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**THE GHANA POVERTY
REDUCTION STRATEGY,
THE BUDGET AND
COUNTRY OWNERSHIP**

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AND COUNTRY OWNERSHIP**

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The Institute of Economic Affairs (IEA), Ghana, was founded in October 1989 as an independent, non-governmental institution dedicated to the establishment and strengthening of a market economy and a democratic, free and open society. It considers improvements in the legal, social and political institutions as necessary conditions for sustained economic growth and human development.

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PREFACE

Country ownership of Poverty Reduction Strategy Papers is considered vital for their successful implementation. The determinants of ownership are however not so obvious. While few would disagree with the need for countries to own their strategies, the practical implications of such ownership and the indicators of ownership are yet to be clearly defined. The Bretton Woods institutions equate ownership with consultation with civil society. But what constitutes civil society? Is it the organized, formal and largely donor-funded institutions that have proliferated on the socio-economic landscape in recent years? Does it include the muted voices of unorganized and impoverished food crop farmers in the rural areas? What about the private sector, the businessmen and women, and the small and medium scale enterprises?

Ideally, civil society should include all of the above; however, in practice, it is the organized formal, well-funded civil society groups with effective access to the media whose voices are the loudest. In this context, civil society involvement in the PRSP process tends to be skewed, and where consultation is constrained by limited resources, efforts to broaden the scope of civil society involvement tend to be severely compromised.

An additional complication arises when one takes into account the competing interests of other powerful stakeholders such as bilateral donors and of course, the Bretton Woods institutions (i.e., the IMF and the World Bank). In this context, maintaining the integrity of country ownership becomes a delicate balancing act, especially when it is coupled with the challenge of reflecting the GPRS in the annual budget.

This paper examines the challenges associated with the formulation and implementation of Ghana's Poverty Reduction Strategy (GPRS), focusing on both the implementation of the GPRS through the budget, and the issue of country ownership. It is hoped that the key issues raised in the paper will stimulate further debate on the PRSP and result in improvements in the formulation process.

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OVERVIEW

National budgets are essentially vehicles for the implementation of the aspirations, goals and objectives of a nation. Such aspirations find expression in national plans. Prior to 2001, the Ghana Vision 2020 document encapsulated the government's strategy and vision for growth and development. The realization of this vision however, required the implementation, through the budget, of the Vision 2020 action plan. The absence of this critical link, coupled with the failure to cost the programmes and projects outlined in the Medium Term Development Plan, were instrumental in the failure to realize the objectives and targets of the Vision 2020 programme. Thus, a critical test of the 2002 budget is the extent to which it incorporates the spirit of the government's key planning document: the Ghana Poverty Reduction Strategy (GPRS).

THE GPRS PROCESS AND COUNTRY OWNERSHIP

An analysis of the links between the GPRS and the budget is however incomplete without an examination of the evolution of the GPRS, taking into particular account the extent to which it articulates the views, hopes and aspirations of the country; in effect, the extent to which the GPRS is country owned.

The GPRS process began in July 2000. Following a preliminary situation analysis that identified five thematic areas¹ of significance to the study of poverty and growth, teams comprising representatives of Ministries, Departments and Agencies (MDAs), NGOs, civil society and donors were established around each of the five thematic areas. The teams

¹ They are: *The Macro Economy; Production and Employment; Human Resource Development; Vulnerability and Exclusion; and Governance.*

were charged with conducting a poverty diagnosis for each thematic area. Concurrently, community level consultations were conducted in a sample of thirty-six communities. Consultations were also held in twelve Districts and six administrative regions. The outputs from these consultations were fed to each team, and guided their diagnostic studies.

On completion of draft reports by the teams, NGOs, civil society, women's groups and MDAs were invited to a series of workshops designed to harmonize and synthesize the teams' outputs into a coherent and internally consistent programme, and also to link the GPRS to the budget through the Medium Term Expenditure Framework (MTEF) process. To integrate the GPRS into the strategic plans of MDAs, the GPRS team and the MTEF secretariat collaborated in organizing the Medium Term Expenditure Framework (MTEF) training workshops for Chief Directors and budget officers of all the line ministries.

The Issue of Ownership

The consultative process of the GPRS has however, been described as inadequate. This raises the question of what constitutes effective ownership. Among the criticisms leveled against the GPRS consultative process by civil society is that consultation does not constitute participation. They argue that their views were not adequately incorporated in the final draft of the document; nor were they adequately consulted in the initial stages of the process. In particular, they point to the macroeconomic framework of the GPRS as representing a virtual continuation of IMF conditionalities and demand management practices.

In fairness to civil society, there is some merit to this argument. The GPRS paper was written under a tight deadline, and at about the same

time that the government was completing its letter of development policy. This letter essentially spells out benchmarks that must be achieved as a precondition for support from the World Bank.

Privatization of key government establishments such as the Ghana Commercial Bank, the Ghana Water Company and the Tema Oil Refinery was in principle agreed to by government in the letter. However, the timing of these conditionalities essentially undermined the credibility of country ownership because it fuelled speculation that the process was influenced by the Bretton Woods institutions.

Furthermore, the requirement that a country must have had at least three years of successful implementation of an IMF Structural Adjustment Programme as a precondition for HIPC eligibility, only validated the concerns of civil society.

Notwithstanding these observations, it is interesting to note that although civil society was critical of the macro-framework, it never offered an alternative, despite exhortations by the GPRS team to stakeholders to put their comments and recommendations in writing.

Besides the concerns raised by civil society about the undue influence of the Bretton Woods institutions on the GPRS, donors have great leverage on the PRSP process due to their significant contributions to the budgets of several developing countries e.g. Uganda (53%) and Ghana 40%. Indeed, the issue of donor influence on country level development processes was raised by African NGOs at a meeting hosted by the Vice President of the World Bank for the Africa region in February 2000.

Since the GPRS was acknowledged to represent the main policy

framework governing the allocation of donor resources, it was not surprising that several donors attempted in a variety of ways to influence the outcome of the GPRS. Among the strategies adopted was the tendency to include their technical experts in the GPRS team; the tendency to hold several consultations with the GPRS team during the drafting stage of the document; and the tendency to lobby donor leveraged MDAs to ensure that their programmes were fully reflected in the GPRS.

Ironically, there were occasions when the agendas of donors tended to conflict (e.g., the relative importance of primary versus tertiary education in the poverty reduction strategy). The World Bank was of the opinion that tertiary education deserved more emphasis in the Strategy, while the British agreed with the GPRS's focus on primary education.

In effect, the quest for country ownership was plagued by the reality of competing interests within the country, and by the unequal relations of power between donor partners on the one hand, and Ghana on the other hand. The challenge was to harmonize these conflicting and competing interests without compromising country ownership.

With respect to the competing interests within the country, it is important to note that the loudest voices of dissent came from organized civil society who purported to represent the interests of the poor. However, it is not clear that these groups necessarily reflected the views of vulnerable groups such as rural farmers, the disabled and street children.

The Experiences of Other Countries

In the light of the apparent complexities governing the issue of

ownership, it is relevant to ask what constitutes true ownership, and to what extent ownership has been achieved in other countries.

The evidence from Uganda where the PRSP has been described as truly country-owned, suggests that Civil Society Organizations (CSOs) felt left out at the later stages of the process because they were excluded from the process that turned the Poverty Eradication Action Plan (PEAP) into the PRSP. They complained that there were few contacts with donors and particularly with the IMF and WB, in the preparation of the IMF version of the PRSP document.

Furthermore, the fallacy of equating formal civil society organizations with the poor is highlighted in the experience of Uganda, where the Poverty Eradication Action Plan initially failed to involve the poor in the process even though civil society was consulted.

In Zambia the formulation of the Interim Poverty Reduction Strategy was confined to government institutions. Civil society organizations were invariably excluded from the process. Furthermore, the public expressed skepticism over the ability of district administrators, who are exclusively party appointees, to effectively include the poor in regional consultations leading up to the drafting of the full PRSP.

On the positive side, civil society groups led by the Structural Adjustment Programme Monitoring Project and Jubilee 2000 used popular theatre in compounds to explain the debt issue and to survey popular attitudes to debt in Lusaka.

In Kenya there was no external non-governmental representation in the PRSP working groups; background papers were only circulated within government. This was in sharp contrast with the practice in

Tanzania, Uganda and Ghana.

The evidence in these countries suggests that there have been varying degrees of civil society involvement in the PRSP process. In cases where consultation was considered satisfactory, ownership was compromised when it came to dealing with the powerful Bretton Woods institutions.

Following the completion of the final draft of the Ghana Poverty Reduction Strategy, discussions of civil society involvement in the GPRS have shifted to exploring options for civil society's involvement in monitoring and evaluating the implementation of the Strategy. This raises the question of the modalities of civil societies' monitoring role.

Modalities of Civil Society Monitoring

Involving civil society in monitoring the GPRS raises several pertinent questions. The final section of this brief highlights several of the issues involved without necessarily attempting to provide answers. The issues of importance are:

The choice of civil society representatives

To effectively involve civil society in the monitoring of the GPRS, it is important to put in place a framework for identifying credible civil society institutions that have the capacity to participate in the monitoring process. The alternative is to leave monitoring to the discretion of civil society organizations. If the former option is adopted, then one must determine who should identify credible civil society representatives. The danger with this option is that it could politicize the process.

In either case it is important that civil society organizations that participate in the monitoring process must be competent and non-partisan. To ensure effective monitoring at the subnational level, the monitoring roles of civil society organizations and community based organizations vis-a-vis district assemblies must be formalized to ensure that the recommendations of CSOs and CBOs are taken seriously at the district level.

Financing issues

Monitoring is a full-time occupation that requires adequate human capacity and logistics; hence, for monitoring to be sustainable, effective and credible, it must be adequately funded. There are several options for financing civil society monitoring. One option is for the government to finance the process. Alternatively civil society could be asked to finance the process through their budgets. The downside to making government responsible for financing civil society's monitoring role is that it could influence monitoring outcomes through its control of monitoring budgets. Monitoring disbursements could be delayed or withheld from uncooperative civil society organizations, while those that are sympathetic receive more funding.

Coordination issues; What are the respective roles of government and civil society in the monitoring process?

The Ministry of Finance, the Ministry of Economic Planning and Regional Cooperation, and MDAs in general are currently involved in different aspects of the monitoring process. Involving civil society in the monitoring processes requires that their role must be clearly defined to avoid overlap and institutional turf wars. It makes sense that since civil society is a non-governmental institution, there is merit in assigning

it the role of monitoring all government monitoring institutions. Hence civil society could be involved at all three levels of monitoring. This presumes that civil society possesses the range of monitoring capacities required to undertake the task.

But assuming the skills and capacity do exist, there is still a need to coordinate the monitoring activities of all actors involved in the process. This coordinating body would be responsible for resolving monitoring disputes between civil society on the one hand and the monitoring institutions of government on the other. Other questions that need to be addressed are the following?

- Should government and civil society monitoring activities be carried out independently (i.e., in parallel) or jointly;
- How do we ensure that civil society input in monitoring is taken seriously by government?
- What should civil society's role be vis-a-vis district planning coordinating units and regional planning coordinating units?
- Should initial monitoring be carried out on a pilot basis or universal basis?
- If carried out on a pilot basis, at what level should monitoring be carried out: national, regional or district?

Data issues

Effective monitoring requires access to information on resource flows, the cost effectiveness of on-going projects, and other performance indicators; hence, it is important to ensure for civil society adequate access to information. How will civil society be able to assess the cost effectiveness of a project, or determine whether an appropriate amount of funds was devoted to a specific project without access to sensitive data. Beyond data access, civil society must be empowered

to synthesize the information gathered. The expeditious enactment of the Freedom of Information Bill will be helpful in this respect.

Beyond data access is the issue of data quality and data credibility. Civil society is currently represented on advisory boards of data producing institutions. This is a step in the right direction but is it enough?

In spite of the monitoring challenges raised in this section, it is important to note that the successful implementation of the GPRS requires a monitoring and evaluation strategy that ensures that the annual budget gives priority only to programmes and activities that are consistent with realizing the objectives of the GPRS. Using the 2002 budget as a reference point, the next section examines the extent to which the budget reflected the broad priorities of the GPRS.

THE GPRS AND THE BUDGET

The 2002 Budget presented to parliament on February 21, 2002 marked a departure from previous budgets in the sense that it made a concerted effort to ensure that sectoral expenditure allocations were consistent with the broad policy objectives and goals of government as spelled out in the Ghana Poverty Reduction Strategy. Consistent with government's stated priority of promoting agriculture, and improving education and the delivery of health services, the 2002 Budget has shifted resources towards these priority areas. Budgeted allocations to the health sector are projected to increase by 12 percent, while allocations to the relatively low priority sector of administration have declined sharply.

However, the relative share of allocations to the very high priority area of agriculture has decreased. The reason is that although the proportion for agriculture in the Government of Ghana's (GoGs) budget increased, this increase was more than offset by a decline in the relative share of agriculture in the total donor budget. With respect to agriculture, the emphasis is in storage, marketing, distribution and irrigation services. To the extent that the agricultural sector accounts for over a third of total GDP and employs a disproportionate number of the poor (approximately 60 percent of food-crop farmers are poor), prudent investments aimed at rejuvenating this subsector can simultaneously promote growth and positively impact on poverty. In contrast to expenditures on agriculture, expenditures on infrastructure, particularly feeder roads, are expected to rise. The creation of such infrastructure will facilitate the movement of agricultural commodities from the production centers to the markets; ease transactions costs of middlemen; and increase returns to farmers.

This report first examines the macroeconomic performance in the year 2001, and then proceeds to determine whether the 2002 Budget is consistent with the goals and objectives of the Ghana Poverty Reduction Strategy. To assess consistency with the GPRS, the following aspects of the budget are examined:

- the distribution of total (i.e., GoG and donor) allocations
- the distribution of total resources based on functional reclassification of MDA expenditures
- the sectoral distribution of Government of Ghana's resources
- the distribution of donor allocations
- the GoG's disbursement record

While proposed budgetary allocations are a reasonable indicator of government's commitment to the realization of its overall programmes, the probability that a government will follow through on its commitments can be determined from its actual performance in the past. In the case of the current regime, the report analyzes disbursement trends during the 2001 year, based on information provided in the 2001 mid-year report. The report concludes with a discussion focusing on the issue of the appropriateness of the 2002 targets.

The Macro-Performance

The budget confirmed what most analysts knew about the macro-economy: economic stability was improving. Declining interest and inflation rates coupled with substantial improvement in the stability of the currency, are all positive trends that are necessary though not sufficient for economic growth. The successes in this area can be attributed to improved expenditure controls, a tight monetary policy, a policy of non-intervention in the foreign exchange market, and the

decision to seek debt relief under the HIPC Initiative. As a result of these initiatives key macroeconomic indicators experienced favorable trends relative to 2000. Money supply growth declined from 44.7 percent to 38.8 percent; inflation fell from 40.5 percent to 21.3 percent; interest rates declined from 47 percent to 28.9 percent; the forex exchange rate depreciated by 7.7 percent versus 49.8 percent; foreign reserves increased to the equivalent of 1.6 months imports, up from less than a month. The overall impact on the real sector was a real GDP growth of 4.2 percent (higher than the target of 4.0 percent).

The Composition of GDP Growth

The GDP growth rate of 4.2 percent was attributable largely to the performance of the agricultural sector, particularly crop and livestock production. Given the rain-dependent nature of crop production, one can attribute the GDP performance to the grace of nature. The constrained expenditure posture adopted by government evoked fears about its implications for growth. In an economy where government still accounts for a substantial proportion of aggregate demand, reining in government expenditure was bound to have a ripple effect throughout the economy. It was doubtful that the non-agricultural private sector would be capable of taking up the slack as long as interest and inflation rates remained in double digits. Fortunately, nature was kind to agriculture and agriculture came to the rescue in spite of the dismal performance of the cocoa sub-sector. Perhaps with more resources and timely disbursement, the extension services provided by the Ministry of Agriculture could have increased agricultural output by a greater margin, and further boosted GDP growth. While lower commodity prices which are outside the control of government, contributed to the slow growth in industry, the decline in cocoa earnings occurred presumably as a result of a lower crop size which on the other

hand, is a variable well within the government's control. Indeed, crop size may have declined due to increased smuggling of cocoa to Cote d'Ivoire, which offers more attractive producer prices. However, government may not have been willing or able to raise producer prices without compromising its stand on macro-stability. The point is that government was fortunate to exceed its relatively modest target while pursuing a policy of expenditure restraint to achieve macro-stability.

Rising Share of PE

The macro-performance notwithstanding, the budget also revealed an increase in the share of personnel emoluments in total discretionary expenditure. At 51 percent of discretionary spending, personnel emoluments absorb the bulk of resources that can be allocated to investment, service and administrative activities. Since investment, in particular is a vital element of growth, any efforts to achieve sustained economic growth will be compromised by a budget that is wage-bill intensive. To this end MDAs must be required to *justify their wage bill by linking personnel emoluments to their stated objectives and outputs. This should be an integral part of their strategic plans formulated in the context of the Medium Term Expenditure Framework.*

Do Rising Foreign Currency Deposits Signal Uncertainty?

The budget attributed the increase in demand deposits and quasi-money to increased confidence in the economy. Indeed, increased savings and investments in domestic assets can serve as an indication of increased confidence in the economy. On the other hand, no information was provided about the percentage of the money supply that was outside the banking system. This statistic would have provided a clue about the

public's confidence in the financial economy. Furthermore, the historic (22 percent) increase in foreign currency deposits may be an indication of a switch to dollar-denominated assets in response to an erosion of confidence in the sustainability of the stable macro-environment.

Table 1: Selected Macro-Indicators
(percentage growth rate unless otherwise indicated)

	Provisional 2001	Actual 2000	2001 Target
Real GDP	4.2	3.7	4.0
Agriculture	4.0	2.1	3.7
Cocoa	5.2	6.2	
Fisheries	2		
Forestry	4.8		11.1
Industry	2.9	3.8	4.0
Mining	-1.6	1.5	
Manufacturing	3.7		
Electricity	4.0		
Construction	4.4		
Services	5.1	5.4	4.3
Primary balance/GDP %	4.7	2.4	3.4
Annual Inflation %	21.3	40.5	25.0
Broad Deficit/GDP %	-4.4	-9.0	-5.2
Gross Reserves US\$ m	336.6	264	
Import cover (months)	1.5		

Source: 2001 Budget Statement

Table 2: Foreign Trade Indicators
(in US \$ million)

	1999 Actual	2000 Prov.	2001 Prov.
Merchandise Exports (f.o.b.)	2005.5	1936.3	1842.8
Merchandise Imports (f.o.b.)	-3279.8	-2766.6	-2691.1
Non-Oil	-2946.6	-2246.4	-2218.7
Oil	-333.3	-520.1	-472.4
Trade Balance	-1274.4	-830.2	-848.3
Services (net)	-310.1	-187	-64.5
of which interest payments	-131.2	-107	-65.8
Private Transfers (net)	472	499	520.4
Current Account (excl. Official Transfers)	-1112.5	-518.3	-392.4
Official Transfers (net)	148.1	131.9	230.9
Current Account (incl. Official Transfers)	-964.4	-386.4	-161.5
Capital Account	746	369.3	305.6
Official Capital	144.8	139.7	338.7
Private Capital	367.3	176.8	37.9
Short-term Capital	233.9	52.8	-71
Errors and Omissions	187	-150.5	0
OVERALL BALANCE	-31.4	-167.7	144.1

Source: Bank of Ghana

Fiscal Issues

According to the 2002 Budget, the overall deficit as a proportion of the GDP was -4.4 percent in 2001. This represented an improvement over the corresponding figure of -9 percent in 2000 and the 2001 target of -5.2 percent.

The fiscal issues raised in the budget revolved largely around mechanisms to raise revenues, reduce revenue leakages, and plug loopholes in the tax laws. In particular, the policy objective is to increase the share of non-tax revenues from less than 1 percent to a level (3 percent) comparable to those of other developing countries. To achieve this goal, several fees and charges are gradually being revised upward to achieve cost recovery. For instance, license fees for operators of bonded warehouses have been revised upward. These are prudent measures that will go a long way to raising the GDP share of revenues and grants.

However, it appears that a lucrative revenue generating option has been overlooked. The high incidence of motor traffic violations and the associated health risks they impose, suggest that stricter enforcement of existing traffic regulations could yield a revenue bonanza for government while reducing the health costs and loss of human capital associated with traffic accidents. Indeed, given the extent of traffic violations in the country, the Motor Traffic and Transport Unit should be capable of generating a substantial portion of its budget through internally generated funds.

Furthermore, the budget could have outlined measures to improve the collection of property taxes through improvements in the house numbering system, and the creation of an effective database on property

ownership.

The decision to allow revenue generating agencies to retain 3 percent of their revenues for institutional building is a good idea. The subsequent decision to extend this option to other public institutions will serve an incentive for more accurate reporting of internally generated funds (IGFs). In the past, several institutions have been uncooperative in revealing the totality of their IGFs because of the unpredictability of government budgetary allocations. Internally Generated Funds supplement the meager and unpredictable allocations to MDAs; however, there has been no guarantee in the past that when such resources are placed in the Consolidated Fund, a portion of the resources will revert to the MDAs that generated them. To address this problem, the government is to include a provision in the Financial Administration Regulations/Decree which will give the Ministry of Finance authority to permit qualified MDAs to retain part of their IGFs for operational purposes. The new policy provides incentives for MDAs to generate IGFs, and increases the likelihood that they will disclose their IGFs to government.

Financing Subsidies

The decision to budget for utilities subsidies is a prudent one since it will ensure that the utility corporations are not saddled with the financial burden of the subsidies. Budgeting for the subsidies implies that they will be financed by appropriate sources of revenue which are to be identified. Of course, to the extent that subsidies are financed through increased domestic borrowing, the debt burden will rise, as will interest rates. Thus, it is essential that utility subsidies are largely financed through improved revenue collection and more judicious use of existing resources.

The new Bank of Ghana Act, 2002 (Act 612)

The new Bank of Ghana Act limits total government borrowing to an amount not exceeding 10 percent of total revenue at the close of the fiscal year in which the advances were made. This implies that government borrowing is based on projected not actual revenues for the year. Hence, overly optimistic revenue projections will result in a much higher government borrowing limit, and thereby undermine the intentions of the Act. To avoid this possibility, government should be allowed to borrow a portion of the previous year's revenue, not the projected revenue for the current year. Furthermore, government should neither be allowed to carry over such advances into subsequent years, nor convert them to debt.

IS THE BUDGET GPRS COMPLIANT?

Linking The GPRS to the Budget

The GPRS cannot be implemented without linking it to the annual budget through the Medium Term Expenditure Framework. Unlike Vision 2020 which failed to find expression in the national budget, the GPRS is guided by the view that the Ministry of Finance, and the Ministry of Economic Planning and Regional Integration would have to work closely together to ensure consistency in targets and in resource allocation. Cooperation was achieved at the inter-Ministerial level and, interdependently, through the Medium Term Expenditure Framework (MTEF). Collaboration and a harmonious relationship between the Minister for Finance and the Minister for Economic Planning and Regional Cooperation, was an essential input for institutional collaboration between their two ministries. Collaboration was further enhanced by the fact that the GPRS paper was perceived by donors as the document which would guide their allocation priorities. This served as an incentive for collaboration. However, the process was hindered by the fact that until the very last minute, there was little consensus on, or acknowledgement within government of the fact that the GPRS would indeed serve as the roadmap for the allocation of donor funds. Meanwhile, technicians from the two ministries were working closely through the MTEF process to ensure that the GPRS found expression in the budget. To understand how this was achieved, it is important to understand the steps in the MTEF process.

What is the MTEF?

The MTEF is an integrated three-year rolling, broad-based budget that hinges on strategic planning by line ministries, and performance indicators. It is integrated in the sense that it explicitly budgets for the recurrent costs arising from new capital investments; it is broad-based in the sense that it takes into account all resources, howsoever

generated including those provided by donors and those generated internally by the line ministries.

The key to incorporating the GPRS in the budget is to ensure that line ministries reflect the GPRS in their strategic plans. The strategic plans of MDAs take their cue from the goals and objectives of the nation as articulated by the national plan. Hence, it was imperative that the GPRS be viewed as the national plan. This assumption has however, not been readily internalized or accepted since, in the absence of Vision 2020, which had been declared dead on arrival by the new regime, there was no official medium-term plan. In fact, the Medium Term Development Plan has not been renewed since its expiration in 2000. As a result, the GPRS has, *de facto*, assumed the role of a surrogate medium-term development plan, that currently informs the strategic planning process of the MDAs.

One of the major problems encountered in the process of giving life to the GPRS in the budget was that, MDAs were undertaking existing projects, some of which were not entirely consistent with, or ranked low on the GPRS priorities. In such cases, the realistic option was to phase them out or drop them altogether. Fortunately, the MTEF process (e.g., policy and sectoral reviews) provides an opportunity for MDAs to review their strategic plans in the light of changing circumstances. This process provided the GPRS team the opportunity to influence the strategic priorities of the respective MDAs. Operationally, the GPRS team, the MTEF consultants of the Ministry of Finance, and the budget planning section of the Ministry of Finance actively participated in all aspects of the MTEF process, and worked closely together through several workshops to exchange ideas on the GPRS and to assist the MDAs in revising where necessary, their mission statements, goals and objectives in a manner consistent with the GPRS. The outcome of the process is reflected in the sectoral budgetary allocations. To the extent that the GPRS finds expression in the budget, the sectoral allocations will be consistent with the following broad priorities of

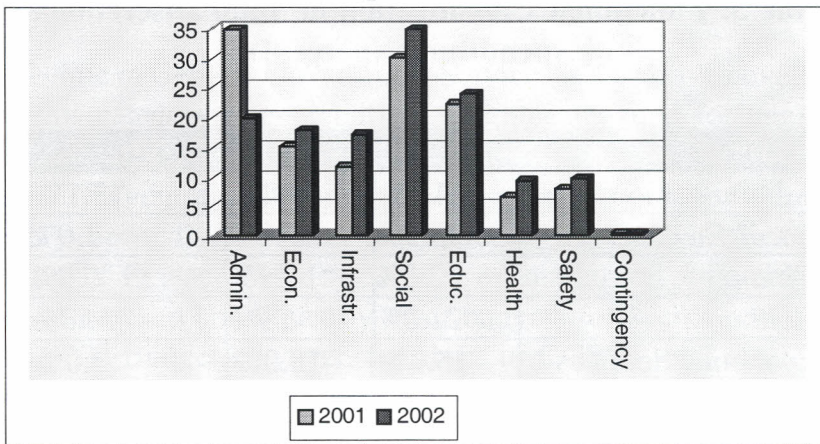
the GPRS:

- Social services; particularly Health and Education
- Economic services; agriculture
- Infrastructure; feeder roads and related trunk roads

The next section analyzes the sectoral budgetary allocations to assess consistency with the GPRS.

Total (Government and Donor) Sectoral Allocations

Figure 1: Functional Classification of Discretionary Expenditures



Source: 2002 Budget Statement

Overall Expenditure Allocations Reflect GPRS Priorities

A comparison of discretionary expenditure shares for 2001 and 2002 reveals fundamental expenditure shifts over the period. These shifts are consistent with the policy objectives and priorities of the Ghana

Poverty Reduction Strategy. The GPRS identifies health, education, agriculture and infrastructure as focal areas for pro-poor growth. In 2001 administration received the largest share (34.9 percent) of government discretionary expenditures. This share declined by 15.6 percentage points in the 2002 budget. Should the government stay true to these allocations, it would represent a dramatic shift in government expenditure patterns. The infrastructure and social services sectors also experienced higher relative shares reflecting an emphasis on feeder road construction, and greater investments in health and education. However, the relative share of allocations to the priority sector of agriculture, declined by 2.5 percentage points. The relative decline in donor contributions to agriculture accounts in part for this development.

Table 3: Functional Classification of Total Discretionary Expenditures (percent)

Sector	2001	2002	Difference
Administration	34.9%	19.8%	-15.1%
<i>Local Govt.</i>	3.3%	2.4%	-1.0%
<i>Finance</i>	2.2%	3.1%	0.9%
<i>GGS</i>	21.2%	6.9%	-14.3%
Economic Services	15.0%	18.0%	3.0%
Agriculture	7.2%	4.7%	-2.5%
Infrastructure	11.6%	17.2%	5.6%
Social Services	30.2%	34.7%	4.5%
<i>Education</i>	22.4%	24.1%	1.7%
<i>Health</i>	6.7%	9.4%	2.7%
Public Safety	7.9%	9.7%	1.7%
Contingency	0.4%	0.6%	0.2%

Sources: 2001 and 2002 Budget Statements

The argument could be made that what is required for increased agricultural productivity is improvements in complementary inputs such as better roads and communications systems, and the enforcement of property rights etc., However, the same argument can be made for other sectors such as education and health. For instance, improvements in the delivery of health and education services are not merely a result of developments in the health sector, but are linked to issues of food security, access to arable land, and level of education, to mention a few. Perhaps it would be helpful in subsequent budgets to devote a section to explaining the rationale for the sectoral shifts.

General Government Services on the Decline

The decline in General Government Services is a positive development since this category is essentially a contingency fund for unexpected expenditure outlays including wage increases. To the extent that it is essentially a contingency fund, it makes a mockery of the Contingency category. Secondly, the sheer magnitude of the GGS implies that the Ministry of Finance has difficulty in estimating or projecting future expenditures and consequently, over-budgets for such circumstances. In the 2002 Budget however, the share of GGS in total discretionary expenditures has declined markedly from 21 to 7 percent. This implies better forecasting of future expenditure needs. Preferably, GGS should either be included in the general contingency fund or, based on historical trends, it should be allocated as MDAs specific contingency funds.

Allocations Based on Functional Re-allocation of Expenditures

The existing mechanism for allocating MDA expenditures groups MDAs under five broad categories, and hence does not reflect in a precise manner, the functional uses of such funds. For instance, the

Ministry of Defense (MOD) falls under the category of Public Safety; however, not all of its expenditures are defense related. The 37 Military Hospital provides health services to both the civilian and non-civilian population at large. Hence, a true functional allocation would re-allocate the health component of the MODs expenditures to health services which fall under the broad category of Social Services. When this functional re-allocation is done for the 2002 Budget, the relative share of social services in the total budget increases from 32 to 36 percent. However, to arrive at a more accurate figure, this exercise must be repeated for all categories of expenditure. In other words, aspects of social services expenditure that fall in either of the other functional classifications, must be subtracted from social services and re-allocated to the appropriate functional categories.

Table 4: Broad Sector Shares Based on Functional Re-allocation of MDA Expenditures

	2001	2002	Change
Administration	26.7	17.10	-9.6
Economic Services	15.43	17.99	2.56
Infrastructure	17.09	18.79	1.7
Social Services	32.61	36.02	3.41
Public Safety	7.77	9.47	1.7
Contingency	0.39	0.62	0.23

Sector shares after adjusting for GGS and reallocating social/infrastructure service expenses to the social sector

Source: 2002 Budget Statement

Are GoG Allocation Priorities GPRS Compliant?

Even though total expenditure allocations are broadly consistent with the GPRS, it is important to isolate GoG expenditure allocations from donor allocations to determine whether one is not simply substituting for the other. If government is truly committed to the GPRS, then its priorities as expressed by its allocations should reflect this commitment. If on the other hand, GoG proceeds with business as usual, thereby leaving donors to pick up the slack, then government can be legitimately accused of lacking political will to implement the GPRS.

Table 5: Comparative Distribution of GoG Discretionary Funds

	2001^a	2002
Administration	41.5	25.8
<i>Local Govt</i>	2.4	1.7
<i>Finance</i>	2.9	4.0
<i>GGS</i>	27.8	7.9
Economic Services	5.3	6.8
<i>Agriculture</i>	1.4	2.3
Infrastructure	4.4	3.7
Social Services	37.2	47.4
<i>Education</i>	28.4	35.3
<i>Health</i>	7.4	10.3
Public Safety	11.0	15.3
<i>Contingency</i>	0.5	1.0
Total	100.00	100.00

^a Original 2001 budget figures

Source: 2002 Budget Statement

The 2002 sectoral allocations of GoG-only expenditures are largely consistent with the GPRS priorities. As a proportion of total GoG allocations, expenditures for the low priority administration sector declined markedly (from 41.5 percent to 25.8 percent) while social services expenditures rose substantially (from 37.2 percent to 47.4 percent). The only area of concern is the infrastructure sector, which experienced a 0.7 percentage point decline in its share of discretionary expenditure. Hence, donors are financing an increasing share of the infrastructure budget. This signals increased donor dependence in this area. The implication is that, our infrastructure development programmes are increasingly dependent on the availability of, and our access to, donor resources.

On the other hand, the share of GoG funds allocated to the high priority sector of agriculture almost doubled. It rose from 1.4 percent to 2.3 percent. This is an indication of government's commitment to agriculture, and declining donor dependency of the Ministry of Agriculture. However, the decline in the share of agriculture in total discretionary expenditures implies that the donor contribution to agriculture must have declined. In effect, the increase in government expenditure in this sector was not sufficient to offset the relative decline in donor allocations to agriculture. Hence, reduced donor dependence in this case is not necessarily desirable.

Are Donor Priorities GPRS Compliant?

Indeed a comparison between the 2001 and 2002 budgets reveals that while donor allocations for 2002 appear to be largely consistent with the priorities of the GPRS, expected allocations to the economic services sector in general and the Ministry of Agriculture in particular account for a lower proportion of the donor budget in 2002 compared

to 2001. For instance, the relative share of agriculture in donor discretionary budget declined 13.8 percentage points (from 22.3 percent to 8.5 percent). This decline contributed to the 4.8 percentage point decline in the share of donor allocations to economic services. Donor allocations to social services are expected to increase; however, the relative share of donor allocations to education is expected to remain unchanged in comparison to 2001.

It is important to emphasize that the level of donor funds for agriculture did not decline in absolute terms in 2002. However, in comparison to funds allocated to other sectors of the economy, donor allocations to agriculture declined.

Table 6: Distribution of Donor Funds 2001 vs. 2002

	2001	2002
Sector		
Administration	17.5	10.4
Local Govt.	5.7	3
Finance	0.5	2
GGS	3.8	5
Economic Services	40.2	35.4
Agriculture	22.3	8.5
Infrastructure	30.5	38.2
Social	11.8	15.0
<i>Education</i>	6.9	6.8
<i>Health</i>	4.9	8.0
Public Safety	0.0	1.0
Contingency	0.0	0.0

Source: 2002 Budget Statement

Donor allocations to the public safety sector are on the rise, from zero percent in 2001 to 1 percent of total donor expenditure in 2002. The Ministry of the Interior and the Ministry of Justice account for total donor expenditures in this sector.

Has Donor Dependency Increased?

The increased scope of donor expenditures which have now been extended to new areas such as public safety, and the perceived donor commitment to the priorities of the GPRS, raise the issue of the extent to which the budget is donor dependent. Dependency is measured by the proportion of the overall discretionary budget and each sector or sub-sector's budget that is funded by donors.

Table 7: Donor Dependency: Share of Each Sector's Budget Funded by Donors

	2001	2002
Administration	14%	21%
<i>Local Govt.</i>	48%	57%
<i>Finance</i>	5.9%	23%
<i>General Govt. Services</i>	5%	30%
Economic Services	74%	77%
<i>Agriculture</i>	86%	71%
Infrastructure	73%	87%
Social Services	11%	17%
<i>Education</i>	8%	11%
<i>Health</i>	20%	33%
Public Safety	0%	4%
Contingency	0%	0%
Donor Exp./Total Disc. Expe	20%	40%

Source: 2002 Budget Statement

Overall, the 2002 Budget is more dependent on donor funding than the 2001 budget. In 2001 twenty percent of the discretionary budget was financed by donors. By 2002, donor share had doubled to 40 percent.

Donor dependency is on the rise in all of the broad sectors of the economy including public safety. However dependency in the agricultural sector is on the decline. Infrastructure and economic services have the highest dependency ratios, while public safety has the lowest. However, although dependency in the economic services sector is on the rise, donors' share of the agriculture budget is on the decline; it fell from 86 percent to 71 percent between 2001 and 2002.

It is remarkable, that the dependency ratio of the high priority area of social services is relatively low. This is a positive trend since it shows autonomy in government's commitment to social services. With autonomy comes policy independence or leverage in shaping social sector policies.

Public Safety is Assuming Greater Donor Priority

In the 2001 budget donor contributions to public safety was negligible compared to GoG contributions. In 2002 however, donor funds are assuming a greater share of the public safety budget. This is also consistent with the view that improvements in public safety activities (e.g., national disaster management) have a positive impact on the welfare of the poor.

Growing Dependency in the Administration Sector?

Donors' contribution to the Administration sector's budget increased by 7 percentage points in spite of the sector's low priority in the GPRS.

The largest share of donor allocations to the administration sector was made to General Government Services (GGS), (a quasi contingency fund), the Ministry of Finance (17 percentage points) and the Ministry of Local Government (9 percentage points). To the extent that the GGS is used to supplement government's personal emolument (PE) allocations, donor contributions to GGS in effect imply donor contributions to PE. Could this reflect a new priority of donors?

What is the Probability that Promised Resources Will be Released to MDAs?

The impact of the expenditure shifts discussed above will however, not be realized unless measures are put in place to minimize delays in the disbursement of resources to MDAs, and also to minimize the discrepancy between the resources promised to MDAs and the resources MDAs actually receive.

In effect, the budget is silent on measures to address the implementation bottlenecks associated with the Medium Term Expenditure Framework. Key among these obstacles is poor estimates of the total resource envelope, and a persistent failure by government to honor its resource commitments to MDAs.

As of November 2001, actual GoG disbursements to MDAs were 18 percent less than promised expenditures. Of the five broad sectors, infrastructure experienced the greatest shortfall in GoG funding. The promised allocation to infrastructure was 27.3 percent lower than actual GoG allocation. Within the economic services sector, agriculture experienced a 37 percent shortfall in disbursement, while the priority sub-sectors of health and education suffered resource cut-backs of 15 and 19 percent respectively. Curiously enough, the resource allocation

to contingency increased by 390 percent.

The 2002 Budget reveals however, that by year-end 2002, allocations to social services and public safety were higher than planned. On the other hand, allocations to administration and infrastructure fell below planned expenditures. While this represents an improvement over the mid-year figures, it is important to note that the timing of disbursements is just as important if not more important than the volume of the releases. For instance, the seasonal nature of agricultural production suggests the need to fund extension services at appropriate times to ensure maximum benefit.

**Table 8: Actual vs. Promised GoG Discretionary Allocations:
2001 Budget(millions of cedis)**

Sector	Revised (A)	Planned (B)	%Difference (A-B) ¹	Change	Year-end Shortfall*
ADMINISTRATION	1,428,531.00	1,900,036.00	-24.8	-471,505.00	-48.0
ECONOMIC SERVICES	188,375.00	243,704.00	-22.7	-55,329.00	-6.8
AGRICULTURE	55613.7	88897.9	-37.4	-33,284.20	-
INFRASTRUCTURE	146,422.00	201,311.00	-27.3	-54,889.00	-7.4
SOCIAL SERVICES	1,453,674.8	1,704,189.00	-14.7	-250,514.20	12.0
EDUCATION	1,108,890.90	1,299,755.30	-14.7	-190,864.40	-
HEALTH	272,249.70	336,664.70	-19.1	-64,415.00	-
PUBLIC SAFETY	433,256.00	502,600.00	-13.8	-69,344.00	5.0
CONTINGENCY	122,593.00	25,000.00	390.4	97,593.00	-
TOTAL	3,772,850.00	4,576,840.00	-17.6	-803,990.00	-
ITEMS 1-4					
PE	2,395,903.00	2,887,596.80	-17.0	-491,693.80	
ADMIN	733,110.40	438,685.40	67.1	294,425.00	
SERVICES	165,772.10	361,195.60	-54.1	-195,423.50	
INVESTMENT	478,064.10	890,358.10	-46.3	-412,294.00	

Sources: Mid-Year Review of 2002 Budget, 2001 Budget Statement

¹ *Actual allocations only reflect actual allocations for the first quarter of 2001*

* *Percentage difference between year end actual and planned expenditures*

POVERTY RELATED EXPENDITURES

The 2002 Budget increased poverty-focused expenditures by 40 percent over the 2001 figures. Consequently, as a percentage of total expenditures, poverty-focused GoG expenditures increased from 17 percent to 21 percent between 2001 and 2002. This represents a 4.6 percentage point increase during the reference period. Basic education and primary health care account for a significant share of the increase. However, feeder roads (139 percent), rural electrification (88 percent) and agriculture (88 percent) are assuming greater importance in the poverty-focused budget.

The 2002 Budget figures indicate that government finances approximately 70 percent of the total poverty-focused expenditures. This represents a positive development because it signals government's leadership and commitment in this area. That said, substantive commitment can only truly be reflected in actual disbursements. Unfortunately data on disbursements for poverty-focused expenditures was not available at the time of writing this report.

Government expenditures in the poverty sectors tend to be concentrated in the provision of basic education. A little over fifty percent of government's poverty-focused expenditures is spent on basic education; primary health care is a distant second with 18 percent. On the other hand, with respect to donors, poverty-focused expenditures are more evenly distributed across the sectors. Although rural electrification accounts for the largest share of poverty-focused expenditures which are donor-funded, it accounts for less than a third of such expenditures (29 percent). Basic education (19 percent), rural water (17 percent) and primary health care (12 percent) all account for substantial shares of donor-funded poverty expenditure.

**Table 9: Government of Ghana's Poverty Related Expenditures
(in billion cedis unless otherwise specified)**

Sector	2001	2002	Absolute Change	% Change
Total Govt. Expenditure ¹	8908.1	9796.1	888	10%
Total Poverty Expenditure	1525.4	2128.2	602.8	40%
Poverty Expenditure as %age of Total Expenditure	17.1	21.7	4.6	
Education Sector	1504.2	1955.9	451.7	30%
Basic Education	789.6	1094.7	305.1	39%
Basic Education/Total Educ. Expenditure	52.5	56	3.5	
Basic Education/Total Govt. Expenditure	8.9	11.2	2.3	
HEALTH SECTOR	427	488.9	61.9	14%
PRIMARY HEALTH CARE	301.2	380.4	79.2	26%
Primary health Care/Total Health Expenditure (%)	70.5	77.8	7.3	
Primary health Care/Total Govt. Expenditure (%)	3.4	3.9	0.5	
AGRICULTURE	55.6	102.7	47.1	85%
POVERTY FOCUSED AGRICULTURE	43.7	82.7	39	89%
Poverty Focused Agric./Total Agric Expenditure (%)	78.6	80.6	2	
WORKS & HOUSING	54.3	59.4	5.1	9%
RURAL WATER	11.4	17.8	6.4	56%
Rural Water/Total Works and Housing (%)	21	30	9	
ROADS AND HIGHWAYS	302.9	571.9	269	89%
FEEDER ROADS	85.3	203.8	118.5	139%
Feeder Roads/Total Roads and Highways (%)	28.1	35.6	7.5	
ENERGY SECTOR	24.2	44.75	20.55	85%
RURAL ELECTRIFICATION	18	33.9	15.9	88%
Rural Electrification/Total Energy Exp. (%)	74.2	75.7	1.5	
OTHER POVERTY ²	276.2	314.9	38.7	14%
Other Poverty/Total Govt. Exp. (%)	3.1	3.2	0.1	

Sources: Budget and Annual Estimates 2001-2002

Notes: The 2001 figures are based on the Revised 2001 Budget.

¹ Total GoG payments do not include foreign debt amortisation and arrears clearance.

² Includes Social welfare, population management, governance, HIV/AIDS, etc.,

Table 10: POVERTY FOCUSED EXPENDITURE BY SOURCE
(in billion cedis)

Sector	GoG	Donor	Total	GoG	Donor	GoG % of Total	Donor % of Total
Basic Education	1094.7	193.9	1288.6	51%	19%	35%	6%
Primary Health Care	380.4	123	503.4	18%	12%	12%	4%
Poverty Focused Agriculture	82.7	82	164.7	4%	8%	3%	3%
Feeder Roads	203.8	68.9	272.7	10%	7%	7%	2%
Rural Water	17.8	174.3	192.1	1%	17%	1%	6%
Rural Electrification	33.9	286.9	320.8	2%	29%	1%	9%
Other Poverty	314.9	76.5	391.4	15%	8%	10%	2%
Total Poverty	2128.2	1005.5	3133.7	100%	100%	68%	32%

Are the 2002 Targets Too Conservative?

The 2002 Budget has been criticized on the grounds that the GDP growth target of 4.5 percent is too conservative. However, this may not be a valid criticism for the following reasons. First, historical trends show that the highest growth rate achieved during the 1995-2000 period is 4.7 percent (in 1998). This performance occurred during a period of macro-stability, and was driven by an atypical agricultural growth rate of 5.1 percent, which remarkably occurred against the backdrop of a drought. The average growth rate during this period was however merely 4.3 percent.

The year 2001 was largely devoted to macro-stabilization. However, the economy is not out of the woods yet. Inflation and interest rates remain in double digits and given the past history of macro-instability, it is not unrealistic to expect the private sector to adopt a wait and see attitude before responding positively to the favorable macro-trends. Hence, in the most optimistic scenario, one can expect at least a one-year lag between the achievement of macro-stability and a favorable private sector response. However, even in the best of scenarios, the pay-offs from the private sector response will not be immediate. For instance, agricultural productivity will require complementary public sector (or public private partnership) investments in feeder roads and storage facilities; such investments take too long to reach completion points.

Finally, there are lags between the introduction of a policy, the implementation of the policy, and the outputs and outcomes of the policy. These lags will undoubtedly delay its impact on the GDP. Finally, even if the delays could be kept to a minimum, the current vulnerability of the economy to external and domestic shocks suggests the need to

temper the ambitiousness of economic targets.

Conclusion

The 2002 Budget statement scores well at several levels. At the level of macroeconomic performance, it underscores the success of government policies in reducing macro-economic instability. Interest and inflation rates are on a downward trend; the exchange rate has stabilized; and the broad deficit has declined substantially from its level of 8.5 percent of GDP in 2000. Beyond macro-stabilization however, is the challenge of promoting growth in a manner that does not exacerbate income disparities. The GPRS provides a useful framework for pro-poor growth and so far, the budgetary allocations of government are generally consistent with the spirit of the GPRS. However, the relative decline in the agricultural sector's share of total resources deserves explanation. It will be recalled that the relative (not absolute) decline in allocations to the agricultural sector stems from reductions in donor support to the Ministry of Agriculture. What is the rationale for such reductions, and how does the rationale, if any, square with the GPRS priorities?

The analysis of the 2002 Budget did not however, examine the allocation of resources by type of expenditure (i.e., recurrent versus capital). Such an analysis would have provided insights into the relative share of investment in the budget, and an indication of the extent to which the growth aspects of the GPRS are being implemented.

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