pure accounting meaning stated above. They represent actual payments made in, or cash outflow for, the period. This inevitably includes payment of arrears, i.e., past consumption paid for in current period, but excludes current consumption deferred for future payment. Third, thus defined, expenditures, even if accurately recording all outflows, exclude cash in hand and therefore inaccurately portray finances. To accurately estimate financial resources from expenditures, it is important to adjust for accruals, deferred items, and cash balances.

[24] Including the National Commission for Civic Education.

- District expenditures funded with Internally Generated Funds (IGF).

The analysis does not, however, encompass expenditure from vertical statutory funds, which do not report actual expenditure per district, but per region. The analysis does not either include foreign-financed capital expenditure, for which data at the district level does not exist. Altogether, expenditure reported in the spatial analysis summed up to GH¢1.163 billion, or 3.9 percent of GDP, 16.1 percent of public expenditure and 24.6 percent of public expenditure excluding transfers, debt service, and foreign-financed capital expenditure.

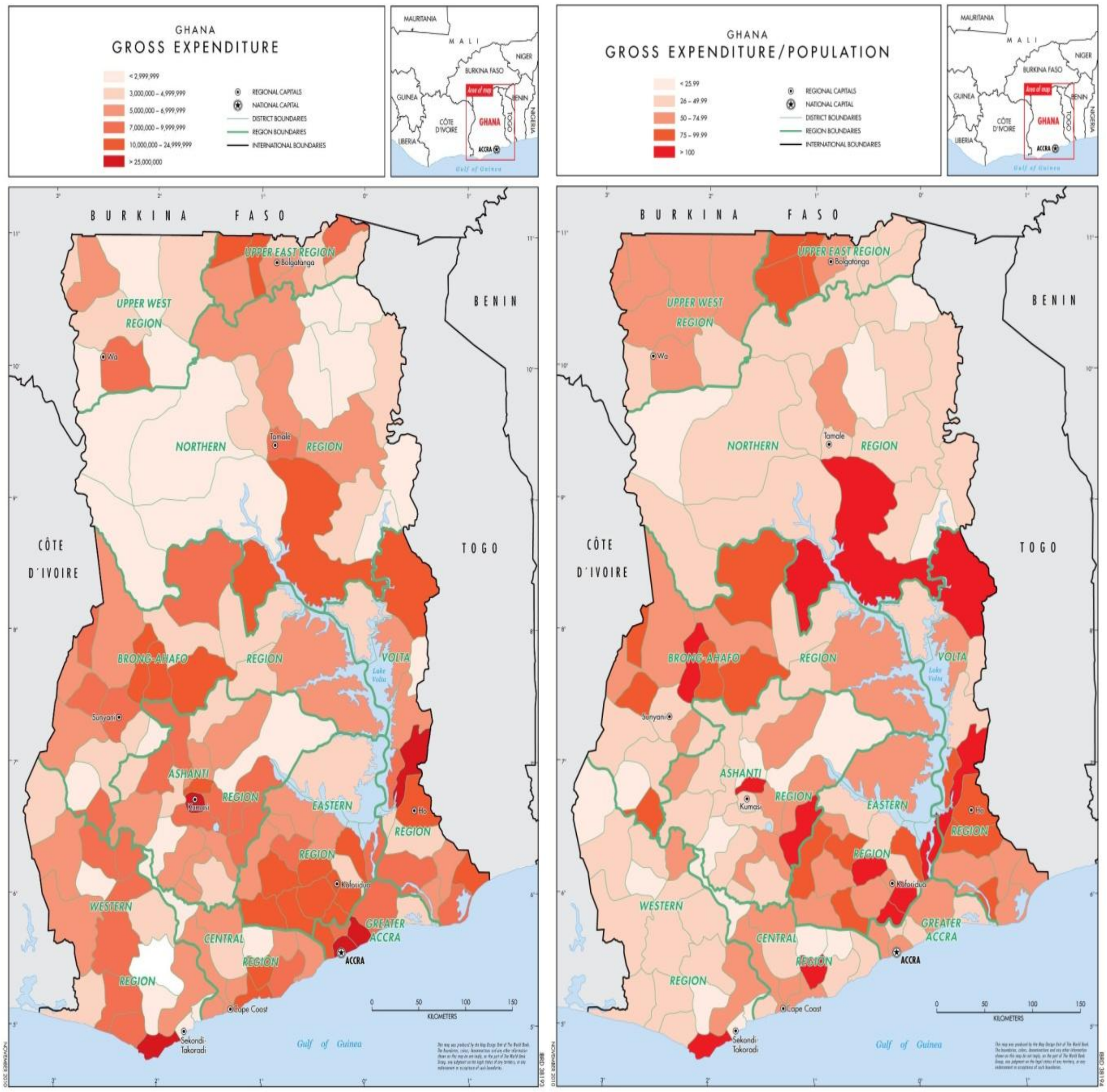
156. **Altogether, there are wide differences across districts in terms expenditure, in absolute and per capita terms.** Expenditure per district varied in 2008 between GH¢473,000 and GH¢81.3 million, with an average GH¢8.3 million. Overall, Southern districts, more populated in general, and hosting Ghana's largest municipalities and 5 of 6 metropolitan districts, have higher levels of expenditure, See Figure 7. This picture becomes more nuanced when controlling for population levels. While levels of expenditure per capita still widely vary (from GH¢5 to GH¢222, with an un-weighted average of GH¢57), the North-South divide appears much less pronounced (with an average per capita expenditure of GH¢44 in the three Northern regions against GH¢61 in the rest of the country). Interestingly too, one cannot establish a significant statistical correlation between district poverty rates and expenditure per capita. Distinguishing Metropolitan, municipal and rural districts suggests that rural districts expenditure per capita is on average, at GH¢55, lower than in municipal districts (GH¢67), higher than in metropolitan (GH¢36) districts. While the difference between rural and municipal district could be expected given that municipal district assemblies exert a greater set of functions than rural districts, the difference between municipal and metropolitan districts is more difficult to explain and could deserve further attention.

Table 22: Districts' Per Capita Expenditure, 2008

	All Districts		Rural Districts		Municipal Districts		Metropolitan Districts	
	Avg.	St. Dev.	Avg.	St. Dev.	Avg.	St. Dev.	Avg.	St. Dev.
Total	57.1	36.6	55.3	32.5	66.7	47.3	36.2	22.4
DACF	5.2	3.1	5.8	3.3	3.9	1.4	2.1	1.5
IGF	1.5	1.7	1.4	1.6	1.5	1.2	3.6	3.9
DDF	1.5	1.8	1.5	2.0	1.4	1.6	0.2	0.3

Source: MoFEP and CAGD. Avg.: average; St. Dev.: Standard deviation.

Figure 7: Districts' Absolute and Per Capita Expenditure, 2008



Source: MoFEP and CAGD.

157. **Internally Generated Funds (IGF) are small and do not contribute to per capita differences in expenditure across districts.** Per capita IGF vary from 4 pesewas (GH¢0.04) and GH¢10.81, with an un-weighted average of GH¢1.5. One cannot observe any correlation between districts' IGF per capita and total expenditure per capita. On the other hand, one can observe a strong and significant negative correlation between districts' IGF per capita and poverty rates, likely the consequence of a lower tax base in poorer districts, maybe compounded with poorer collection capacity.

158. **From a compositional perspective, non discretionary[25] expenditure constitutes the bulk of expenditure in all districts.** Direct sector expenditure by central Government MDAs accounts for the bulk of local Governments' finances in 2008 with 85.5 percent of all

[25] This Chapter uses the term in the sense of resources over which a Government has full, sovereign, and unfettered decisional powers of control and spending. This is not the sense in which MoFEP uses it. The Ministry uses it to refer to the four items of expenditure of personnel emolument, administration, services, and investment.

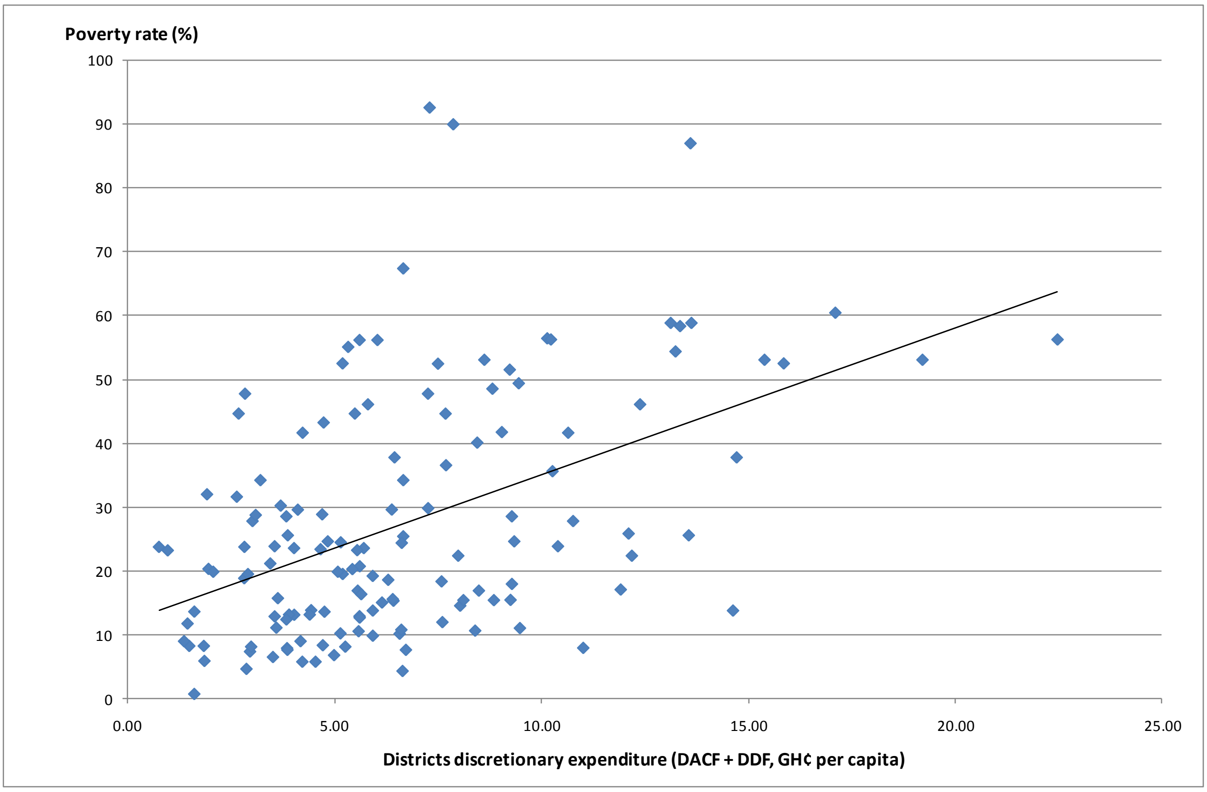
spending. 86 percent of funds released from MDAs to district assemblies do to finance personnel emoluments with services, administration, and investment coming a distant second, third and fourth respectively with 8, 4 and 1 percent respectively. As part of MDAs expenditure, education accounts for 86 percent and health 13 percent (leaving 1 percent for agriculture and social protection), suggesting a greater degree of de-concentration in education (as total public education expenditure is only thrice that of public health expenditure, see Chapter 3).

159. **Discretionary expenditure (DACF plus DDF plus IGF) ranged from GH¢1.7 to GH¢25 across districts, with an un-weighted average GH¢8.1**. DACF expenditure per capita range from GH¢0.5 to GH¢15.1, with an average GH¢5.2, while DDF expenditure per capita range from Gh0.03 to Gh7.8, with an average GH¢1.5. Thus, also including IGF, MMDAs have genuine autonomous or authentic planning and budgeting decision power over about 14 percent of their total expenditure. These decisions reflect MMDAs' true development policy priorities and choices, for which they are not upwardly accountable to the CG, but downwardly to their electorates. In essence, discretionary spending reflects the extent of devolution of powers in the decentralization programme. Responding to different local priorities, DA discretionary expenditure comprise many different items (from energy and roads, to basic education, youth employment, environmental protection, security, tourism, etc.), with very different patterns from a relative composition perspective.

160. **Interestingly, one can observe a strong and statistically significant correlation between the district's poverty rate and the amount of per capita discretionary expenditure funded from DACF and DDF flows.** While the causality cannot be established, this result could suggest that DACF and DDF act together, as well as independently[26] - as effective instruments of fiscal redistribution between poor and rich districts, an outcome anticipated given that both DACF and DDF allocation formulae include special allocation to poorer districts, see below. On average, a 10 percentage point increase in the poverty rate grants an additional GH¢1 per capita from DACF and DDF. But while DACF and DDF go hand in hand as far as fiscal redistribution is concerned, they remain poorly correlated overall, suggesting very different determinants of effective overall allocation and expenditure between the two funds.

[26] Distinguishing DACF from DDF expenditure suggests that both funds' expenditure per capita is positively correlated to poverty rates. The comparison also suggests that one cannot establish a significant statistical difference between the two funds in terms of responsiveness, or elasticity to poverty.

Figure 8: Discretionary Expenditures per Capita Increase with Poverty Rates



Source: World Bank staff calculations based on CAGD.

D. INSTRUMENTS OF FISCAL DECENTRALIZATION

161. **The District Assembly Common Fund is established by law and receives and distributes 7.5 percent of total Government revenues to District Assemblies,** which they spend on their respective development priorities in accordance with guidelines of the Minister for Local Government, Rural Development, and Environment. Release of the funds is through quarterly payments in accordance with documentation provided by the DACF administrator. In 2008, DACF received GH¢253 million from the Consolidated Fund, or 0.84 percent of GDP, see Chapter 1, and spent GH¢171.4 million, out of which GH¢91.4 million was directly released to the DAs.

162. **The total amount of DACF distributed to DAs is greatly reduced, as central expenditures are skimmed off the top, prior to distribution.** The distribution arrangement for the DACF is complex. The Administrator annually recommends a sharing formula which is then approved by Cabinet and Parliament. The formula always contains several first line allocations (to Members of Parliament – up until 2011, Regional Coordinating Councils[27], the National Youth Employment Program, the National Sanitation Program, DACF contingency fund and the DACF secretariat) that effectively reduce amounts effectively at the disposition of district assemblies. Transfer of the balance is subject to additional complexities (including the so-called indirect transfer) that further reduce what district assemblies collect and can effectively work with. In 2008, indirect allocation amounted to 46 percent of the DACF.

[27] RCCs consist of the regional minister and deputy/deputies, Presiding Officers of district assemblies, DCEs in the region, two chiefs from the regional council of chiefs, and regional heads of decentralized ministries and agencies as non-voting members. RCC ensure the oversight and coordination of DA programs.

163. **Discretionary powers granted to DA under the DACF are also hampered by the procurement and distribution of goods by CG, on behalf of DA**. The CG (through the DACF Administrator or the MLGRD regularly procures items on behalf of MMDAs in a process christened 'indirect transfer'. The extent to which these items represent development priorities of individual assemblies remains to be checked. Further, procuring vehicles for CG-appointed and remunerated DCEs ought to be the prerogative of the CG, not district assemblies.

164. **Additional inefficiencies arise from the transparency and timing of DACF releases.** The PEFA 2010 notes that, "the MMDAs do not receive information on the allocations to be transferred to them till well into the fiscal year after the Parliament has approved the proposed allocations out of the DACF and the Administrator of the DACF. The DACF also scores low on transparency and objectivity, in the PEFA 2010. The PEFA 2010 notes that "transfers to sub national Government are ... from a variety of sources including the DACF, HIPC, Personnel Emolument and Administrative Charge payments, Minerals Development Fund, and counterpart funds. Over 10 percent but less than 50 percent of the transfers are determined by transparent and rules based approaches."

165. **The Districts Development Facility (DDF) is a performance-based grant system, which seeks to improve performance of MMDAs and harmonize the assistance of development partners (DPs) to them.** Using a transparent set of criteria, the DDF makes annual grants to MMDAs based on the result of yearly assessment of district assemblies. All assemblies receive a small and equal grant for capacity development. In 2008, the capacity grant was GH¢19,683 per DA. To qualify for an additional grant, a district assembly must fulfill certain minimum conditions[28] or performance standards[29]. Qualifying assemblies receive 'rewards' of additional investment funds to implement their development plans, existence of which is an assessment criterion. Amount received varies directly with performance score. Assemblies that do not meet the cut off mark are to use the capacity component to develop sufficient capacity to meet the cut-off subsequently.

166. **An increasing number of MMDAs have gained access to the DDF thus far, suggesting that there is an improvement in the performance of districts since 2006.** There were two assessments to-date: in 2008 for MMDAs' activities undertaken in 2006; and in 2009 for activities undertaken in 2008. Compared with 2008, there was a significant increase in the number of MMDAs meeting the criteria for investment in 2009. In 2008, only 50 out of 138 MMDAs fulfilled the minimum conditions and received "development grant in addition to capacity building grant." However, in the repeat assessment just one year later, "132 out of 169 MMDAs fulfilled the minimum conditions." Thus, DDF distribution rose from GH¢43.38 million in 2008 to GH¢74.58 million in 2010.

167. **The strengths of the DDF include its transparency and predictability, as well as its focus on capacity building which seems to serve as an incentive for districts to**

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[28] The Minimum Conditions are measuring functional capacity in five core areas: (i) Development Planning, (ii) Financial Management and Accounting, (iii) Public Procurement, (iv) Implementation Capacity, and (v) Functioning of the General Assembly.

[29] The Performance Measures include detailed indicators (a total of 48 indicators) to measure performance, and the performance measures are classified under eight sub-themes as follows: (i) Management and Organization, (ii) Transparency, Openness and Accountability, (iii) Planning System, (iv) Human Resource Management, (v) Relationship with sub-district structures, (vi) Financial Management and Auditing, (vii) Fiscal Capacity, (viii) Procurement, and (ix) Environmental Sanitation Management.

improve their management and governance systems. Full amount of the funds are released, without deductions, and this is done once,[30] at the beginning of the fiscal year, rather than quarterly, as is currently the case with the DACF. In addition, the capacity-building component will help to develop a stock of skilled personnel in development programming and implementation. Besides, the minimum conditions, which include preparation and submission of financial reports, will help inculcate that discipline and consciousness in assemblies. Unlike the DACF that requires preparation and submission of accounts only on the Fund, the DDF is working to require district assemblies to prepare consolidated accounts on all their operations.

168. **The structure and modus operandi of vertical statutory funds make it difficult to determine their real impact on fiscal decentralization.** Vertical statutory funds such as the Ghana Education Trust (GET) Fund, the Road Fund (RF), and the National Health Insurance Fund (NHIF) [31] help pay for central Government functions delegated to district assemblies. Together, these three funds contributed 25 percent of the 'expenditures of district assemblies' in 2008 (in addition to MDAs, DDF, DACF and IGF expenditure discussed previously), but the breakdown of actual expenditure across districts remains unknown, as discussed below.

169. **Set up under the Ghana Education Trust Fund Act 581 of 2000 "to assist with nation-wide provision of education at all levels of Government,"** GET Fund provides financial support for the development and maintenance of academic facilities and infrastructure in public educational institutions (particularly in tertiary institutions), supplementary scholarship funding and student loans, and contributes to research funding. In 2008, the GET fund received GH¢205 million from the Consolidated Fund, and spent GH¢207 million, out of which GH¢83 million for primary and secondary education, for which DA have delegated functions. The Fund's Board of Trustees makes policies (in line with objectives set by the Ministry of Education) which the Fund administrator implements. The Fund does not directly identify, design, or execute projects; it only provides finance in line with advertised policies. Resources are through direct monthly payment into the Fund's account of a minimum of 2.5 percent (as approved by the Parliament) of VAT proceeds, investment proceeds, gifts, donations, etc. The Board annually recommends and the Parliament approves a disbursement formula in line with broad principles outlined in the Act.

170. **The contribution of the GET Fund to districts is unclear, since distribution is broadly according to classes or categories of educational institutions or activities, not districts.** There is no consolidated data on expenditure per district under the Fund. However, in its current design, the GET Fund may be deepening variations in district expenditure. The more qualifying institutions (e.g. high schools) a region or district assembly has, the higher its potential share of the Fund. Thus, backward districts with fewer 'qualifying' institutions are inherently disadvantaged in 'competing' for the Fund's resources.

171. **The Road Fund was established under The Road Fund Act, 1997 "to finance routine and periodic maintenance and rehabilitation of public roads" and to "assist the Metropolitan, Municipal, and District Assemblies in the exercise of their functions**

[30] Although in the first year, the release was twice due to initial start up problems.

[31] There are definitional issues on whether these are these are delegated or de-concentrated funds. The preference treating them as dedicated is that the Funds finance functions statutorily delegated to local Governments and exercised under supervision of CG departments. For example, primary and second tier education, to which GET Fund contributes, is a function of local Governments, exercised under the supervision of the Ministry of Education. So also the national health insurance programme is a MoH function for district assemblies to implement. The NHIF is a national funding scheme for part of this programme.

relevant to public roads". The Fund also finances road safety activities and related projects, etc., as determined by the Board. Regional and district level agencies/departments carry out the road maintenance activities on the Fund's behalf, for which they prepare annual work and expenditure programs for the Board's approval, three months to the fiscal year. The CG controls operations by appointing a management Board chaired by the Roads/ Transport Minister and including five private sector representatives.

172. **The Fund's resources accrue from a percentage of the levy on fuel, bridge, ferry, and road tolls, vehicle inspection and licensing fees, and international transit fees**. The Board also raises loans[32]. In 2008, the Road fund received GH¢103 million from the Consolidated Fund, and spent GH¢236 million, out of which GH¢151 million for urban and feeder roads, for which DA have delegated functions. The Fund's Board determines its allocation principles, accounting for certain statutorily defined principles. Allocations are mainly to the Ghana Highway Authority, the separate Departments of Feeder and Urban Roads, the Driver and Vehicle Licensing Authority (DVLA), and road safety activities. The DVLA retains 15 percent of its collections, while Road Safety receives one to two percent of the Fund's resources for training. The Fund gives advance budgetary ceilings to other agencies it funds, depending on its expectations of returns to guide programming. The Fund approves the programs and settles fortnightly payment requests from the agencies and bodies, depending on resource availability.

173. **The impact of the Fund on local fiscal balances is not clear because there is no disaggregated data by districts.** Available data are allocations to central departments and organs rather than the main executing agencies. Generally, regions with more roads or which have greater capacity for planning and implementation may potentially receive higher RF resources. However, if construction of the national roads network follows a balanced policy, expenditure policy on maintenance of the network is also likely to reflect a balanced policy.

174. **Established under the National Health Insurance Act 650 of 2003,[33] the NHIF subsidizes "the cost of provision of healthcare services to members of district mutual health insurances schemes ...".** The Fund also (i) reinsures schemes against random fluctuations on cost under certain conditions, (ii) pays the Health care cost of indigents, (iii) provides support to facilitate provision of or access to health service, and (iv) invests in any other facilitating programme to promote access to health service determined by the Minister in consultation with the Council. The Fund's resources accrue from 2½percent health insurance levy of all non-exempt goods and services, and 2½percent of the 17½percent contribution to the Social Security and Pensions Scheme Fund. To guarantee the resources of the Fund, the Government pledges to offset any "default in payment of benefits by the Social Security and National Insurance Trust to contributors arising from the payment of the contribution into Fund". The Council decides on the annual formula for disbursing the Fund subject to parliamentary approval. In 2008, the NHIF received GH¢257 million from the Consolidated Fund, and spent GH¢207 million in the form of services for which DA have delegated functions.

175. **Although the Fund disburses to district mutual insurance schemes, there is no district level aggregation of disbursements, making it difficult to estimate the contributions of the Fund to regional fiscal equity.** Available disbursement data (for 2005

[32] Fiscal 2008 accounts show a loan of GH¢85.32 million from the Social Security and National Insurance Trust (SSNIT).
[33] See also legislative Instrument (L. I.) 1809: National Health Insurance Regulations, 2004

and 2008) are along global headings of schemes and partner institutions. The 2005 data is scanty, possibly because, although established in 2003, the Fund was still in its start up era. Thus, for instance, there were no budget data for that year. Fiscal 2008 data was more complete and more detailed, and included budgeted data.

176. **Ghana's fiscal decentralization arrangements grant broad authority to district assemblies to generate and spend own revenues.** In 2008, GH¢51.7 million (0.2 percent of GDP) worth of district expenditure was financed through IGF. Local Government fiscal sources are often fragmentary, residual, widely dispersed, and therefore difficult to collect. This raises collection costs, especially in the rural areas where poverty and ignorance are highest. Factors responsible for poor IGF performance include:

- Absence of comprehensive and reliable revenue databases especially in rural-based district assemblies;
- Weak revenue administration and management including: lack of powers to sanction defaulters, complex and ineffective structures for revenue collection, and lack of physical capacity and means for revenue collection;
- Low and outdated rates: by law, the MLGRD must approve rates, but it does not regularly do so;
- Problems with property valuations especially in the rural areas.

177. **There are large regional variations in the capacity to generate internal revenues and capacity building is clearly needed to address this inequity.** While it is not surprising, given that domestic/internal revenue have no inbuilt equalization mechanisms, there is need to strengthen capacity for internal revenue performance across districts. It is likely that even the better performing regions and districts may not be achieving their optimum levels of IGF. Some areas to consider include:

- review (and to periodically update thereafter) extant IGF laws and legislative instruments to ensure their continued relevance;
- grant MMDAs legal powers to impose sanctions and enforce collection;
- capacity across MMDAs for revenue assessment, collection, and accounting, including internal control; [34]
- provide national institutional support to MMDAs such as maintenance of a national database, including a taxpayer registration system with a unique taxpayer identification number (TIN);
- Assist rural MMDAs with property census and valuation.

E. PLANS AND OPTIONS FOR FURTHER FISCAL DECENTRALIZATION

178. **This section briefly reviews ongoing plans for further, especially fiscal decentralization.** In light of the progress and challenges of the decentralization programme, the Government is adopting measures to "deepen decentralization and the local Government system" based on key constitutional principles: "decentralized local Government system with a fair degree of financial autonomy," popular participation in local decision-making, and "promoting a balanced and accelerated development throughout the country"[35]. The reforms also envisage full implementation of the provision of the Local Government Act of 1993 that give local Governments greater control over their budgetary and fiscal affairs. In 2012,

[34] The central Government must play a pivotal role in this regard as required by the 1992 Constitution (s. 240).
[35] Press Briefing by Minister for Local Government, May 5, 2010.

MMDAs will prepare composite budgets that will integrate the currently separate budgets of de-concentrated CG departments in MMDAs into the budget of district assemblies. Currently, these departments prepare and implement their budgets separately.

179. **To achieve this, the Government, in 2009, enacted Legislative Instrument (L. I.) 1961: The Local Government (Departments of District Assemblies) (Commencement) Instrument, 2009.** The Instrument seeks to (i) reconstitute central Government de-concentrated departments as devolved (decentralized) departments of district assemblies with autonomous powers of decision; (ii) re(define) the functions of newly reconstituted departments of MMDAs; (iii) integrate the currently separate budgets of MMDAs' departments into an integrated composite budget, and (iv) implement the Local Government Service Act, by transferring staff from the Civil Service to the Local Government Service. L.I. 1961 dissolved the existing 22 departments in district assemblies, and in recognition of the varying capacities of MMDAs, reconstituted them into 16 for metropolitan, 13 for municipal, and 11 for district assemblies. Staff of these reconstituted departments will cease to belong to the Ghana Civil Service, and will belong to the new Local Government Service (created under the Local Government Service Act, No. 656 of 2003). They will be accountable to respective MMDAs that employ them, per the Local Government Act, 1993.

180. **To address the challenges of this process, the Government has been taking some additional measures, including:**

- Creating an Inter-ministerial Coordinating Committee (IMCC), with the Vice President as chair, to oversee implementation of the key components of the programme; the IMCC will monitor and evaluate progress of implementation, and resolve constraints and policy issues;
- Setting up a technical committee/taskforce to realign/allocate functions, relationships, communications, responsibilities, budget, staff, and logistics to national, regional, and district levels of Government;
- Arranging for MoFEP to develop guidelines for composite budgeting that will form the basis for funding MMDAs;
- Sensitization work by the Ministry of Local Government and the Local Government Service;
- Adopting a Decentralization Policy Framework (discussed below);
- Producing matrixes of issues for constitutional and legislative review in furtherance of the decentralization agenda.

181. **The Government approved in 2010 a Decentralization Policy Framework.** The Framework seeks to "re-orient the decentralization" process by addressing "fundamental issues" in the current approach to decentralization, eliminate incoherencies and contradictions, clarify the role of regions, quicken integration of devolved departments into district assemblies, hasten fiscal decentralization, secure improved capacity of district assembly members, and strengthen local Government substructures.

182. **Consequently, the Framework recognizes the importance of fiscal decentralization through the principles of finance following function and the need to ensure "equilibrium" between functions transferred to district assemblies.** The document advocates decentralization by devolution of functions to district assemblies rather than the current de-concentration to MDAs. This "entails financial autonomy where district

assemblies become initiators and implementers of development within their jurisdictions". This will require "regular allocation and adequate funds to meet their development needs". The Framework further calls for "transparent, objective, and fair allocation formulae reflecting needs and functions of the various units".

183. **The Framework expresses the policy objective of the fiscal decentralization programme thus, "To improve funding and financial management of MMDAs", and articulates five policy measures to do this:**

- Implement district composite budgeting system;
- Facilitate identification/harnessing of alternative revenue sources to improve local revenue generation;
- Facilitate revenue assignments so that the composition of revenues depend on the type of expenditure assignments at each level of Government;
- Review and harmonize legislation on fiscal decentralization;
- Implement proposals for the inter-Governmental fiscal framework.

184. **The speed proposed under the Framework is ambitious.** While the desire to add real momentum and direction to the decentralization agenda is welcome, the time bound plan may be considered ambitious. Building sufficient local capacity for composite budgeting and financial management will take time. Some aspects of the programme, including designing and transferring functions to local Governments, are daunting. A technical committee in the office of the President was established in this regard, and deep studies, technical analysis and evaluations, trainings, seminars, and workshops, pilot tests, etc, will need to precede full roll out of the scheme. For best results, it is important to link functional delineation to proper classification of Government functions, and design of suitable chart of accounts. These have implications for the capacity building and the composite budgeting components of the agenda. International good practice examples on these aspects abound in the literature.[36]

185. **Proper delineation of functions of local Governments needs to accompany the decentralization of finances.** There is need for proper and clearer demarcation of functions among the three tiers of Government: national, regional, and district assemblies. Wherever it is not possible to define exclusive jurisdictions, i.e., where there are concurrent responsibilities, it is important to explicitly state what each tier's responsibilities are. The key principle is to avoid overlap of functions as much as possible. Too many overlapping responsibilities will make it difficult to properly tie the financial requirements of each tier to their duties. Where overlaps (i.e., concurrent jurisdictions) are inevitable, there should be clear demarcations of the limits of respective responsibilities: it should be clear where the function of a tier of Government ends and where that of the other begins.

186. **Definition of the revenue potentials of local Governments requires further analysis.** Revenue potential cannot be uniform across MMDAs and need to distinguish between the various types of local Governments - metropolitan, municipal, and district assemblies – and their reasonable earning propensities. A realistic approach will be to identify and map latent revenue propensities of local Governments, the realism of tapping into them, how soon local Governments can begin to exploit them, their potential levels of performance vis-a-vis the cost of administration and collection and what, if any, capacity building work must precede full realization of their potential benefits. Matching functions against internal revenue potentials should help establish the financing gap or *vertical*

[36] See for instance, Ferazzi (2006).

imbalance. This gap represents the additional finance the local Governments need to fulfill their functions.

187. **A carefully defined system of fiscal transfers, based on asymmetry, could be necessary to address the identified imbalances across local governments.** The goal of the transfer must be to finance the perceived gap in the ability of each local administration to fulfill its defined functions. Fiscal asymmetry allows proper consideration of the different stages of development and domestic financing abilities of local Governments. It thus helps address inequities and disparities. It is possible to define such a system to operate within time limits, monitor their performances, and ensure they last for only as long as necessary. Asymmetry is possible through a combination of conditional and unconditional transfers, project-tied transfers, targeted transfers through dedicated funds, etc. Existing instruments can also build in some measure of asymmetry. Indeed, the decentralization reform process already recognizes the principle of asymmetry in the distribution of responsibilities. Legislative Instrument (L. I.) 1961 discriminates on the number of departments that MMDAs can create depending on their types. Metropolitan, municipal, and district assemblies can establish 16, 13, and 11 departments in that order. This is a recognition not only of the differing capacities in each type of local Government, but also of the fact that not all the departments are likely to be relevant across all types of MMDAs. A similar discriminatory arrangement is necessary to cater for dissimilar financing needs of categories types of MMDAs.

188. **The proposed reforms require resolution of a number of major issues, including the incentives to ensure the transfer of civil servants to local governments**. It is to be expected that affected personnel will resist the transfer of their services to remote districts with very few amenities, unless provided with the right incentives. While there may be staff already working in those areas, chapter 3 suggested that there is evidence of truancy.

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