GHANA

ASSESSING THE BENEFITS OF MULTI-DONOR BUDGET SUPPORT

FINAL REPORT

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Acronyms and Abbreviations

ADMD	Aid and Debt Management Division of MoFEP
AfDB	African Development Bank
APL	Adaptable Programme Loan (World Bank)
APR	Annual Progress Report (NDPC process)
BDI	Budget Deviation Index
BoG	Bank of Ghana
CAGD	Controller and Accountant-General's Department (GoG)
CF	Consolidated Fund (GoG)
CG	Consultative Group (meeting)
CHAG	Christian Health Association of Ghana
CoA	Chart of Accounts
CPI	Consumer Price Index
DFID	Department for International Development
DP	Development Partner(s)
EC	European Commission
ECF	Extended Credit Facility (IMF)
EGPRSC	Economic Governance and Poverty Reduction Support Credit
ERPFM	External Review of Public Financial Management
FM	Framework Memorandum (MDBS)
G-JAS	Ghana Joint Assistance Strategy
GAS	Ghana Audit Service
GBS	General Budget Support
GDP	Gross Domestic Product
GETF	Ghana Education Trust Fund (GoG Statutory Fund)
GoG	Government of Ghana
GPRS I and II	Growth and Poverty Reduction Strategy (GoG), 2003-2005 and 2006-2009

GSGDA	Ghana Shared Growth and Development Agenda
HIPC	Heavily Indebted Poor Countries Initiative
HIPC-AAP	Heavily Indebted Poor Countries - Assessment and Action Plan
HoC	Heads of Co-operation
ICOR	Incremental Capital-Output Ratio
IDA	International Development Association
IEG	Independent Evaluation Group (of the World Bank)
IMF	International Monetary Fund
IPPD2	Integrated Personnel and Payroll Database
MDA	Ministries/Departments/Agencies
MDBS	Multi-Donor Budget Support
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MoFEP	Ministry of Finance and Economic Planning
MMDA	Metropolitan, Municipal, and District Assemblies (GoG)
mn	million
NDPC	National Development Planning Commission (GoG)
NHIF	National Health Insurance Fund (GoG Statutory Fund)
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation of Economic Co-operation and Development
OECD-DAC	Organisation of Economic Co-operation and Development - Development Assistance Committee
PAC	Public Accounts Committee
PAF	Performance Assessment Framework
PEFA	Public Expenditure and Financial Management (Assessment)
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey

PFM	Public Financial Management
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Framework (IMF)
PRSC	Poverty Reduction Support Credit (World Bank)
SBS	Sector Budget Support
SIL	Sector Investment Loan
SME	Small and medium enterprise
SSA	Sub-Saharan Africa
SWG	Sector Working Group
TOR	Tema Oil Refinery
TORs	Terms of Reference

Overview

This paper provides an analysis and assessment of the benefits or otherwise that have been derived from the provision of MDBS. It is not an evaluation *per se* of MDBS (or even GBS) against its original objectives (i.e. to what extent MDBS has been "effective"), nor a normative analysis of what MDBS should have done (missed opportunities). It is based on a review of documentation and a short field visit to Ghana in early 2011.

As summarised in Box 1, the strongest benefits to MDBS have come in the areas of donor harmonisation and the aid agenda, and policy dialogue and the overall reform agenda. In the former, the most successful elements have been a more harmonised view of the policy agenda, greater efficiency for government in the policy dialogue, and an improved DP architecture for policy dialogue, and, through the relative predictability of MDBS, a greater increase in overall aid predictability.

In terms of the policy dialogue, the most significant benefits appear to be in enabling a broader voice for the DPs involved and a more balanced dialogue, stronger GoG-DP ownership of the reform programme, and the resulting increased accountability of government for the delivery of reforms. These appear to have enabled GoG to increase the pace of some planned reforms faster than they otherwise would have been undertaken. GoG officials also appear to appreciate the dialogue and the engagement with DPs on the reform programme.

The least direct benefits to MDBS were on the macroeconomic effects and the performance of sector indicators and of overall PFM. On the other hand, the policy dialogue around PFM may have helped leverage additional technical support and to facilitate the acceleration of some planned reforms. Non-MDBS resources appeared to play an important role in enabling GoG to make progress towards its sectoral indicators.

A number of implications may be drawn from the analysis that DFID may consider for taking its budget support forward, particularly in the light of an apparent declining trend in MDBS. Firstly, it would seem sensible for DFID to build on those areas where budget support has had the greatest success, namely in facilitating a policy dialogue, both overall and at sector level. Secondly, maintaining flexibility, in terms of the types of indicators used and the ability to accommodate, and adapt to, unforeseen circumstances has been a key to sustaining the MDBS group. Whilst the performance tranche has been important for GoG, the difficulty in defining measurable indicators has weakened its overall impact on performance. Thus, in future, DFID may wish to use the holistic assessment more, with less reliance on specific detailed indicators. Finally, in terms of service delivery to key sectors, it would make sense to place a greater focus on targetted support to sectors.

Box 1: Summary of MDBS Benefits

Potential benefit	Likely to be attributable to MDBS	Unlikely to be attributable to MDBS	Attribution not clear
Acceleration of pace of reforms			✔
Strengthened ownership of reform agenda	✔		
Broader donor voice, leading to more balanced dialogue	✔		
Reinforcement of IMF-led macro dialogue		✔	
Increased government accountability for reforms	✔		
Progress towards MDG targets		✔	
Progress towards GoG service delivery targets		✔	
Improved technical efficiency of sectoral public spending			✔
More efficient policy dialogue for GoG	✔		
Improved donor architecture for dialogue	✔		
More harmonised view of policy agenda	✔		
Increased share of aid reflected in budget, aligned to national priorities			✔
More predictable aid	✔		
Reduced transaction costs for DPs			✔
Increase in poverty-related expenditures		✔	
Improved budget credibility		✔	
Progress in PFM systems – GoG PFM reform programme	✔		
Progress in PFM systems – MDBS triggers			✔
Greater domestic accountability for budget processes	✔		
More rapid economic growth		✔	
Lower fiscal deficit		✔	
Lower inflation		✔	
Increased international reserves	✔		
Lower domestic debt and interest rates			✔
Lower external debt	✔ (small impact)		

1. Introduction

1.1 DFID has provided around UK£ 343.3 million[1] of General Budget Support (GBS)[2] to the Government of Ghana since 2003 through the framework of Multi-Donor Budget Support (MDBS), together with 10 other development partners.[3] Although an evaluation of MDBS was carried out in 2006,[4] there has been no comprehensive assessment of the relative benefits of this support since its start. DFID Ghana contracted an independent team[5] to carry out this assessment; as part of its work, the team visited Accra from 17-21 January 2011.[6] This final report incorporates the comments received, which the team gratefully acknowledges.

1.2. The objective of the assignment was to assess and quantify to the extent possible the benefits or otherwise that have been derived from the provision of MDBS. The assessment was not intended to be an evaluation *per se* of MDBS (or even GBS) against its original objectives (i.e. to what extent MDBS has been "effective"), nor a normative analysis of what MDBS should have done (missed opportunities). The results will feed into an economic appraisal being prepared separately.

1.3. The report comes at a time of some uncertainty about the future role of MDBS in Ghana. One Development Partner (DP) (the Netherlands) has pulled out of the group, citing domestic fiscal pressures, but there are broader questions about the current profile of external assistance in light of Ghana's growth prospects, substantial new oil revenues, its middle-income country status, the increasing role of non-OECD donors and the implications for the country's differently evolving needs for development.

1.4. The rest of the report sets out the background and context within which MDBS (and DFID's GBS) has operated and summarises the methodology used here to assess the benefits of MDBS (Section 2), whilst Section 3 contains the analytical substance of the assessment, identifying, and quantifying where possible, the benefits or otherwise of MDBS, based around each of the MDBS objectives. Finally, Section 4 brings together the strands of the analysis and provides concluding remarks. Two annexes provide greater analytical detail.

[1] Disbursements from 2003-2010 inclusive. Source: DFID.
[2] General Budget Support provided by DFID was referred to during much of the MDBS period as Poverty Reduction Budget Support.
[3] African Development Bank, Canada, Denmark, European Union, France, Germany, Japan, the Netherlands, Switzerland, UK, and the World Bank.
[4] Lawson, A, et al (2007), *Joint Evaluation of Multi-Donor Budget Support,* Final Report, ODI and CDD-Ghana.
[5] Comprising Mary Betley and John Burton, accompanied by Tom Allen, from the DFID Sierra Leone office.
[6] The team would like to express its gratitude to all those who gave so generously of their time and expertise.

2. Background and methodology

Overview of MDBS

2.1 According to the MDBS Framework Memorandum (FM),[7] the objectives of MDBS are six-fold: (i) to provide additional and more predictable budgetary resources to implement the Government of Ghana (GoG)'s Growth and Poverty Reduction Strategy (GPRS)[8] and finance fiscal actions aimed at reducing poverty, reaching the Millennium Development Goals (MDGs) and promoting growth; (ii) to increase aid effectiveness by harmonising DPs' policies and procedures, by minimising transaction costs and by fostering ownership, alignment, management for results and mutual accountability; (iii) to enhance the performance and accountability of the GoG's public financial management (PFM) systems; (iv) to facilitate the strengthening of institutional capacity for designing and executing development policies; (v) to promote an accelerated implementation of policy reforms and an enhanced performance in service delivery in order to reach development objectives; and (vi) to foster domestic accountability and transparency.

2.2 Table 1 provides a summary of MDBS inflows since 2003. Over the 2003-2010 period, MDBS disbursements represented on average just under 30% of total development assistance, and just under 10% of total government expenditures.[9] DFID's GBS represented around 20% of total MDBS on average over the period, 6% of development assistance, and 2% of total GoG expenditures.

Table 2.1: Total Multi-Donor Budget Support

	2003	2004	2005	2006	2007	2008	2009	2010	2011[2]
Commitments[1] (mn US$)[1]	281.4	302.2	285.3	372.4	319.6	347.9	601.1	451.5	457.7
Actual disbursements (mn US$)	277.9	309.0	281.9	312.2	316.6	368.1	525.2	403.9	N/A
of which: DFID (mn US$)	*40.8*	*76.4*	*45.8*	*68.8*	*77.9*	*81.0*	*70.2*	*72.9*	*58.9*
MDBS (actual) as % of dev. assistance	30.0%	26.7%	29.3%	33.0%	26.5%	25.7%	34.6%	23.4%	-
MDBS (actual) as % of gov't expend.	N/A	12.7%	10.2%	8.3%	7.7%	8.3%	9.3%	5.5%	-
DFID GBS (actual) as % of dev. assist.	*4.4%*	*6.6%*	*4.8%*	*7.3%*	*6.5%*	*5.7%*	*4.6%*	*4.2%*	-
DFID GBS (actual) as % of gov't expend.	*N/A*	*3.1%*	*1.7%*	*1.8%*	*1.9%*	*1.8%*	*1.2%*	*1.1%*	-

Note: 1. Data refer to pledges, as officially recorded by MoFEP. In some cases, the figures may differ from DPs' own data. DFID disbursements for 2009 for example were £50 mn, which are around 15% higher than shown here.

[7] Framework Memorandum between GoG and DPs: Multi-Donor Budget Support Programme, May 2008.
[8] GoG's medium-term development strategy
[9] Consolidated Fund only.

Table 2.1: Total Multi-Donor Budget Support
2. Disbursements as of April 2011
Sources: MoFEP, GAS (audited accounts), BoG (exchange rates)

Methodology for identifying benefits

2.3 One methodological approach would be to look at progress in each of the 5 areas of potential impact (e.g. donor harmonisation) and analyse the extent to which these benefits are attributable to MDBS. In effect, that is broadly the approach taken in recent economic appraisals (e.g. for DFID Malawi and DFID Uganda, and for AfDB). These studies have focused more on quantifying the benefits (direct and indirect) of GBS but with less of an explicit focus on the transmission mechanism of *how* GBS would be expected to lead to specific benefits. Their relative focus is in line with the objectives of an economic appraisal.

2.4 This paper takes a slightly different approach; it focuses on describing this transmission mechanism and then setting out the evidence, both qualitative and quantitative, for each of the areas of MDBS objectives.[10] The degree of attribution to MDBS is related to how strongly the evidence supports the transmission mechanism, and this depends in turn on how reliable are the data. Thus, caveats to the analysis are provided in each section.

2.5 The analysis takes as its starting point the principles as set out in the MDBS FM (see above), which are presented in Section 3 as strengthening: (A) policy dialogue and the dynamics of the overall reform agenda (MDBS objectives [iv] and [v] above); (B) service delivery and progress towards the Millennium Development Goals (MDGs) (MDBS objectives [i] and [v]); (C) donor harmonisation and aid effectiveness (MDBS objective [ii]); (D) Public Financial Management (PFM) and domestic accountability (MDBS objective [iii] and [vi]); and (E) macro-economic stability. In discussing attribution to MDBS of specific progress, this assessment does not assign MDBS benefits mechanistically (e.g. benefits in line with the proportion of MDBS in overall GoG expenditures). Furthermore, it does not attempt to identify specific attribution for DFID's support, as distinct from the wider MDBS.

[10] This is consistent with the specific objectives of an Economic Appraisal, which, although related, are different from the current study.

3. Analysis of MDBS Benefits

3.A. Policy Dialogue and Overall Reform Agenda

Acceleration in the pace of reforms

3.A.1. It has become part of mainstream thinking on development to view conditionality as ineffective if reforms are not owned by the government[11]. The implication of this paradigm is that one should not assume that budget support leads to reforms taking place that might not have taken place in the absence of budget support. The main difference would therefore be not the nature, but the pace, of reforms.

3.A.2. It seems intuitively plausible that the pace of reform was accelerated as a result of MDBS. The 2006 Evaluation however argued that there was no evidence that the pace of implementation was accelerated by pressure to achieve performance tranche triggers, concluding "*there was no evidence that the performance payment had led to the adoption of reforms, which would not have taken place in its absence or to the acceleration of reforms, which would have been implemented more slowly in its absence.*"[12]

3.A.3. In practice, it is very difficult to identify such evidence one way or the other, and the 2006 evaluation also quotes views from the Government of Ghana (GoG) that MDBS did lead to faster implementation of reforms than would otherwise have been the case. It is worth making the distinction between the direct effect of conditionality (and related to this the performance incentive effect of the variable tranche) and the overall indirect effect of the MDBS dialogue. Whilst the financial penalty was relatively small for the government, the reputational incentives for the government appear to have been taken very seriously by the Ministry of Finance and Economic Planning (MoFEP) at least. There was no direct link between failure to achieve a particular indicator at MDA level and the budget received by the MDA, but all those consulted indicated that ministries took their responsibilities seriously.

3.A.4. The World Bank's Independent Evaluation Group (IEG)'s evaluation of Ghana PRSCs[13] is somewhat more positive about the potential of MDBS to influence the pace of reforms. It is concluded that "*By and large, the PRSC/Multi-Donor Budget Support provides a symbol of a stable donor commitment and a useful, if limited, incentive to keep the reform process on track*." In countering ODI's concern that the government would rely only on easy to achieve triggers in the performance tranche (in order to maximize the probability that the tranche would be fully disbursed), the IEG consider the fact that the government is by no means unconstrained and that triggers are selected to satisfy donor concerns also.

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[11] See Tony Killick 2004, Development Policy Review, Politics, Evidence and the New Aid Agenda

[12] Lawson, et al (2007), op. cit.

[13] World Bank (2010), *Implementation and Completion and Results Report on a Programmatic Credit to the Republic of Ghana for a Poverty Reduction Support Credit*, Washington.

3.A.5. The IEG paper also discusses the fact that there are differences of view about the strictness with which triggers should have been judged. There was a tendency by some donors to reinterpret triggers where the spirit of the reform had been taken forward but the letter of a particular reform had not been achieved. Whilst some donors were happy to show flexibility, others were keener to be more contractual.

3.A.6. Whether or not MDBS led to a more rapid reform effort than the counter- factual, it is certainly not the case that the process could assure full implementation of agreed reforms. The following information collated from the MDBS reviews demonstrates significant slippage in implementation, even after the flexibility of interpretation adopted in some cases, and the fact that some of the triggers were achieved but only after a delay (Table 3.A.1).

Table 3.A.1: Performance Triggers 2006 – 2009

	2006	2007	2008	2009
Triggers	14	11	10	15
Met	8	10	6	11
%	57%	91%	60%	73%

Source: Collated from MDBS Aide-Memoires

3.A.7. The main sectors covered by the highest number of triggers were energy (8), health (7), and education (7). It is notable that health achieved all of the triggers, whilst education achieved only 57% and energy 50%. The fact that the energy triggers were not fully met is not surprising given the context, but the ODI evaluation in 2006 contrasted the strong performance of the education sector with the weak reform efforts in the health sector.

Creation of a robust process which could weather shocks

3.A.8. Whether or not the MDBS process led to an acceleration of reform, one of the clear benefits of the process does seem to have been the creation of a robust process for engagement. Whilst the relatively drastic fiscal slippage in 2008 was clearly inconsistent with a sustained and robust reform effort (although the fiscal problems coincided with the financial crisis and some natural shocks, they were largely internally caused by fiscal loosening in a pre election period).

3.A.9. The design of the MDBS process in Ghana seems to have been a good mix of consistency and adaptability. The 2006 ODI evaluation noted "*The MDBS framework has also proven relatively adaptable. Its Technical Annex has been updated on an annual basis to address specific operational concerns and the practice of a regular annual retreat has been part of the management process from the outset. This suggests willingness among the MDBS stakeholders to learn from experience and to adapt to the emerging requirements of the Ghanaian context.*"[14]

3.A.10. Examples of this adaptability include the 2007 shift in the operation of

[14] Lawson, et al, op cit.

the performance tranche so that it was consistent with in-year predictability; and the introduction of the "holistic" assessment so that performance was judged more broadly than the set of performance tranche triggers (itself a recommendation of the 2006 evaluation). The World Bank's move in 2009 to operate outside the PAF during a crisis period, together with its return to the process in 2011, can also be seen as a sign of pragmatic flexibility. The 2010 PRSC evaluation commends the Bank both for its flexibility in procedure to work with other donors, and cites the government's appreciation for the Bank's flexibility in the interpretation of performance against triggers.

3.A.11. On the other hand, there is remarkable consistency of approach throughout the MDBS period. The agenda that has been pursued through targets and triggers is very consistent from year to year. The performance tranche survived quite major challenges from the 2006 evaluation. The instrument provided a forum for dialogue to be sustained throughout the period from 2003, forming a bridge between the IMF programmes of the earlier and later period (see benefit 5 below). The IEG study summarises "*The Bank has also played an effective role in using the Consultative Group (CG) process, which it shares with the Government, to get a broader coordination of donor assistance with the PRSC/Multi-Donor Budget Support as the core instrument for macro-policy dialogue and for tackling cross-cutting issues.*"[15] The evidence base for the judgement is not explicit in the report, which also highlights some weaknesses in the Bank's role in harmonisation of MDBS with broader development assistance. However, the view as expressed by the IEG is an independent endorsement of the central importance of MDBS within the broader donor engagement process.

Strengthened ownership of the reform agenda

3.A.12. Another significant question in relation to the overall policy reform agenda is the extent to which MDBS design led to strong government ownership of the process. Here the picture may not be consistent throughout the period of budget support. For example, political engagement in MoFEP was said by some donor representatives to have been stronger in the previous government than the current one. The dialogue is now pursued at a more technocratic level, with possibly less political engagement than ideal, according to some participants in the process.

3.A.13. It is generally agreed that the government has had a position of leadership in the MDBS process, articulating the triggers and performance indictors. The IEG evaluation noted *"There is a real sense of ownership of triggers, and indications are that the Government will not accept triggers it does not believe it can achieve".*[16] Because the agenda was derived from the Ghana Poverty Reduction Strategies (i.e. GPRS I and II), a level of government ownership was assured (notwithstanding the fact that there was no approved poverty reduction strategy in place in 2010).[17] The IEG evaluation also noted that "*the Bank, along with the U.K. and the Dutch, has*

[15] World Bank (2010), op cit.
[16] World Bank (2010), op cit.
[17] The Ghana Shared Growth and Development Agenda was presented to the CG meeting in September 2010.

effectively maintained the need for Government ownership and leadership in the process."

3.A.14. One example of the government's asserting its ownership of the process was in relation to education sector input targets. In 2006 an input trigger was set to increase primary education expenditure to 33% of total resources. This was not met, and subsequently the agenda shifted to a focus on output or outcome targets around primary enrolment, rather than the share of total expenditure (not only an input target but one with which the government did not agree).[18] The government was concerned about the importance of higher levels of the education system, particularly as graduation rates increased from the primary system, creating pressure from parents to improve access to post-primary education.

3.A.15. An interesting ownership issue surrounds the performance tranche and the use of conditionality triggers. In the light of the 2006 ODI evaluation, it might have been anticipated that the government would push hard to move away from this type of framework. We are not aware of any evidence that this is the case, and indeed in our consultations we found to the contrary that the government welcomes the opportunity for a rigorous process which can strengthen internal accountability between MDAs and MoFEP.

Broad donor voice leading to a balanced dialogue

3.A.16. One of the benefits of an open dialogue including all of the major donors could be that the agenda is more balanced than one which is led by only a small number of large donors. In practice it is difficult to document persuasively either the extent of this benefit or the value of it, but it nevertheless seems an important attribute of the process in Ghana. The voice accorded to smaller donors and to observers in the MDBS fora is not constrained by the question of financial contribution.

3.A.17. One possible type of evidence is the broad nature of the policy triggers which include a mixture of policy/process actions and some outcome actions. The EC has been a particular champion of a focus on results within the MDG contract whilst the World Bank has traditionally favoured policy and process conditions within adjustment loans. The inclusion of both types of triggers is likely to have broadened and strengthened the development discourse – for example leading to pressure on MDAs to measure results so that triggers can be assessed.

3.A.18. Another important episode was the 2009 Economic Governance and Poverty Reduction Support Credit (EGPRSC) which had a somewhat narrower framework for conditionality than the full PAF. The prior actions for the second tranche for example did not include MDG related actions in the social sectors. The Bank were clearly focusing on a narrower set of issues

[18] This shift in agenda also reflected weaknesses in PFM to get resources to where they were planned (and GoG's awareness of this). The shift to output targets allowed GoG to use project resources directed to primary enrolment; this represented a more effective targetting of resources by GoG, recognising that these resources would not have been reflected in the CAGD data on actual expenditures.

which it viewed as essential to the circumstances in 2009. Whilst in no way suggesting that this was inappropriate, it does perhaps constitute some evidence that when donors act alone there is an opportunity for them to be selective in prioritisation, whereas when they act as a group and by consensus there is a likelihood that a broader agenda will be included.

3.A.19. It should also be acknowledged that there are potential downsides from this type of inclusive dialogue. Minor parties may be given disproportionate opportunity to influence the debate in the absence of clear voting procedures. The more parties are involved, the more difficult it is to conclude negotiations and reach consensus. There are references in both the IEG 2010 report and the ODI evaluation of 2006[19] to the very high transaction costs imposed on government in negotiating with the MDBS partners.

3.A.20. Similarly, the 2009 Mid-Term Review of the Ghana Joint Assistance Strategy (G-JAS) concluded: "*Multi-Donor Budget Support (MDBS) has emerged as a key platform for strategic dialogue, but the dialogue has become narrowly focused on the formulation of triggers, rather than strategic issues.*"[20] The review concluded that discussions, and related triggers and conditionality, around holistic sector assessments and cross-cutting issues would strengthen the MDBS process and the quality of the overall policy dialogue. This is very much in line with the 2006 ODI evaluation's recommendations.

Reinforcement of IMF-led Macro Dialogue

3.A.21. The role of the IMF is extremely important in relation to the debate on macro-economic issues. Although the MDBS triggers do not focus on macroeconomic management directly, it is nevertheless possible that the existence of the MDBS process helped to reinforce messages on the key macro issues.

3.A.22. Ghana had a PRGF programme during the period 2003-2006, and a new programme was approved in 2009. During the intervening period, macro indicators deteriorated sharply. The IMF has limited leverage for macro dialogue when there is no borrowing programme, and dialogue is restricted to regular Article IV consultations. The PRSC process therefore provided an opportunity for engagement on macro issues with the government throughout the period, and arguably contributed towards being in a position to bring the government back on track with the new programme and macro dialogue. Even when an IMF programme is in place, the more frequent meetings of the MDBS core group by staff based permanently in Ghana enables sustained dialogue to take place.

3.A.23. There are however, some serious question marks about the effectiveness of MDBS in relation to the macro agenda. The PAF triggers did not focus on core macro issues. There was no fully fledged macroeconomic

[19] World Bank (2010), and Lawson, et al (2007), op cit, respectively
[20] Cox, M, and MacCarthy, M (2009), *G-JAS Mid-Term Review*, ACET and Agulhas

sector working group (a macro sub-group of the Public Financial Management Sector Working Group (SWG) was by account of those consulted rather narrowly focused and not particularly strategic). There is rather limited expertise in donor offices in Ghana to engage effectively on macroeconomic management. More tellingly, one central DP portrayed the MDBS process as engaging at a technical level (arguably more likely to be said of the recent period, with much more political engagement in evidence in MoFEP in previous political times), whereas macroeconomic negotiations, particularly during a period of instability, need to be undertaken at Ministerial level. The channels for engagement would be directly with Ministers but could also involve Heads of Mission in lobbying the government of Ghana, the point being that MDBS was not seen as a relevant forum for such negotiations.

3.A.24. To the extent that a Head of Mission, such as the UK High Commissioner, is able to speak with greater authority and legitimacy because of her/his status as head of a major budget support donor, drawing on an adequate quantity and quality of expert advice, there is an indirect reinforcement of the macro dialogue arising out of the existing of the budget support. A similar point was made in the Mid-Term Review of G-JAS but in relation to dialogue through Heads of Co-operation (HOCs): "*In particular, there needs to be more concerted use of the HOCs to agree policy goals and negotiation strategies to take into the annual MDBS dialogue, Consultative Group meetings and other ad hoc fora as required.*"[21] A macro sub-group of the MDBS was established in 2010, which has informed high-level dialogue by the MDBS Core Group and Heads of Co-operation/Mission.

Accountability of the government for delivery on reforms

3.A.25. A further important benefit that the MDBS process may have delivered is improved accountability of the government for overall delivery of the reform process. The 2006 ODI evaluation considered this question in some detail and concluded that the accountability was imperfect in that it was primarily accountability to donors rather than a process which led to strengthened *domestic* accountability.

3.A.26. It was nevertheless recognised in that evaluation that the weakness of domestic systems (such as the Annual Progress Report on the GPRS and parliamentary and civil society engagement on the budget) were sufficiently severe that it was necessary for the MDBS process to substitute for domestic accountability through accountability to donors.

3.A.27. That evaluation made recommendations that the mechanisms of a performance tranche with triggers should be abandoned in favour of a more holistic dialogue about progress, with performance affecting not short term commitments but informing the longer term scaling up of MDBS. At the same time there should be a focus on strengthening processes for transparency and domestic accountability so that the government would be effectively held to account by more legitimate stakeholders than donors.

[21] Ibid.

3.A.28. MDBS has continued to foster improved domestic accountability, and the move to the introduction of the holistic assessment of progress can be viewed as in line with the 2006 evaluation's recommendations. The performance tranche, with the annual negotiations of triggers, did however continue. Whatever view one takes of this, it is still a very tangible way in which an interested party can track the progress of the reform agenda. This can be viewed as a clear success of the instrument in comparison with a likely counterfactual of sector and project support. One current member of the MDBS group noted that there was impressive civil society engagement in the 2010 MDBS Annual Review, following a first-time invitation to CSOs to attend. In 2010, the MDBS Co-Chairs made a presentation to Members of Parliament on MDBS, and established an MDBS Parliamentary platform for on-going dialogue.

3.B. Service Delivery and Progress Towards MDGs

3.B.1. The potential impact of MDBS on service delivery may be analysed through two channels: (i) on sectoral performance in terms of output indicators, including MDGs; and (ii) on the extent to which resources are used efficiently in the key sectors.

MDG and service delivery performance

3.B.2. The influence of MDBS on service delivery is based on the argument that MDBS provides additional financing (including above-the-line resources[22]) to the Consolidated Fund,[23] which, together with domestic resources, are intended to provide resources to meet GoG's (and MDBS partners') priorities (explicit or implicit) for service delivery, particularly in the social sectors for poverty reduction, and for achieving the MDGs. Thus, the analysis examines in absolute terms GoG's performance (progress in output indicators) towards meeting the MDGs and service delivery over the MDBS period. If this surmised transmission mechanism were effective, then one would expect to see an improvement in the indicators related to GoG priority areas. The question of attribution of this progress to MDBS is examined separately.

3.B.3. Table 3.B.1 shows progress in each of the MDGs. As shown, positive progress was demonstrated in the majority of social sector MDGs, with the biggest change occurring in the net primary enrolment rate, followed by a drop in the mortality rate from malaria in the under-fives. In many cases, positive progress was found in a relatively short period; however, the poor quality, or the lack, of data in many cases prevented a full comparison of indicators across the whole of the MDBS period). Only in the area of maternal mortality was there a deterioration in the indicator. A worsening of overall domestic debt in relation to GDP was also recorded.

[22] Above-the-line resources in practice are either grants or domestic revenues (i.e. resources that are not sourced by domestic or external borrowing)

[23] Notwithstanding the wider macro-fiscal effects of doing so.

Table 3.B.1: Progress on MDGs during MDBS period						
	Baseline	Pre/early-MDBS	Year	Latest MDBS	Year	% change MDBS period
MDG1						
% below extreme pov line	36.5%	N/A	-	18.2%	2006	N/A
% in overall poverty	51.7%	N/A	-	28.5%	2006	N/A
% children <5 who are malnourished	30.0%	18.0%	2006	13.9%	2008	N/A
MDG2						
Net primary enrolment rate	45.2%	55.6%	2004	88.5%	2009	59.2%
MDG3						
Female/male ratio in primary schools	92.0%	93.0%	2004	96.0%	2009	3.2%
Female/male ratio in sr sec schools	62.0%	88.0%	2004	92.0%	2008	4.5%
Female enrolment in sr sec schools	N/A	43.5%	2005	0.499	2006	14.7%
MDG4						
<5 mortality rate	119	111	2006	80	2008	-27.9%
MDG5						
Maternal mortality (institutional)	216	187	2004	170	2009	-9.1%
Maternal mortality (survey)	740	503	2005	580	2008	15.3%
MDG6						
National HIV prevalence rate	1.5%	3.1%	2004	2.9%	2009	-6.5%
<5 malaria case fatality	3.7%	3.6%	2004	1.9%	2008	-47.2%
MDG7						
Land area covered by forest('000 ha/annum)	7,448	5,517	2005	N/A	-	N/A
Annual rate of deforestation	1.8%	1.9%	2005	N/A	-	N/A
% of population with access to safe drinking water						
- urban	N/A	55.0%	2005	56.0%	2009	1.8%
- rural	N/A	52.0%	2004	59.0%	2009	13.4%
MDG8						
Public debt as % of GDP						
- Total	N/A	77.1%	2005	62.4%	2009	-19.1%
- Domestic	N/A	17.9%	2005	28.8%	2009	60.9%
- Foreign	N/A	59.2%	2005	33.6%	2009	-43.2%

Table 3.B.1: Progress on MDGs during MDBS period						
External debt service as % of G&S exports	7.8%	5.6%	2004	1.9%	2009	-66.1%
Note: 1. Shaded cells show areas where progress has been negative.						
Source: 2009 APR						

3.B.4. Through the GPRS, GoG has its own national performance standards. Table 3.B.2 illustrates progress in the human resource development sector, focusing on indicators which are distinct from those for MDGs. As with the MDGs, progress has been recorded in both education and health GPRS indicators. Progress has been greatest in the coverage of bed-nets for the under-fives, with the area of most challenge being in the percentage of trained teachers at primary level. However, in most cases, positive progress was made towards GPRS targets.

3.B.5. The majority of MDBS triggers in the social services are related to MDG or GPRS indicators. These are summarised in Annex 1.

Table 3.B.2: Progress on GPRS Indicators				
	Target 2009	2003	2009	% change MDBS period
Education				
Completion rate in primary education	88%	83%	86%	4%
Completion rate in junior secondary	70%	86%	75%	-13%
% of trained teachers - primary	82%	70.8% (2006)	58%	-18%
Health				
Vaccination coverage - Penta 3	90%	75% (2004)	89%	19%
Supervised deliveries	60%	37.8% (2004)	46%	21%
ITN coverage of <5	N/A	9.1% (2004)	41%	352%
Incidence of guinea worm	N/A	7,275	242	-97%
NHIS coverage of indigents	N/A	0.2% (2005)	6%	2,670%
Note: Highlighted cells indicate a deterioration in the indicator				
Sources: 2007, 2009 APRs				

3.B.6. MDBS did not appear to be the main source of additional funds for financing sectoral activities to meet MDGs and sectoral indicators, with the proportion of actual (as opposed to planned) spending from the Consolidated

Fund to these sectors remaining the same over the MDBS period.[24] This would suggest that non-CF resources (including targetted external programme support and project assistance) played an important role.

Technical efficiency of spending in key sectors

3.B.7. Technical efficiency, also known as operational efficiency, may be defined as the efficient and effective use of resources in delivering services which aim to meet government policy objectives; in other words, the combination of inputs that produces the same level of outputs at least cost. In practice, it typically refers to a balanced intra-sectoral allocation of inputs in such a way as to ensure, for example, that staff have sufficient materials to carry out their tasks effectively, and that sufficient provision is made to maintain capital investments.

3.B.8. The influence of MDBS on the technical efficiency of spending is through the process of allocating and using these additional resources to the Consolidated Fund efficiently to maximise desired sectoral outputs and results. If this transmission mechanism is operating effectively, then one would expect to see an improvement in the relative balance of inputs to produce the same sectoral outputs (for greater cost-efficiency). What this means in practice, is that spending on one particular input (e.g. wages) should not crowd out spending on other inputs.

3.B.9. Whether or not resources are able to be allocated and used efficiently depends on: (i) the extent to which in-year adjustments fall disproportionately on non-salary recurrent expenditures; and (ii) how predictably resources are provided during the year, and whether or not they are in line with the expected timing of such resource flows and with MDAs' own spending needs.

3.B.10. The relevant question to ask for Ghana is to what extent has spending efficiency increased over the MDBS period. There is no "standard" for determining the most efficient balance of inputs - these depend on detailed input-output analyses for each sector, based on the outputs (services) provided in any particular case. In order to measure the technical efficiency of spending in key sectors, the analysis in this paper examines the relative movements in the proportions of inputs over time; it would be expected that movements towards greater extremes of inputs may be considered to be inefficient. The analysis focuses on the spending agencies involved in delivering the MDGs, which are similar to those defined as being related to poverty-reduction.

3.B.11. Table 3.B.3 sets out the analysis of expenditures by line items overall. The figures cover all sources of funds (including externally-financed resources), and both discretionary (by MDAs) and non-discretionary expenditures (including Statutory Fund spending). With the exception of interest payments and capital expenditures, the other items showed consistency across the MDG period, but it should be noted that the share of

[24] See World Bank (2009), *2008/9 External Review of Public Financial Management*, Washington.

wages and salaries may be understated since some employee-related expenditures are covered by GoG's item 2 classification, which is shown in Table 3.B.3 under goods and services. Interest payments went down significantly following GoG's achievement of HIPC completion point in 2004.

3.B.12. In terms of the relative role of MDBS resources in relation to capital investment, GoG's policy was to concentrate on capital acquisition in order to underpin its pro-growth strategy (as stated in GPRSII), and this is reflected in the figures; however, since the majority of this capital investment was concentrated in energy[25] and infrastructure, this increase was unlikely to be linked to MDBS priorities. Reductions in subsidies to Tema Oil Refinery (TOR) and other state-owned enterprises represent a greater alignment with MDBS priorities (towards poverty-reducing services) and thus, in part, a benefit of MDBS. On the other hand, reductions in other subsidies are likely to have had a negative effect on poverty (and thus a mis-alignment with MDBS priorities) in the absence of matching and well-targeted transfers to poorer households. To the extent that utility subsidies increased in the wake of the 2007 energy crisis, this was likely to have crowded out non-wage expenditures, including goods and services and domestic investment. The same may be said of the continuing real growth in the wagebill.

Table 3.B.3: Actual Budgetary Allocations by Economic Classification

	% of Total Expenditures[1]						
	2003	2004	2005	2006	2007	2008	2009
Current expenditures	**78.8**	**71.3**	**67.6**	**63.9**	**61.6**	**61.9**	**65.2**
- Wages and salaries	*29.2*	*26.3*	*27.7*	*28.4*	*27.1*	*27.5*	*33.0*
- Goods and services[2]	*10.8*	*10.3*	*11.2*	*10.7*	*10.8*	*8.0*	*8.3*
- Interest payments	*21.5*	*13.1*	*11.6*	*9.8*	*8.4*	*8.4*	*13.7*
- Transfers and subsidies[3]	*17.2*	*21.7*	*17.1*	*15.0*	*15.3*	*18.0*	*10.3*
Capital expenditures	**21.2**	**28.6**	**32.4**	**36.1**	**38.5**	**38.2**	**34.8**

Note: 1. Central Government
2. Items 2 and 3 of GoG's economic classification, which includes some items related to staffing costs.
3. Transfers to households, subsidies to Tema Oil Refinery (phased out after 2005), and transfers to Statutory Funds
Source: MoFEP, IMF

3.B.13. Turning to more disaggregated data, Figures 3.B.1-3 set out the analysis of expenditures by line items for the relevant MDAs in the GPRS human development sector; the data refer to GoG discretionary spending and thus exclude Statutory Fund expenditure (e.g. GETF and NHIF), and externally-financed project, and targeted programme, spending. As shown, the overwhelming share of MDA discretionary spending is on personal emoluments, with spending on goods and services and investment together sharing the remaining 10%, in the case of education (in health, that figure had fallen to 5% by 2009). In sectors whose focus is on the delivery of services

[25] Partly in response to the energy crisis in 2007

(e.g. health and education), as opposed to sectors whose focus is more on administration and regulation (e.g. women and children), such skewed distributions of inputs is likely to be highly inefficient, particularly when services are supposed to be provided equally across all districts.[26]

3.B.14. Furthermore, data on in-year releases[27] indicate that adjustments during the year were made on the non-wage items, thus likely to affect spending efficiency negatively. In practice, this means that budget releases

Figure 3.B.1: Share of Education Expenditure by Line Item

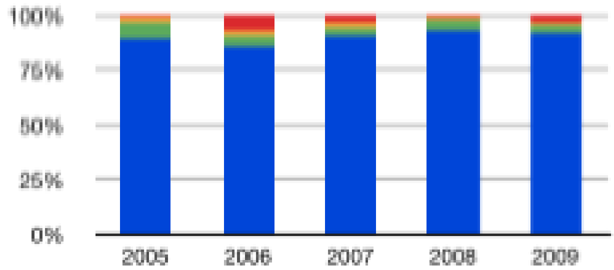


Figure 3.B.2: Health Expenditure

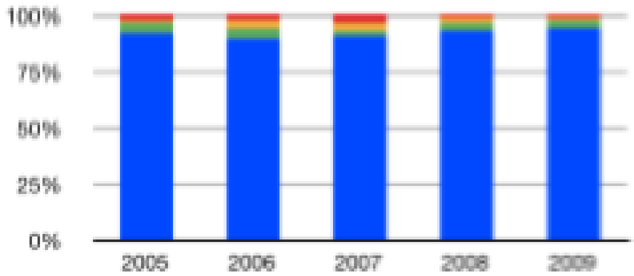
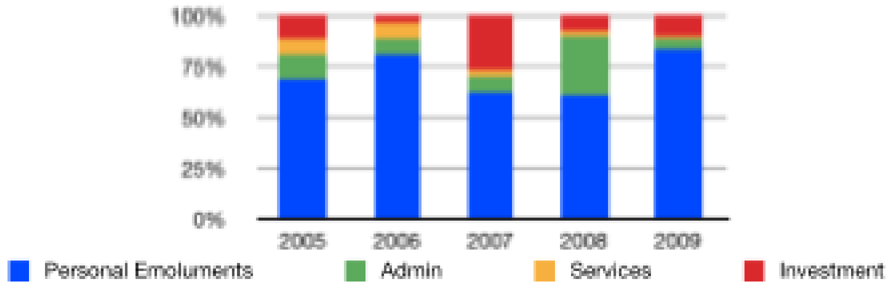


Figure 3.B.3: Social welfare, employment



for items 3 and 4 (services and investment) get both cut and significantly delayed[28], undermining MDAs' ability to plan and provide services efficiently. In practice, therefore, MDAs rely on non-discretionary (i.e. non Consolidated Fund) resources to carry out their programmes and activities.

[26] For example, analysis by UNICEF indicates that amount available to an individual district for social care amounts to double figures (i.e. in the tens of cedis per year).

[27] See, for example, World Bank, 2009 External Review of Public Financial Management.

[28] Ibid.

Caveats of analysis

3.B.15. A number of caveats are relevant. Firstly, the analysis above defines sectors in terms of Consolidated Fund expenditures by the relevant MDAs. This means that it is likely to understate the share of investment spending and overstate the share of personal emoluments. However, it is difficult to get comprehensive and consistent data disaggregated by line item for MDAs. On the other hand, examining Consolidated Fund data may be considered most relevant when comparing to MDBS.

3.B.16. Secondly, data for the service-oriented MDAs, particularly health and education, cover both central administration and service delivery. It is unlikely that the conclusions about the balance of inputs will be the same for the two types of institutions. Nevertheless, for these sectors, expenditures by the service delivery institutions outweigh those of the headquarters, so the fundamental conclusions of the analysis still stand.

3.B.17. Thirdly, expenditures entitled "investment" spending (item 4) are not in fact investment spending for development (e.g. infrastructure) but rather purchases of capital equipment (vehicles, etc.). In practice, development expenditures are largely externally financed, but these are not captured by CAGD (with the exception of non-targeted budget support). Thus, the shares above will understate actual investment but will be accurate as an indication of the squeeze on the allocation of MDBS resources on non-wage items.

3.B.18. Finally, CAGD data can be inconsistent within the same annual statement and contain errors; as an example, the data on spending by the Ministry of Women and Children were excluded because the the data in some cases appeared to be over-stated by a magnitude of 10, and it was not possible to verify the correct figures.

Attribution issues and conclusions

3.B.19. MDBS is unlikely to have had a significant influence on improving the efficiency of service delivery and the related performance indicators. The reason for the limited impact is the severe fragmentation of the budget process and the difficulty MoFEP faces in allocating Consolidated Fund resources to MDAs efficiently and effectively (i.e. beyond personal emoluments); this is combined with the evidence on poor budget credibility (see PFM section). In practice, MDAs rely heavily on externally-financed (project and targeted programme) resources, including non-state actors (e.g. CHAG[29] in the health sector), to meet performance objectives, such as the MDGs and GPRS indicators. At the same time, there is no evidence that the efficiency of public spending has improved, with an increased squeeze on non-wage spending over the period.

[29] Christian Health Association of Ghana

3.B.20. However, in the absence of MDBS, it is unlikely that relatively less attention and scrutiny would have been paid to service outputs and the achievement of national or international policy targets. It is not clear to what extent fewer resources would have been directed to these sectors, although it could be argued that the MDBS dialogue helped provide leverage to garner additional, targetted, resources, such as sector budget support.

3.C. Donor Harmonisation and Aid Effectiveness

Efficiency gains for government in policy dialogue

3.C.1. One of the undoubted major benefits of the MDBS process has been the strengthening of an inclusive dialogue between the government and the donors. The government was from the beginning keen to use the MDBS process as *the* forum for donor government dialogue. According to OECD figures, the share of total aid provided by the 11 MDBS donors was 84% over the period 2006 – 2009, with a further 11% from the MDBS observers (Table 3.C.1). Thus, it could be argued that the MDBS dialogue is relevant to 95% of total aid to Ghana to the extent that the dialogue within MDBS influences the broader aid relationship, which is plausible.

Table 3.C.1: Total ODA Disbursements by MDBS DPs

Donor Disbursements $ Mn			2006	2007	2008	2009	Avg
(All)			5734	1111	1293	1657	2449
(All)	DAC Countries, total		614	678	725	907	731
	MDBS Bilateral Countries	Canada	51	54	67	100	68
		Denmark	49	53	70	82	64
		France	32	52	56	63	51
		Germany	60	53	72	61	61
		Japan	44	46	54	65	52
		Netherlands	97	142	120	98	114
		Switzerland	14	14	8	12	12
		United Kingdom	171	152	151	157	158
	MDBS Multilateral	AfDB	12	10	9	5	9
		AfDF	417	20	92	102	157
		EU Institutions	74	85	118	167	111
		IDA	4069	240	274	249	1208
	MDBS All	Subtotal MDBS Donors	5089	923	1091	1160	2066
		Share MDBS Donors	89%	83%	84%	70%	84%
	MDBS Observers	Norway	1	1	1	2	1
		United States	68	71	80	151	92
		IMF	507			104	153
		UNDP	7	6	8	8	7
		UNICEF	5	8	9	8	7
		Subtotal MDBS Observers	587	86	98	273	261
		Share MDBS Observers	10%	8%	8%	16%	11%

Source OECD DAC

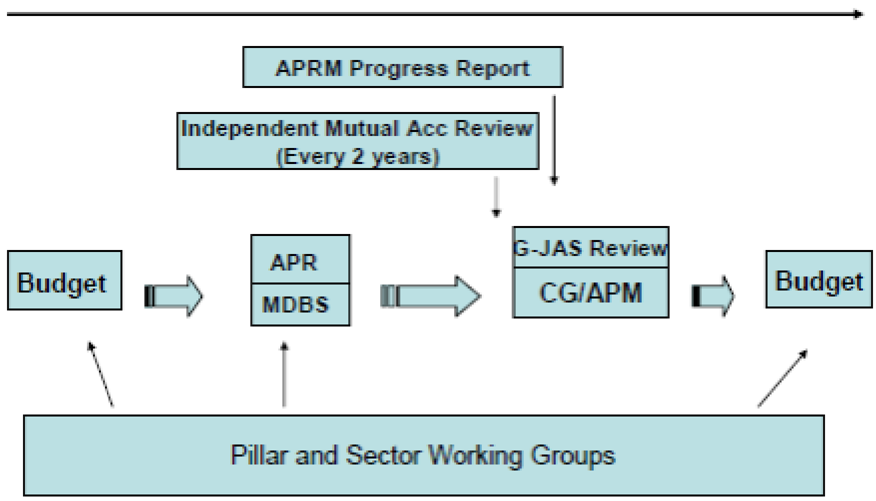
3.C.2. It would certainly overstate the case to argue that MDBS was the sole basis for policy dialogue between donors and government. A range of opportunities have been developed for such dialogue including around the poverty reduction strategy formulation and annual monitoring reports, consultative group meetings, the Ghana Joint Assistance Strategy, and the Consultative Group/Annual Partnership Meeting. The fact that non MDBS donors could be included in key dialogue through "observer" status, with no apparent loss of effective engagement, perhaps provides evidence that the architecture is not directly reliant on the instrument.

3.C.3. The Paris Agenda was launched in 2005 and the Accra Action Agenda in 2008 did provide a strong push towards donor harmonisation, so if Ghana did not have an MDBS group and related architecture in place, there would no doubt have been efforts to create such mechanisms. The Ghana Joint Assistance Strategy was agreed in 2007 and reviewed in 2009. The G-JAS recognises the importance of MDBS as a key framework for monitoring progress (alongside the Annual Progress Review on the Poverty Reduction Strategy). However, the only place that the APR is discussed is at the MDBS Annual Review. As things stand, the MDBS Annual Review and MDBS structure are central both to the aid architecture and to the Government-donor dialogue.

3.C.4. Figure 3.C.1 below is from the G-JAS. It illustrates that the “bedrock” of policy dialogue and donor harmonisation is the sector groups. These underpin an annual cycle of events, including the budget, the annual performance review of the poverty reduction strategy (e.g. GPRSI and II), the MDBS performance review, and the G-JAS review. Periodic events such as the Africa Peer Review and the Independent Mutual Accountability Review insert more strategic review and accountability into this framework.

3.C.5. The significance of MDBS is perhaps underplayed in the diagram below in that the sector working groups are particularly associated with the MDBS process. It is also true that the MDBS process has provided the most focused mechanism for reaching an agreement on what is to be done, and an assessment of whether this has been in fact achieved.

Figure 3.C.1: G-JAS Schematic of Partnership and Review Cycle



Source: G-JAS 2007

In the absence of budget support, there would arguably have been alternative mechanisms for donor harmonisation and policy dialogue, but it is reasonable to conclude that such mechanisms were created earlier than they would have been in the absence of budget support, resulting in more effective dialogue throughout the period. One DP representative has argued that MDBS is the only really functional mechanism for such donor dialogue, and it is not clear that, in its absence, other fora would have been as effective in delivering a secretariat function to HoCs and HoMs.

3.C.6. What was perhaps significant about the MDBS architecture, however, is that it was put in place relatively early (two years before the Paris Agenda was defined in 2005), and that the dialogue was highly specific. In more general discussions there is no opportunity to define specific targets and later assess the extent to which they have been met in a way with direct financial consequences. A key question is whether the government would have had sufficient incentive to create such architecture in the absence of MDBS,[30] or if it had been created whether it would have operated so consistently and effectively over a period of 7 years through a political transition.

3.C.7. It is also worth considering the sustainability of this benefit. Although the addition of an 11th donor (Japan) to the group was seen as a positive indication of the strength of the MDBS dialogue, the recent announcement by a major bilateral donor (Netherlands) to withdraw from the group is perhaps a sign of the likelihood of a declining importance in future. The withdrawal of the Netherlands, albeit for domestic reasons connected with budget cuts affecting the Dutch Aid programme, is a significant loss for the group. Not only was Netherlands the second largest bilateral donor for budget support (behind the UK), the Dutch government are now having to withdraw from a scheduled role as Co Chair of the MDBS donor group. The Netherlands' decision was presumably also a reflection of the economic and aid prospects for Ghana, as an emerging middle income oil producing nation, and hence a symptom of an emerging trend rather than simply a reflection of events outside the country.

The basis of improved donor architecture for dialogue

3.C.8. The first benefit considered above was the fact that MDBS provided for the government a clear efficiency gain in that it could engage with 90% of donors by value through a process which included 11 donors and 15 observers (the latter officially if not in practice). According to OECD figures there were 33 countries and agencies which provided ODA to Ghana over the period 2006 – 2009. However, a second important and related benefit of MDBS was that the process provided the basis for improved donor architecture in Ghana which has had a lasting benefit.

3.C.9. According to stakeholders consulted, early discussions about PAF triggers took place in the MDBS core group. This was inefficient as it is much better to engage with sectoral experts and the line ministry to effect judgements about sector targets and performance. Over time this has been gradually delegated to Sector Working Groups, who have reported up to the MDBS core group. The effectiveness of these groups seems to vary between sectors and over time. For example, MoFEP reported that the energy group was not effective and met infrequently. The education group was currently

[30] It has been argued by at least one DP that it would not

being revitalised with new sub-groups having been in decline. Many reported that the effectiveness of groups was very dependent on the quality and activity levels engendered by the DP co-chair, which could suggest a significant weakness in government ownership and leadership of these groups.

3.C.10. The 2007 G-JAS recognised that the SWGs were of mixed quality. The groups listed as being most effective were private sector development, transport, health, education, HIV/AIDS and decentralisation, with “emerging good practice” in financial sector reform, agriculture, water and sanitation, natural resource management, social protection and monitoring and evaluation. The correspondence between these sector working groups and the triggers in the PAF is striking. Over the period 2006 – 2009 the numbers of triggers and % met are shown in Table 3.C.2.

Table 3.C.2: Proportion of Triggers Met, by Sector

Sector with Triggers in PAF	Total Triggers	% Met
Agriculture	2	100%
Decentralisation	4	50%
Education	7	57%
Energy	8	50%
Governance	1	100%
Health	7	100%
Monitoring and Eval.	1	100%
Natural Resources	1	0%
Private Sector Development	2	50%
Public Sector Reform	3	67%
Social Protection	1	100%
Water	4	50%

Source: Collated from MDBS Aide Memoires

3.C.11. This is not to say that the performance of a sector group is perfectly correlated with either the weight given to the issue in MDBS dialogue, or the extent to which triggers are achieved. Education was reported as a more effective sector group in G-JAS, but its performance in meeting triggers, which have tended to be outcome related, has been relatively poor. Transport has not had any triggers for MDBS even though the SWG is strong. Energy is, according to an informed source in government, one of the less effective SWGs despite its priority in PAF triggers. The donor co-chairs of the SWGs can make an enormous difference to the level of activity and quality of engagement, irrespective of how the work relates to MDBS.

3.C.12. However, overall there is a considerable overlap between the structure of the SWGs and the structure of the MDBS triggers, and the SWG structure has been strengthened by the whole MDBS process leading to a real demand for sector planning and monitoring. As noted in the G-JAS, many sector issues require cross government action and through the provision of links to the MDBS core dialogue and the cross cutting agendas such as public sector reform, MDBS has provided a structure which is more effective than a range of sector dialogues working in isolation.

3.C.13. The 2009 G-JAS mid-term review also found evidence of a positive contribution from the MDBS architecture, noting, *"There are some good examples of harmonisation of conditionality. For example, some of the Sector Budget Support (SBS) programmes link the level of disbursement to a joint holistic assessment of progress under an agreed Performance Assessment Framework (PAF). The negotiation of the PAF and the joint assessment process provide opportunities for policy dialogue and promote managing for results."*[31]

A more harmonised donor view of the policy agenda

3.C.14. A further benefit of the MDBS process is that it has helped to forge a consensus amongst the key donors about the policy agenda. This has both a process element as well as a formal element. On the process side, all of the donors consulted highlighted the importance of the MDBS as a forum for exchange of information and ideas amongst donors, leading to an emerging consensus about the key issues of the day.

3.C.15. As significant is the formal endorsement of the MDBS group as a whole of the PAF triggers, the assessment of performance against individual triggers for the performance tranche, and the "holistic" assessment of performance against fundamental principles. What is perhaps most impressive is the way that the MDBS process is able to bridge the different approaches to conditionality from different donors. For example, whilst the World Bank has favoured policy or process conditions, the EC's MDG contract focuses on outcomes and results. The PAF process was able to accommodate both types of indicators in the triggers – over the period 2006 – 2009, 34 of the 50 triggers were related to policy actions and processes, 4 were related to inputs, and the remaining 12 were related to outputs and outcomes. The process also offered flexibility in that donors could select how much funding to put in the performance tranche.

3.C.16. One significant departure from the harmonisation of donor dialogue was in responding to the fiscal crisis of 2008 – 09. The World Bank approved a $300 million Development Policy Operation (Economic Governance and Poverty Reduction Credit) which was not approved on the basis of the MDBS PAF. This was because the World Bank felt that there was insufficient emphasis on structural reforms in the PAF, and the Bank felt that it needed the flexibility and autonomy to work outside the framework of the MDBS.

3.C.17. This can be viewed positively to the extent that, in exceptional circumstances, the Bank was unconstrained by the MDBS process and was able to mobilise flexible resources in response to the crisis. It can also be viewed positively in that the MDBS PAF framework accommodated the World Bank triggers in 2010 (resulting in a very late finalisation of the PAF that year) and will be fully integrated in 2011. On the other hand the fact that this happened does demonstrate a limitation in the extent to which the MDBS culture of working together was retained in difficult circumstances.

[31] Cox, M, and MacCarthy, M (2009), *G-JAS Mid-Term Review*, ACET and Agulhas, p. 10.

Increasing share of aid on budget and aligned to national priorities

3.C.18. One of the key benefits of MDBS as far as the government is concerned is the fact that, unlike most other types of assistance (apart from debt relief), the funds are available to the government to use flexibility in pursuit of national priorities. The funds are also fully programmed into the national budget process, which is a key ingredient for domestic accountability.

3.C.19. The ODI Evaluation of MDBS in 2006 noted that there was a missed opportunity to use the MDBS process to drive forward the objective of improving the extent to which external aid is shown in the national budget, with improved alignment. The report noted that "*the use of budget support was not designed as part of a wider strategy to restructure aid provision away from more traditional modalities",* and that *"there has been little attention to shifting resources on budget and to promoting reliance on national structures of democratic accountability*." The evaluation made a clear recommendation that a Ghana Aid Policy should be published. There has been progress on this, in that an aid policy has been produced (if not yet implemented), but this process was not pursued rapidly in following up the 2006 report. Donor consultations on the policy took place in December 2009, and the policy has yet to be formally adopted.

3.C.20. Whilst it is true to say that MDBS increased the share of aid on budget compared to a counter-factual of off budget donor projects, it is not particularly the case that there has been a strongly positive trend in budget support within the total of overseas aid. OECD DAC data for the period 2006 – 2010 for General Budget Support exclude the World Bank PRSC figures (see Table 3.C.3). The MDBS of the other members of the group accounts for 17% of ODA Disbursements in 2009, which is an important but certainly not dominant share of the total.

Table 3.C.3: DP General Budget Support[1]

Disbursements $ Millions			**2006**	**2007**	**2008**	**2009**	Avg
	Total Aid		**5,734**	**1,111**	**1,293**	**1,657**	
	GBS Share of Aid		**3%**	**16%**	**19%**	**17%**	
(All)	MDBS Total		173	182	249	280	221
	DAC Countries	Canada		0		20	5
		Denmark	6	6	11	13	9
		France	9	14	23	15	15
		Germany	11	14	13	14	13
		Japan			3	4	2
		Netherlands	18	34	35	35	31
		Switzerland	10	8	4	8	8
		United Kingdom[2]	61	81	82	78	76
	Multilateral	AfDF	32		47	46	32
		EU Institutions	25	25	29	47	31

Note: 1. Data exclude WB PRSC
2. Data differ from those in Table 3.A.1 to the extent that there are differences in the underlying sources

Source: OECD-DAC

Increased predictability of aid

3.C.21. MDBS has been viewed by the government as a relatively predictable form of aid compared to project aid, and the ODI Evaluation of 2006 provided some evidence to support this view. The performance tranche is inherently uncertain, in that the size of the tranche varies with the number of triggers that are realised, but the move in 2007 to base the tranche for the year t+1 on the performance assessment for t-1 means that the government is able to budget with certainty the amount of budget support[32]. Thus the MDBS review in the first half of 2011 will consider performance in 2010 and determine the commitment for 2012 well in advance of the budget for 2012, which will be finalised by November 2011.

3.C.22. Both of the PEFAs (2006 and 2009) and the 2006 evaluation[33] tracked variations between commitments and disbursements for budget support over the period 2003-2006. These were found to be within 10% for all years and within 5% for all but one year. The larger variation was caused by the fact that the performance tranche was not disbursed in full, given the outcomes achieved and actions taken.

3.C.23. The 2009 PEFA assessment rates Ghana as an A for budget support predictability on both the annual deviation and the in year timeliness. The PEFA report notes that predictability of aid is one of the stated objectives of the 2008 framework agreement on MDBS. The analysis provided for the year 2006-2008 (Table 3.C.4) indicates that there was a significant over disbursement in 2007, but an "A" score depends on there being no overall shortfall above 5%.

Table 3.C.4: Performance of Budget Support, 2006-2008

General Budget Support Performance for the Period 2006 to 2008 (Amounts in USD)

	2006		2007		2008	
	Forecast	Disbursed	Forecast	Disbursed	Forecast	Disbursed
MDBS	324.03	312.34	268.01	318.95	373.13	345.92
Annual Deviation (amount)	-11.69		50.94		-27.2109	
Annual Deviation (%)	-3.6%		19.0%		-7.3%	
Weighted Disbursement Delay	10.4%		9%		11%	
Sector Budget Support	40.28	36.24	70.56	60.51	149.14	159.79
Annual Deviation (amount)	(4.04)		(10.05)		10.65	
Annual Deviation (%)	-10%		-14%		7%	
Weighted Delay	10.0%		10%		15%	
Total	**364.31**	**348.58**	**338.57**	**379.46**	**522.27**	**505.71**
Annual Deviation (amount)	(15.73)		40.90		(16.56)	
Annual Deviation (%)	**-4.3%**		**12.1%**		**-3.2%**	
Weighted Delay	**10.4%**		**9.4%**		**12.2%**	

Source: Aid and Debt Management Division, MoFEP; Consultative Group for Ghana Annual Partnership Meeting, June 2008;Half Year External Aid Financing Performing Report, August 2008; DFID and EC

Note: 1. Data on forecasts differ from commitments (pledges) in Table 3.A.1. Data shown here for 2008 are preliminary; the final figures are shown in Table 3.A.1.

Source: 2009 PEFA

[32] See Lawson, et al, 2007. Op. Cit.
[33] Ibid

Reduced transaction costs for donors

3.C.24. Finally another potential saving from MDBS concerns transaction costs for donors. It is useful to distinguish between the *average* transaction cost from the *marginal* transaction cost. It is much more self-evident that budget support benefits from very low marginal costs because any one donor can readily increase the volume of budget support from one year to the next without incurring any significant additional transaction costs. This would certainly not be the case with project support where to increase project spend typically requires an expansion of specified activities, with particular transaction costs for design, procurement etc.

3.C.25. When it comes to average transaction costs, the question of whether there are savings should be resolved on the basis of evidence. It is certainly highly plausible (if difficult to generate numbers to prove) that there are considerable transaction cost savings for DPs against a counter-factual situation of disbursing the equivalent resources through projects, even if the distribution of such costs within government would have been different. The 2006 ODI Evaluation concluded that MDBS did have lower transaction costs than other instruments but relies on evidence from a PRSC review in 2005 which found that for every US$1 preparing a PRSC, $242 of credit was committed, compared with only $33 for Adaptable Programme Loans (APLs) or Sector Investment Loans (SILs).

3.C.26. This evidence is not updated in the 2010 Evaluation of PRSCs[34], but this report does make an important point about the transaction costs of harmonisation as opposed to the decision to use budget support rather than other instruments. There is no doubt that budget support does involve significant DP and recipient transaction costs in attending the regular meetings of sector working groups, negotiating triggers, and monitoring performance. Harmonised budget support has particularly high transaction costs for Bank staff but also other DPs because of the need to reach a consensus not just between the Bank and the government but also amongst a large group of DPs with different priorities and views. The report cites Ghana as an example of a country with a large MDBS group where transaction costs are particularly high, no doubt reflecting the unusually large donor group and the use of a formal assessment framework and loss of speed, despite measures such as a moratorium on donor missions in the 2 months prior to the budget finalisation. No doubt the high transaction cost associated with harmonisation contributed to the Bank's decision to work outside the MDBS framework during the period of high urgency (and pressure on staff) when the 2009 EGPRSC was being negotiated. Discussions with World Bank staff highlighted the fact that, from the Bank's perspective, other donors were slow to appreciate the scale of the macroeconomic crisis and to address it through a shift in the conditionality framework. Whilst with extensive dialogue, it is probable that consensus could have been achieved, but the Bank would have found it quicker and less time-consuming to speak only and directly with government interlocutors.

[34] World Bank Independent Evaluation Group 2010. Poverty Reduction Support Credits, An Evaluation of World Bank Support.

3.C.27. Whilst there will be many ways in which transaction costs of budget support and harmonisation can and should be reduced, to treat the dialogue itself as a "cost" rather than an opportunity for effective dialogue may be to miss the point of harmonised MDBS. The 2006 evaluation considered the focus on PAF triggers a missed opportunity for open and honest dialogue on key issues. A contrary view could be that, in order to "bite", the dialogues needs to be highly specific about priorities and actions, and the MDBS process was successful in providing a mechanism and a rationale for this dialogue.

3.D. Public Financial Management and Domestic Accountability

3.D.1. The analysis of the potential impact of MDBS on PFM looks at both the outcome of PFM (i.e. budgetary performance) and the systems and processes which drive the performance.

PFM Performance

PFM results

3.D.2. This section analyses the transmission mechanism from MDBS to improved PFM results. To the extent that MDBS financing (including above-the-line resources[35]) provides additional fiscal space[36] to enable the government to direct its resources more towards its policy priorities[37], this should be reflected in higher proportions of resources towards government's own priority areas (and MDBS partners, provided they are aligned) - in other words, greater *allocative efficiency* of spending. At the same time, with MDBS' greater emphasis (compared to that for domestic resources) on spending to obtain results, and arguably, value for money, one would expect to see a better mix of inputs to ensure higher levels of output for the same level of input[38] - as indicated in Section B above, this relates to *technical (operational) efficiency* of spending.

3.D.3. One of the objectives of general budget support is to support the government's own PFM systems, thereby seeking to ensure that the systems are sufficiently functional *inter alia* to enable resources to be directed to priority areas. These efforts would be expected to be supported technically through the MDBS dialogue. Assuming the baseline (initial) allocations were not fully aligned with both GoG's and DPs' priorities to begin with, then one would expect to see resources moving towards GoG/DPs' aligned policy priorities over the MDBS period. Whilst this relationship is not linear (e.g. there are likely to be smaller potential for resource shifts the closer is the alignment and larger potential for resource shifts the further away is the alignment), the Ghana case is likely to reflect significant potential for greater alignment. The resulting analytical questions to answer are: (i) what are the GoG/DPs' relative policy priorities; (ii) to what extent have resources moved towards these priority areas (allocative efficiency); and (iii) has spending in priority areas become more efficient (technical efficiency) (which was addressed in Section B).

Identifying policy priorities

3.D.4. Since it is not possible to observe Ghana's social welfare function directly, the government's national strategy and/or its strategic statements should act as a proxy for society's preferences (since the public can in theory

[35] Above-the-line resources in practice are either grants or domestic revenues (i.e. resources that are not sourced by domestic or external borrowing)
[36] Notwithstanding the macro-fiscal implications of doing so
[37] Bearing in mind the fungibility of MDBS resources
[38] or, conversely, lower levels of input to produce the same level of outputs

signal any mismatches through the ballot box). However, in practice, it is very difficult to discern detailed relative inter- and intra-sectoral priorities (trade-offs) using GPRS, as the priorities are not ranked, and the ballot box is a blunt instrument for expressing individual policy differences by the public. At the same time, informal institutional factors (e.g. civil servants' own preferences, e.g. for promoting policies which further their own careers) may have greater relevance; revealed preference (*ex post*) is often a much better indicator of a government's strategy. Broad GPRS-I stated priorities (2003-2005) included macroeconomic stabilisation, improving key poverty indicators, especially in health and education and in the most deprived areas, utilising public sector resources more efficiently, and strengthening economic governance. Broad stated sectoral priorities for GPRSII (2006-2009), as reflected in a restructuring of the budget documents (into broad functional categories), were: strengthening private sector competitiveness, supporting human resource development, and promoting good governance and civic responsibility, with the explicit aim of doubling the size of the economy and raising Ghana's per capita income to middle income level by 2015 (which it appears on track to achieve).

3.D.5. An important objective of MDBS for DPs is poverty reduction, and it is fair to deduce that poverty reduction is an expenditure objective also for GoG as it appears as such in each of the Minister of Finance's Budget Statements to Parliament.

Measuring PFM outcomes as against policy priorities

3.D.6. PFM results are conventionally measured[39] in relation to: (i) aggregate fiscal discipline; (ii) allocative efficiency; and (iii) technical (operational) efficiency. The first of these is dealt with in the discussion of macro-fiscal effects (Section E below), the second is covered in this section, and the third is covered in Section B. Additionally, the credibility of the budget, in terms of actual expenditures, is a useful fourth measure.

Allocative efficiency

3.D.7. Allocative efficiency[40] is commonly assessed dynamically, i.e. through analyses of movements in resource allocations over time to assess if these movements (e.g. in inter-sectoral allocations) are consistent with the government's overall strategy. Given that a key objective of the GPRS is poverty reduction, the current analysis uses the output measure of shifts in actual (as opposed to planned) "pro-poor" expenditures. Thus, the results examine the evolution between 2004 and 2009 inclusive[41] of the proportion of total GoG expenditures represented by expenditures on activities classified as poverty-reducing [42], as well as in relation to GDP (as a proxy for real

[39] See World Bank (1998), Public Expenditure Management Handbook, Washington: The World Bank.
[40] Formally, defined as the allocation of budgetary resources (planned and actual) in accordance with the government's (reflecting the public's) strategic priorities. See World Bank (1998), ibid.
[41] The latest year of actual expenditure data available
[42] Understood as activities which are believed to contribute to a reduction in the overall poverty rate. Commonly referred to as "pro-poor". Specifically, poverty-related expenditures include the following domestically-financed expenditures from the Appropriation Act: (i) Education sector – non-formal education, pre-school, basic education,

expenditures). In terms of dynamics, this analysis assumes that a positive MDBS effect would result in a higher proportion of total expenditures over time (i.e. increasing trend) directed to pro-poor activities.

3.D.8. Table 3.D.1 provides a summary of the results of the analysis (see also Figure 3.D.1). As shown, there is no discernible pattern on the evolution of the share of total actual expenditures. As a share of GDP, pro-poor expenditures ranged from 4.8% in 2004 to 6.4% in 2008.[43] *Ceteris paribus*, this analysis would imply that GoG has not in practice used the additional fiscal space consistently to facilitate greater resource flows towards pro-poor activities. What is more likely is that it has used non-MDBS resources, including externally-financed project funds, to direct resources to poverty-reducing activities, possibly because, in practice, the majority of Consolidated Fund expenditures are used for wage-related expenditures.

Table 3.D.1: Poverty-Reducing Expenditures						
(GHC mn unless otherwise specified)	2004	2005	2006	2007	2008	2009
Total expenditures[1]	**2,196**	**2,516**	**3,489**	**3,964**	**5,385**	**8,081**
Of which:						
Pro-poor expenditures - MDAs only	380.5	493.4	618.6	711.8	1,108.7	1,274.5
HIPC	162.9	195.4	199.8	183.7	187.5	549.9
Pro-poor (MDAs only) as % of total exp	17.3%	19.6%	17.7%	18.0%	20.6%	15.8%
Pro-poor (MDAs+HIPC) as % of total exp	24.7%	27.4%	23.5%	22.6%	24.1%	22.6%
Pro-poor (MDAs only) as % of GDP	4.8%	5.1%	5.4%	5.1%	6.4%	5.9%
Note: 1. Total Consolidated Fund expenditures, including both discretionary and non-discretionary expenditures						
Source: Audited Accounts, Ghana Audit Service						

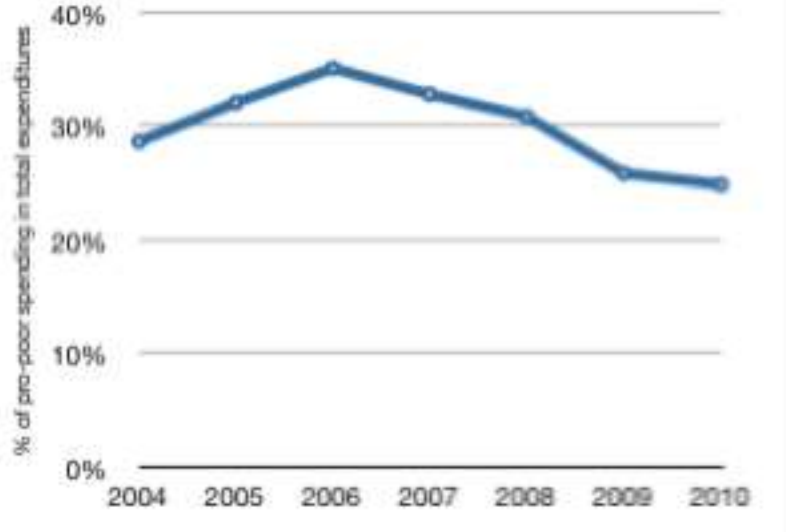
technical & vocational education, teacher training, and education management and supervision, plus a fraction of the expenditures on special education (90%), general administration (50%); (ii) Health sector – district health services, regional public health expenditures, oncology expenditures, funding for the international red cross, and health learning materials, plus a fraction of the expenditures on regional health support services (50%), psychiatric hospital (50%), regional clinical care (50%), health training institutions (70%), institutional care (60%); (iii) Agriculture sector – crop services provided through the regional agriculture development units and projects funded by IDA; (iv) Works and Housing sector – the community water and sanitation, rural housing and rural hydrological drainage; (v) Roads and Transport sector – feeder roads and road safety; (vi) Energy sector – rural electrification programs; and (vii) Other sectors – national vocational training, social welfare programs and others. Source: World Bank (2007), *External Review of Public Financial Management*, Washington.

[43] These data are likely to understate actual expenditures on a commitment basis in 2008 and 2009 due to evidence of growing expenditure arrears.

Source: Budget Statements. Data show appropriated poverty-reducing expenditures as % of overall appropriations excl some non-disc resources; this explains the differences in the shares of planned vs. actual expenditures in

3.D.9. A number of important caveats are relevant. In order to ensure consistency in data sources, official data on actual expenditures from GAS' audited accounts were used. However, these data include only Consolidated Fund expenditures (i.e. domestic expenditures and budget support[44]), and are thus likely to underestimate the amount of actual pro-poor expenditures.[45] This is particularly the case since there is likely to be a pro-poor bias in external expenditures (especially those which are project-based, since these are more likely to reflect DPs' priorities (which are generally more pro-poor). On the other hand, for comparative purposes, it is appropriate to base an analysis of MDBS on expenditure from the Consolidated Fund.

Figure 3.D.1: Planned share of pro-poor spending



3.D.10. Pro-poor expenditures are designated according to GoG-DP jointly-identified lines of expenditures, along broad categories in GoG's expenditure classification, such as primary health care, basic education, and feeder roads[46]. It is assumed that activities in these broad categories all relate directly to poverty-reduction, which may or may not be the case. At any rate, the definition of which activities assist in reducing poverty, and the efficiency of government spending on these activities, is also not necessarily clear. In addition, the definition of poverty-reducing expenditures has remained static, thereby potentially introducing distortions in the measure as the mix of activities undertaken has changed over time.

3.D.11. At the same time, the analysis assumes that all pro-poor government activity involves public spending, which is not necessarily the case. Some activities, such as reforming tax legislation or designing a more effective benefit targeting mechanism, may have a positive effect on reducing poverty

[44] As defined by OECD-DAC as Channel 1.
[45] Excluded expenditures include non-budget support externally-financed expenditures, retained IGFs, and Statutory Funds.
[46] Specifics provided in earlier footnote.

but do not, in the activities themselves, involve significant amounts of public money.

3.D.12. Finally, the analysis does not distinguish amongst expenditure items, e.g. between wages and salaries (item 1), and other items, such as goods and services (covering items 3 and 4). It could be argued that wages and salaries do not contribute directly to poverty reducing activities. However, effective poverty-reducing activities require an appropriate mix of inputs, including labour. At the same time, providing employment and higher wages to public sector workers may contribute directly to poverty reduction, particularly those working in areas with limited alternative employment opportunities.

Budget credibility

3.D.13. Credibility of the budget refers to the extent to which planned (budgeted) expenditures are spent as originally intended, either in aggregate (total expenditures) or as measured in terms of line items, e.g. wages and salaries, goods and services, etc., and/or by MDA. Actual expenditures may differ from planned ones due to changed in-year priorities, unexpected expenditure needs (e.g. emergencies), expenditure re-prioritisations due to lower-than-expected revenues, and/or weaknesses in the budget execution process. Poor budget credibility reduces both allocative and technical efficiency.

3.D.14. A common measure of budget credibility is the Budget Deviation Index (BDI), which measures the sum of the absolute values of the difference between the approved budget and the executed budget, expressed as a percentage of the approved budget. The extent of expenditure arrears needs to be taken into account in the interpretation of budget credibility. As a result of analyses undertaken as part of the PEFA assessments, it is possible to review budget credibility (including expenditure arrears) since 2003.

3.D.15. Table 3.D.2 provides a summary of the results of the analysis. For most of the MDBS period, in aggregate, the planned budget has given a reasonable guide to the actual level of expenditures. However, planned MDA budgets have been significantly undermined in practice. Separate analyses[47] indicate a number of causes for this poor disaggregated budget credibility, including the practice of finalising wage negotiations in the first quarter of the budget year for which the wages apply.

3.D.16. At the same time, budget credibility has deteriorated in recent years, both in aggregate, and across MDAs, accompanying the increase in the budget deficit since 2006. Thus, the focus on PFM as part of the MDBS dialogue has not had a positive effect on improving budget credibility.

Table 3.D.2: Deviations between Appropriated Budget and Actual Expenditure

	2003	2004	2005	2006	2007	2008	2009

[47] See World Bank (2007), *External Review of Public Financial Management*, Washington.

Table 3.D.2: Deviations between Appropriated Budget and Actual Expenditure							
Aggregate[1]	2.3%	12.4%	8.0%	8.6%	14.1%	39.2%	-
By MDA[2]	15.8%	25.9%	33.3%	18.8%	20.4%	42.8%	-

Notes: 1. Percentage difference between total budgeted and actual primary (excluding interest payments and donor-funded project) expenditures

2 The sum of the absolute value of difference between budgeted and actual primary expenditures for individual MDAs, expressed as a percentage of total budgeted primary expenditures.

Other

3.D.17. Greater predictability of MDBS, relative to domestic sources of finance from the Consolidated Fund, could provide an incentive (and possibility) for MDAs to use resources more in line with joint GoG-DP priorities. Examining the entire MDBS period, Table 3.D.3 indicates that MDBS resource flows were relatively predictable (eligible for an A score in the PEFA assessment) given a stable budget deficit; as soon as budgetary pressures mounted, expected MDBS flows became less predictable. It is thus not possible to isolate the effects of the relatively greater predictability of MDBS resource flows from the effects of fiscal weaknesses overall.

Table 3.D.3: Predictability of MDBS flows, 2003-2009							
US$ mn	2003	2004	2005	2006	2007	2008	2009
Projections	281	302	285	324	268	373	601
Outturns	278	309	282	312	319	346	525
% Difference	-1.1%	2.3%	-1.2%	-3.6%	19.0%	-7.3%	-12.6%

Source: 2006 and 2009 PEFA Assessments

Attribution issues

3.D.18. Controlling for weaknesses in budget execution and focusing instead on GoG planned allocations (which arguably reflect their intentions), to what extent can MDBS claim (partial) responsibility for planned (as opposed to actual) increases in spending on poverty-reducing activities between 2003 and 2006? The main difficulty with attribution, common across all aspects of this report's analyses, is the absence of an observable and measurable counterfactual. It would be easier to assess attribution if it were possible to compare the trend line for the proportion of total expenditures represented by pro-poor expenditures since MDBS began from that during the period pre-MDBS. However, data on pro-poor expenditures have only been collected since 2003/4, coinciding with the MDBS period. It is likely that MDBS led directly to measuring pro-poor expenditures themselves (since it is believed doing so formed part of the joint DP-Government policy dialogue, though without concrete available evidence).

3.D.19. It could be argued that the preparation of the GPRS document itself emerged as a priority as a result of the joint GoG-DP policy dialogue. In preparing the GPRS documents, it seems clear that the Government were committed to poverty reduction as part of its overall strategy. However, without an appropriate counterfactual, it is difficult to suggest the extent to which MDBS was responsible for contributing to, or accelerating, this commitment.

3.D.20. Finally, in terms of budget credibility, the extent to which MDBS is responsible for failing to improve it is hard to determine. Given that poor budget credibility reflects weaknesses in both budget planning and budget execution, as well as potentially extra-budgetary political influences, improving budget credibility involves complex processes and political changes. It may be argued that GoG's budget reform measures, working together and if successful, would result in improved budget credibility as a by-product rather than as the objective of the reforms *per se*.

Conclusions - PFM performance

3.D.21. Does the evidence suggest that MDBS has helped to improve PFM results? Given that neither allocative efficiency nor budget credibility improved, and in some cases actually worsened, during the MDBS period (similarly with technical efficiency), and, on the basis of the specific evidence presented here, the answer is probably not much. There is no clear evidence to suggest that the MDBS resources were used to leverage a shift in inter-sectoral resources towards joint GoG-DP priority spending areas; indeed, on the basis of planned allocations, as far as GoG was concerned, there appeared to be a shift away from DP priority areas in the latter MDBS period, which coincided with an energy crisis and the pre-election phase of the political cycle. Any likely positive results from MDBS were undermined both by structural PFM weaknesses and by political influences, which prevented resources from being released and spent as planned.

3.D.22. On the other hand, in the absence of MDBS, there could arguably have been fewer resources directed at poverty-reducing activities. One could compare the pre-2007 and the 2007-onward trends in allocations as an indicator of this; it could be argued that, from 2007, domestic political priorities trumped DP ones, given the energy crisis and the coming elections. In addition, the absence of MDBS resources could have led to fewer additional leveraged resources.

PFM Systems and Processes

Analysing the effects of MDBS on PFM systems and processes

3.D.23. How could MDBS seek to have an influence on improved PFM systems and processes? The transmission mechanism is based on the assumption that GoG has its PFM strategic reform plan in place, which is either explicit or implicit (through revealed preferences). MDBS resources, particularly to the extent that they are above-the-line, could provide additional fiscal space to help it achieve the measures in the plan. At the same time, GoG could use the policy dialogue as leverage for additional technical assistance to support its PFM reform measures. From the DP side, the targets and triggers which form part of the MDBS dialogue provide an incentive for progress by GoG in specified PFM areas, which are intended to be also a priority for GoG. One test of this is the extent to which PFM targets and triggers were in line with the government's PFM strategic plan.

3.D.24. Assuming that they were and if the above proposition is correct, then one would expect to see: (i) progress in PFM systems and processes in areas linked to GoG's priority reforms (as given in its strategic plan); and (ii) progress in areas which are related to MDBS triggers. The secondary question, particularly regarding progress linked to areas in GoG's strategic plan, becomes: to what extent can MDBS claim responsibility for putting these issues on the (PFM reform) table and/or accelerating progress towards them?

PFM reform progress - GoG's strategic plan

3.D.25. Firstly, to what extent has progress been made in terms of GoG's strategic PFM priorities? In this analysis, progress was measured in terms of HIPC and PEFA scores against the priority areas. This analysis takes as its evidence the assessment on the budget process from the four PFM assessments that span the period from 2001 through 2009 (HIPC 2001, HIPC 2004, PEFA 2006 and PEFA 2009), which, conveniently, cover a significant proportion of the period covered by MDBS. The analysis focuses on the high-level indicators (i.e. the 28 PEFA main indicators), and particularly on those which showed movement (either positive or negative) over time. It is to be noted that PEFA in many cases covers the period 2003-2009 (since many of the indicators are based on a 3-year period), which represents the whole of the MDBS period and thus it is possible to compare results over time; the HIPC assessments cover the period leading up to MDBS (2001-2003), but, whilst there is crossover between HIPC and PEFA, it would be misleading to compare the results across the two methodologies over time.

3.D.26. Box 3.D.1 provides an analysis of progress against GoG's PFM strategic plan areas, as measured by PEFA results.

Box 3.D.1: GoG PFM Strategic Reform Areas[1] and Related PEFA results, 2003-2009[2]

GoG PFM Strategy Focal Areas/Key Objectives	**Relevant PEFA indicators**	**2006 PEFA Score[3]**	**2009 PEFA Score[3]**	**Changes in PEFA scores, 2006-2009[4]**
Fiscal policy management – macro stability - Formulate and implement sound macro-economic policies	PI-14 (linking/integrating revenue systems) PI-16 (improving monitoring of expenditure commitments) PI-8 (consolidating of fiscal data) PI-23 (PETS) PI-2 (more accurate wagebill)	D (23) C (2, 8,14,16)	D+ (8,16) C (2,14) B (23)	+ : 1 N/c: 2 - : 2
Strengthen budget formulation/preparation - Allocate and manage financial resources efficiently, effectively and rationally	PI-12 (improving MTEF through capacity development) PI-8 (harmonisation of central/local classification systems) PI-9 (facilitating SOE inputs into the budget) PI-5 (budget classification)	C (8,9,12) B (5)	D+ (8,9) C (5) C+ (12)	+ : 1 N/c : 0 - : 3
Strengthen budget implementation - Improve public expenditure management and reporting	PI-24 (budget reporting) PI-16 (cash releases) D-2 (donor harmonisation) PI-3 (variance between planned and actual revenues) PI-15 (inventory control for revenue agencies) PI-22 (bank reconciliation) PI-7 (comprehensiveness of unreported government operations)	C (15,16,22,D2) C+ (24) A (3,7)	D+ (16) C (22) C+ (15,24,D2) B (3) A (7)	+ : 2 N/c : 3 - : 2

Box 3.D.1: GoG PFM Strategic Reform Areas[1] and Related PEFA results, 2003-2009[2]				
GoG PFM Strategy Focal Areas/Key Objectives	**Relevant PEFA indicators**	**2006 PEFA Score[3]**	**2009 PEFA Score[3]**	**Changes in PEFA scores, 2006-2009[4]**
Financial regulatory and management framework - Account for all public finances properly - Improve fiscal resource mobilisation	PI-6 (development of asset register) PI-24, PI-25 (production of timely accounts) PI-20 (financial instructions) PI-7 (preparation of statutory accounts) PI-19 (activities for implementing the Public Procurement Act) PI-21 (activities for implementing the Internal Audit Agency Act) PI-26 (improvement of capacity of Audit Service, follow-up)	C (6,20,21) C+ (19,24,25,26) A (7)	D+ (20,21) C+ (24,25,26) B (6) B+ (19) A (7)	+ : 2 N/c : 4 - : 2
Integrated payroll and personnel system - Improve the human resource and institutional management capacity	PI-18 (implement IPPD)	C (18)	C (18)	+ : 0 N/c : 1 - : 0
External resource mobilisation/ aid and debt management - Reduce and restructure domestic debt	D-1, D-2 (improve data on external assistance, reports on use of external assistance) PI-17 (improving quality of external and domestic debt data, including debt reconciliation, contingent liabilities) PI-12 (debt sustainability) PI-7 (fiscal information on external loans)	C (D-2) C+ (D-1) C (12) B (17)	C+ (12, 17, D-2) A (D-1)	+ : 3 N/c : 0 - : 1

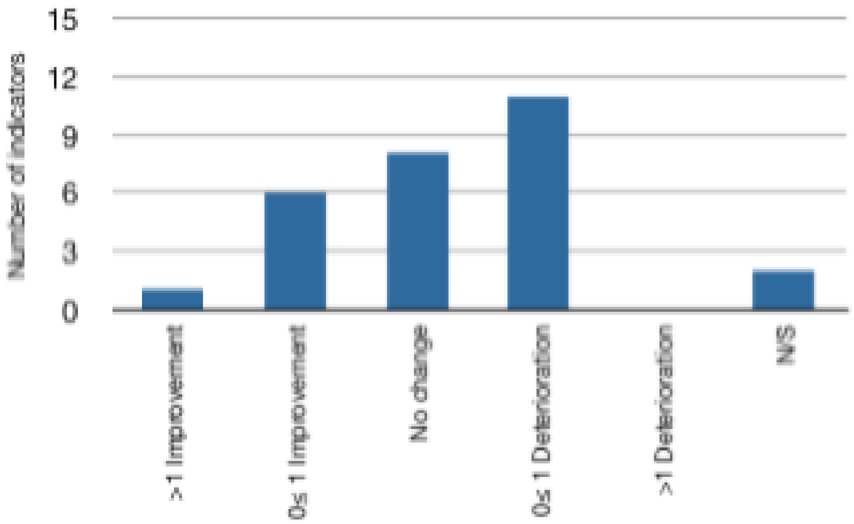
Box 3.D.1: GoG PFM Strategic Reform Areas[1] and Related PEFA results, 2003-2009[2]				
GoG PFM Strategy Focal Areas/Key Objectives	**Relevant PEFA indicators**	**2006 PEFA Score[3]**	**2009 PEFA Score[3]**	**Changes in PEFA scores, 2006-2009[4]**
Revenue management - Improve fiscal resource mobilisation	PI-14 (revenue database interface, improved revenue administration) PI-15 (revenue arrears) PI-3 (analysis of revenues against targets)	C (14,15) A (3)	C (14) C+ (15) B (3)	+ : 1 N/c : 1 - : 1

Notes: 1. Excludes financial sector programme and capacity building.
2. Reflects the period covered by many of the indicators
3. Numbers refer to PEFA performance indicators (see column 2)
4. Number of indicators showing a change in PEFA scores: + = improved; n/c = no change; - = deterioration
Source: Authors' own analysis, based on the 2006 and 2009 PEFA assessments.

3.D.27. The analysis indicates a mixed result, as one might expect. The majority of indicators (12) registered no change, whilst the numbers of indicators improving (10) were the same as those registering a deterioration. The greatest improvements (in terms of numbers of indicators changing score) were made in the areas of external resource mobilisation and aid and debt management, which would suggest the influence (relative interest) of DPs and, probably, MDBS. The most challenging area (the area with the greatest number of indicators reducing their score) was in budget formulation and preparation, which is consistent with the widening of the deficit, signalling a growing problem in that area.

3.D.28. Examining the PEFA results as a whole (i.e. all 28 indicators, rather than only the ones directly related to GoG's PFM strategic plan), the frequency distribution (Figure 3.D.2) of improvements or otherwise to PFM shows that there was a substantive deterioration or no change to the scores (11 and 8 indicators, respectively) in the overwhelming majority of areas during the period of the MDBS. Nonetheless, there were improvements in 7 of the indicators, mainly related to the content and timeliness of budget presentation, and to recent undertakings of specific analyses (e.g. Debt Sustainability Analysis, and a PETS) which feature in the PEFA scoring criteria.

Figure 3.D.2: Frequency distribution of changes in PEFA indicators, 2006 vs. 2009



Key:
>1 improvement = an increase in an indicator score of more than 1 level (e.g. C+ to A)
0≤ 1 Improvement = an increase in an indicator score of less than 1 level (e.g. C to C+)
No change = no change in the score
0≤ 1 Deterioration = a decrease in an indicator score of less than 1 level (e.g. C+ to

3.D.29. The analysis in Box 3.D.2 provides a comparison of progress in PFM systems during the period just before the MDBS with the MDBS period itself. The period leading up to GoG's achievement of the HIPC completion point (with the 2004 HIPC-AAP assessment), improvements were made in a number of areas; this period also coincided with a change in government (the new government was in power from 2001 through end-2008). In some areas, progress was short-lived (e.g. timeliness of accounts closure, and quality of fiscal information), whilst, in others, progress (or lack thereof) was sustained, e.g. budget credibility.

Box 3.D.2: Comparison of HIPC Expenditure Tracking Indicators[1] and PEFA results, 2001-2009

	HIPC Indicator	HIPC 2001	HIPC 2004	PEFA 2006	PEFA 2009	Related PEFA Indic[2]
1	Composition of budget (content)	3	2	C	B	PI-6
2	Limits to use off-budget transactions	2	2	A	A	PI-7(i)
3	Reliability of budget to future outturn	3	3	C	C	PI-1, PI-2
4	Data on donor financing	2	2	A	A	PI-7(ii), D2
5	Classification	3	**2**	B	C	PI-5

Box 3.D.2: Comparison of HIPC Expenditure Tracking Indicators[1] and PEFA results, 2001-2009						
6	Identification of pov-reducing expend	3	**1**	N/A	N/A	Incorp. in PI-5
7	Quality of multi-yr expend. projections	2	2	C	C+	PI-12
8	Level of payment arrears	3	**1**	B+	NS	PI-4
9	Effectiveness of internal controls	3	2	C	D+	PI-18, PI-20, PI-21
10	Use of expend. tracking surveys	**2**	**2**	D	B	PI-23
11	Quality of fiscal/banking information	3	**1**	C	C	PI-22(i)
12	Timeliness of internal budget reports	3	3	C+	C+	PI-24
13	Classific to track pov-reduc expend	3	**1**	N/A	N/A	PI-24
14	Timeliness of accounts closure	3	**1**	C+	C+	PI-25
15	Timeliness of final audited accounts	3	3	C+	C+	PI-26
16	Effective procurement	-	**2**	B+	N/S	PI-19

Notes: 1. HIPC indicators have been translated from A/B/C to 1/2/3 here to avoid confusion with the PEFA scoring system (with both 1 and A being the highest). Those in bold indicate that the HIPC baseline score was met. 2. Where HIPC indicators relate to two or more PEFA indicators, the average of the scores is shown here.

3.D.30. Looking at PFM systems progress more broadly, in a more qualitative analysis, Annex 2 examines the successful and unsuccessful PFM institutional reforms under way since 2003. Evidence for each of these areas of greater or lesser progress has come from published reviews of PFM (e.g. the ERPFM, PEFA assessments) and/or MDBS reviews. Systemic progress has been greatest in:

- establishing the legislative and regulatory framework for PFM;
- improving the timeliness and content of budget information presented to Parliament; and
- increasing significantly the inflows of both lodged and retained non-tax revenues (internally-generated funds).

3.D.31. Progress has been weakest in:

- implementing the promulgated legislation and making it effective;
- enforcing budgetary discipline through existing budget implementation procedures, including commitment controls and procurement procedures; and
- ensuring effective oversight of public expenditures.

Caveats of the analysis

3.D.32. A number of caveats are relevant. Firstly, the analysis is based on GoG's strategic plan, which was published in January 2006; however, it could be argued that the plan reflected the situation analysis related to the period leading up to this time so is relevant to the MDBS period. Secondly, it could also be argued that the MDBS dialogue helped frame the reform plan itself. Finally, PFM reforms are complex, require necessarily slow-moving institutional change, and there are wide gradations between PEFA scores such that one wouldn't expect a significant change over a short period of time.

PFM reform progress - MDBS triggers

3.D.33. Secondly, to what extent has progress in PFM systems and processes been related to areas for which there have been MDBS triggers? In this scenario, it is argued that the triggers substituted, or proxied, for GoG or joint GoG-DP priorities. Box 3.D.3 shows the extent to which MDBS triggers were in line with GoG's strategy and related progress against these triggers.

Box 3.D.3: PFM reform progress measured against MDBS triggers

MDBS Trigger	Year	Met/ Not met	GoG PFM Strategy Reform Area	Related PEFA indicator	2006 PEFA score	2009 PEFA score
Basic Cash Management System for CF established	2009	Met	Improve budget exec and reporting	PI-16(i)	C	C
Harmonised CoA for budgeting, accounting and reporting for all MDAs	2009	Met	Improve budget exec and reporting	PI-5	B	C[1]
Basic process of compiling claims on outstanding payments established	2009	Met	Not explicitly included	PI-4(ii)	B	D
1. Establish system for improved reliability of information to MoFEP on MDA spending needs. 2. Reduce lags btwn MDA requests and releases - procurement plans and cash forecasts (pilot MDAs)	2008	Met	Improve budget exec and reporting Prudent fiscal management	PI-16(ii)	C	D

Box 3.D.3: PFM reform progress measured against MDBS triggers						
MDBS Trigger	**Year**	**Met/ Not met**	**GoG PFM Strategy Reform Area**	**Related PEFA indicator**	**2006 PEFA score**	**2009 PEFA score**
1. Integrate 50% of subvented agencies into IPPD2 2. Payroll audit	2007	Met	Prudent fiscal policy management (contain expenditure, esp. wagebill) Improve payroll, personnel management	PI-18	C+	C+
Continue to ensure implementation of PPA	2007	Met	Strict enforcement of FM laws	PI-19	NS	B+
Complete deployment of BPEMS modules in pilot MDAs	2006	Declared met	Improve budget exec and reporting	N/A	N/A	N/A
Realign treasuries	2006	Met	Improve budget exec and reporting	N/A	N/A	N/A
1. Implement new Public Procurement Act 2. Training of institutions under the Act	2006	Declared met	Strict enforcement of FM laws	1. PI-19 2. N/A	NS	B+
Note: 1. The deterioration in the PEFA score is related specifically to the fact that the bridge table to the functional classification (a requirement for a PEFA score of B) was not maintained after 2006.						

3.D.34. The comprehensive coverage of the PFM strategy, including alongside PFM trigger areas, is clear from the document; however, some gaps remain, including that of setting out a clear system for compiling and monitoring outstanding commitments (expenditure arrears). At the same time, it is unlikely that GoG can make progress on all fronts at the same time, and this is evident from the deterioration in some areas in recent years, particularly commitment control and the accumulation of payment arrears. Judging from the data and analyses in published reviews of PFM (e.g. the ERPFMs, and IMF Article IV consultation documents), the existence of MDBS triggers did not prevent a deterioration in performance in these areas, in part because the triggers in many cases focused on processes rather than (intermediate) outcomes.

Domestic accountability

3.D.35. Domestic accountability in this context covers the extent of public participation in, and influence on, budgetary processes, public access to budgetary information, and the degree and effectiveness of representation of the public's interests on PFM issues in Parliament. The transmission mechanism of the effect of MDBS on domestic accountability is mainly through the MDBS policy dialogue, including leveraging relevant technical assistance. This is largely because, although GoG covers domestic accountability in its policy statements, including GPRS, and it appears in the Budget Statements, there is a more indirect relationship with public spending.

3.D.36. Progress was achieved in the following areas:

- Increasing access for the public to budgetary issues, including through inviting the public to suggest budget priorities and MoFEP public roadshows on the budget at the beginning of the budget process;
- Greater public access to budgetary information, including publication of a simplified budget (the Citizen's Guide to the 200x Budget);
- Opening Public Accounts Committee (PAC) hearings to the public;
- Preparing a harmonised chart of accounts, covering MDAs and MMDAs;
- Improvements in combatting the perception of corruption: in Transparency International's corruption perception index, Ghana ranked in 62nd place out of 168 countries in 2010, with a score of 4.1, compared to joint 70th place out of 133 countries in 2003 (with a score of 3.3).

3.D.37. Less progress was made in the following areas:

- moving expenditure decisions away from the centre (i.e. away from central government, including the so-called "decentralised departments"), including through the establishment of a detailed (and agreed) decentralisation framework;
- implementing the harmonised chart of accounts and providing a whole-of-government view of sectoral expenditures;
- public sector reform, including wage reform and institutional review and rationalisation;
- public access to some public financial information, including monthly budget execution reports and audit reports, remains limited;
- public access to information for those without access to the internet or to Accra is limited;
- Freedom of Information bill - was presented to Parliament but not passed.

3.D.38. To the extent that progress was made, there is some evidence of the influence of the MDBS dialogue (e.g. preparing a harmonised chart of accounts), but less evidence of a direct effect on others (e.g. opening up the PAC hearings to the public), particularly in areas where there was not an MDBS trigger.

Attribution issues and conclusions - PFM systems and processes and domestic accountability

3.D.39. Has MDBS helped improve PFM systems and processes and increase domestic accountability? The key attribution questions are: (i) to what extent were the areas of progress attributable to MDBS (including putting the areas on GoG's agenda and/or accelerating progress)? and (ii) to what extent were areas where more progress was not achieved a failure of MDBS? Based on the evidence provided by this analysis (including in Annex 2), MDBS is likely to have had more of an influence on systems and processes than on overall PFM performance, given that the MDBS dialogue provided a framework for a discussion of key challenges to PFM systems and processes; GoG officials have indicated that they have valued the technical discussions for this reason. MDBS also gave a platform for GoG to request support to facilitate these reforms.

3.D.40. In the absence of MDBS, some reforms may have been slower to register progress. According to this argument, the MDBS dialogue gave the incentive and perhaps the impetus for GoG both to undertake the reforms and to request technical support; the UK's support to the public PAC hearings and the EC's support to external audit are relevant examples. GoG attention on these aspects (particularly, raising the profile of the PAC and improving the timeliness of the submission to Parliament of external audit reports) has potentially strengthened domestic accountability,

3.E. Macroeconomic Stability

More rapid economic growth

3.E.1. Economic growth is widely regarded by those in official development institutions as the most powerful means of reducing poverty[48]. As poverty reduction is the key focus of the Millennium Development Goals and therefore a key objective of providing aid for those donors who are focused on the MDGs, a robust link between MDBS and economic growth would be a key justification for the instrument.

3.E.2. The absence of a robust counterfactual is a major impediment to establishing such a conclusion. However, it may be helpful to consider the following questions:

(a) to what extent has Ghana's economic growth performance been positive in the era of budget support;

(b) to what extent are linkages between budget support and economic growth plausible and substantial through both
   i. transfer of additional resources
   ii. policy dialogue around economic growth agendas including private sector development.

3.E.3. The contextual data for Ghana on economic growth is broadly positive in that economic growth has accelerated during the era of MDBS (since 2003), and has remained higher in Ghana than the average for Sub Saharan Africa (SSA) developing economies. Whilst Ghana has also experienced a downturn in economic growth which has coincided with the global economic and financial crisis (real economic growth in Ghana fell from 8.4% in 2008 to 4.7% in 2009), it has performed relatively well compared to the African average (thanks in significant part due to good luck on its terms of trade, exporting gold and cocoa which have remained buoyant, whilst benefiting from cheaper oil imports).

Table 3.E.1: Average Real GDP Growth per year

	Ghana	SSA Developing
1999-2002	4.2	3.2
2003 – 05	5.6	5.3
2006 – 07	6.5	6.4
2008 -09	6.6	3.5

Source: World Bank World Developing Indicators

3.E.4. A positive growth context is of course not a demonstration of any linkage between MDBS as an instrument and economic growth as a result. Economic growth could have been just as high in the absence of MDBS, or

[48] D. Dollar and A. Kraay, 'Growth is Good for the Poor', Policy Research Working Paper Number 2587 (2000). Subsequently published as: D. Dollar and A. Kraay, 'Growth is Good for the Poor', Journal of Economic Growth 7 (2001), pp. 195–225.

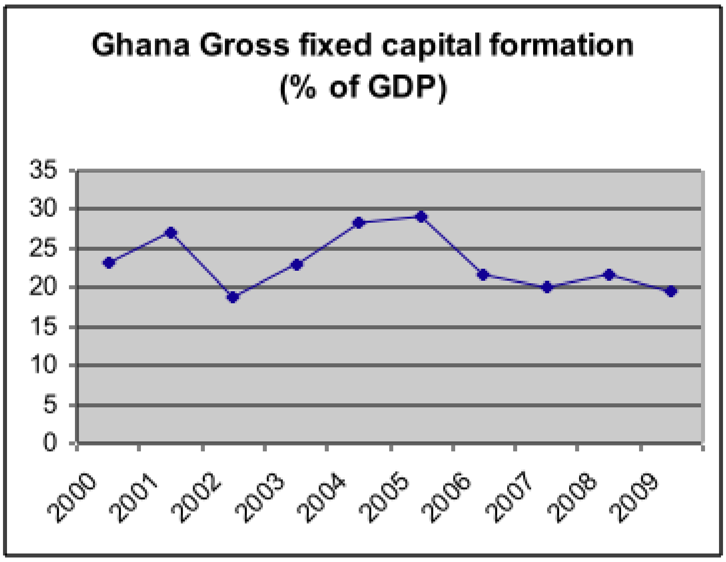
possibly higher if MDBS resources had been used to greater effect for investment in economic growth enhancing programmes.

3.E.5. One possible transmission mechanism is through the context of the reform agenda which was articulated through the triggers in the Performance Assessment Framework (PAF). Of the 50 triggers over this period, there were only 2 (4%) in the area of private sector development, and 2 (4%) in the area of agriculture. There was a significant and growing focus on energy, with 8 triggers (16%) of the total, though this was at least as much an issue of fiscal subsidy reduction as about promoting economic growth through reducing energy gaps. Overall, therefore, on the basis of these figures, economic growth was not a main focus of the policy dialogue of MDBS. This is not to say that economic growth was excluded from the dialogue, however, and the relative number of triggers may be a poor measure of the quality of the dialogue. The 2009 trigger on private sector development, for example, required the production of a "comprehensive" strategy for SME growth, which is by no means missing the mark in terms of what is required.

3.E.6. However there are two important factors which would moderate still further any assessment of significance. The first is that the extent to which triggers were achieved in the areas of energy and private sector development was well below average – about 50% achieved compared to 75% achieved for all triggers. The second is that the focus of debate on the energy sector was at least as much about improving financial performance and reducing subsidies to the sector to make way for fiscal savings or additional social spending as it was about promoting improved energy supplies. Overall it seems plausible to conclude that any impact of MDBS on macroeconomic growth via a transmission mechanism of policy dialogue leading to improved policy would operate more through informal reinforcement of other mechanisms, such as the IMF programme, than through direct negotiation of relevant policy triggers implemented successfully.

3.E.7. A second potential mechanism for MDBS to have an impact on economic growth would be via the growth enhancing impact of the finance itself. Overall investment in Ghana increased during the early period of MDBS (2003 – 05) and then declined. In US$ total investment increased from $1.1 billion in 2000 to $6.1 billion in 2008 before declining to $5.1 billion in 2009 (Figure 3.E.1).

Figure 3.E.1: Gross Fixed Capital Formation



Source: World Bank World Development Indicators

3.E.8. MDBS is available to finance recurrent as well as investment expenditure. According to IMF data, public investment reached 9.1% of GDP[49] in 2008, which is equivalent to $4.34 billion. GBS in 2008 was $368 million, which is equivalent to 14.6% of total public investment. The contribution of MDBS to economic growth in Ghana would therefore be modest.

3.E.9. National public investment was 9.1% of GDP and total public expenditure was 24% of non-oil GDP in 2008[50]. Assuming that MDBS in 2008 had a similar share of investment to the overall allocations (i.e. 9.1/24), then the investment share from $368 million of budget support would be $140 million.

3.E.10. Applying an incremental capital output ratio estimated at 5:1 (estimated for the period 2003 - 2007[51]), then one year's budget support would increase GDP in 2009 by $28 million. Real annual GDP growth in 2009 was 3.5%[52]; which is estimated as an increment of $967 million above 2008 GDP. This means that MDBS could have added 2.9% of the growth achieved, boosting growth in 2009 by 0.1%. This information is presented in tabular form below.

[49] May 2011 IMF Ghana: Combined First and Second Reviews Under the Arrangement Under the Extended Credit Facility. Table 1 Page 20. Converted to US$ at $1.09. Data use the rebased GDP.
[50] May 2011 IMF Op. Cit.
[51] July 2009 USAID Ghana Economic Performance Assessment, Nathan Associates Inc.
[52] June 2010 IMF Op. Cit.

Table 3.E.2: Growth-enhancing impact of MDBS[1]				
	Units	**GoG**	**MDBS**	**MDBS Share**
Government spending	US$ mn	6,615	368	5.6%
Investment share	%	38.3%	38.3%	
Investment amount	US$ mn	2,534	141	5.6%
ICOR	Ratio		5	
Incremental GDP	US$ mn	967	28	2.9%
Real GDP Growth	% per annum	3.5%	0.1%	2.9%

1. Data in the first 3 rows are for 2008. Data in the last two represent calculations for 2009.
Source: IMF Article IV Consultation document, May 2011.

3.E.11. Whilst a (modest) linkage with additional investment and growth could be a direct benefit of MDBS, there could be other factors which offset or reduce the benefit. Specifically concerns have been registered about the possible impact of aid inflows in terms of boosting the exchange rate and causing "Dutch Disease". Rajan and Subramanian[53] point to the absence of a long term relationship between aid and growth and highlight Dutch Disease, with the inflows of aid leading to an appreciation of exchange rates and loss of competitiveness, as a significant factor. The IMF[54] argued in 2009 that a further real devaluation of 7-12% would be needed to restore the current account deficit to macro balanced levels, though cite other evidence to suggest that Ghana's exchange rate may be undervalued (which the IMF discount). The real effective exchange rate appears to have appreciated over the period of MDBS, highlighting perhaps a context in which the possible contribution of aid flows to Dutch Disease should not be discounted. The volumes of aid, however, especially UK aid, are however small and the impact on the real exchange rate would have been correspondingly marginal.

Lower Fiscal Deficit (After Grants)

3.E.12. Another potential benefit of MDBS relates to public finance. To the extent that aid resources are not fully spent (i.e. there is not a corresponding increase in expenditure which is equal in magnitude to the aid flow, thus leaving the budget deficit unchanged), they are a "below the line" transaction which provides grant or concessional finance which helps to finance the budget deficit in a less distorting way than alternatives.

3.E.13. Whilst it is impossible to know the extent to which MDBS has in fact reduced the fiscal deficit in Ghana, it is useful to review the extent of the

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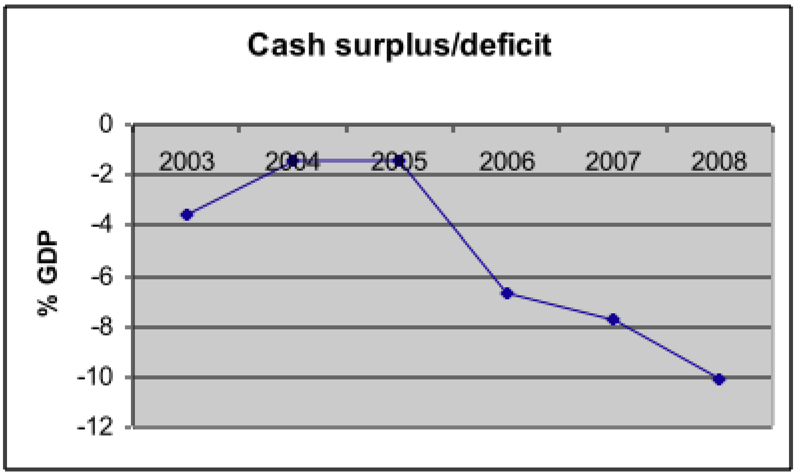
[53] June 2005 IMF Working Paper 96, What Undermines Aid's Impact on Growth?, Washington.
[54] August 2009 IMF Country Report. See Box 3

deficit during the period of MDBS and speculate on the contribution of the budget support (Figure 3.E.2).

Figure 3.E.2: Overview of Fiscal Deficit, 2003-2008



Source: World Bank World Development Indicators

3.E.14. In Ghana there have been three distinct phases with regard to the fiscal deficit. In the period to 2005 there was a substantial improvement in the fiscal deficit which fell from 3.6% of GDP in 2003 to 1.4% in 2005. The deficit then widened substantially, rising to 10.1% of GDP in 2008 according to World Bank data. The third phase is a further fiscal consolidation under the new IMF Extended Credit Facility which was agreed in 2009 (as a Poverty Reduction and Growth Facility, later converted to the ECF). However the pace of fiscal deficit reduction in the recent period has been slower than programmed, with the IMF reporting a figure close to 10% for 2009, some 3% more than the original programme target.

3.E.15. If it is assumed that expenditure would have been the same in the absence of budget support then the benefit of MDBS is to moderate the fiscal deficit, but, given the scale of the deficits particularly during the period since 2006, this impact will have been quite modest. In 2008 the total fiscal deficit was $2.4 billion,[55] of which MDBS provided finance for an equivalent of 15.3%. Even the much more substantial finance from the IMF Extended Credit Facility (ECF) and World Bank combined were a relatively small share of the fiscal deficit. The World Bank approved a two tranche $300 mn Economic Governance and Poverty Reduction Credit in 2009 which was disbursed over the two years 2009 and 2010 (the government delayed in completing prior actions in 2009); and the IMF disbursed $105 mn in 2009 and $220 mn in 2010 with an overall amount of nearly $500 mn from IMF and IFI's in 2010.

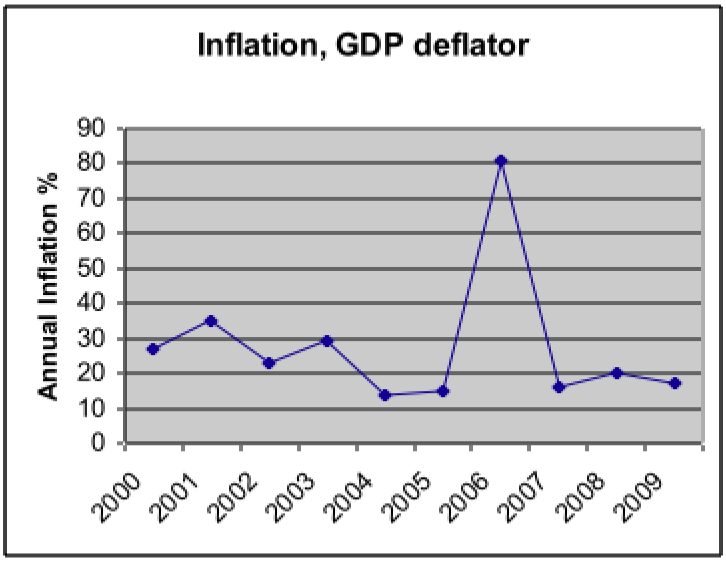
Lower Inflation

[55] Source: IMF Article IV Consultation document, May 2011.

3.E.16. Another potential macroeconomic benefit from MDBS could be lower inflation. The transmission mechanism for this is that the government can replace more inflationary financing, such as monetary expansion, with less inflationary financing using concessional aid financing. The DFID Economic Appraisal of general budgetary support in Rwanda for 2009/10 and 2010/11 cited econometric cross-country evidence[56] suggesting that an inflation rate of more than 30% could lead to an economic loss of 0.67% of GDP growth. This Rwanda appraisal assumes an increased risk of inflation above this level of 1% were DFID to exit GBS and 5% if all GBS donors were to exit. These probabilities do not appear to be based on any specific evidence. The transmission mechanism seems to relate however more to the general messages of fiscal responsibility conferred through the GBS dialogue than the specific type of financing available.

3.E.17. The threshold above which inflation starts to have a negative impact on growth has been estimated as low as 11% for Ghana[57] (cross country regression estimates of this threshold have often been much higher – see cited article), but the growth cost of moving above this level is modest. Nevertheless, as inflation[58] has been above the estimated threshold where a growth impact is predicted over much of the MDBS period (see Figure 3.E.3), then it does mean that any moderation of inflation through MDBS dialogue of financing could potentially have a (modest) impact on additional economic growth.

Figure 3.E.3: Annual Inflation Rate, 2002-2009 (CPI)



World Bank: World Development Indicators

3.E.18. On the other hand, it may not be plausible to argue that MDBS has in fact had a significant impact on the inflation rate in Ghana. Inflation is not a major focus of MDBS dialogue (as compared with the IMF dialogue), and it can hardly be asserted that the dialogue has been particularly successful at

[56] The report does not given the original source.
[57] 2010 American Journal of Business Economics, Frimpong and Oteng-Abayie
[58] Measured either by the official CPI or by GDP deflator, although the former is lower than the latter

keeping inflation within the target range (though it could be argued that there was progress made in the early years of MDBS towards lower inflation, and more recently inflation levels of fallen again to historically low levels).

Increasing International Reserves

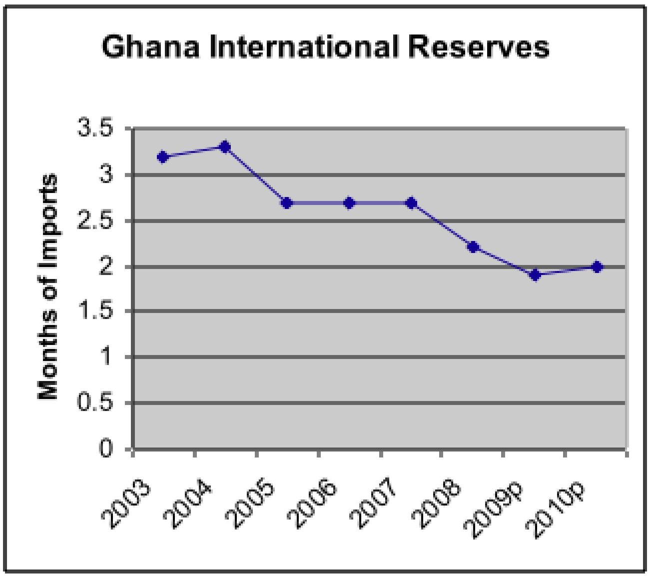
3.E.19. Another potential macroeconomic benefit of MDBS is the contribution it makes to international reserves. The extent of this contribution will depend on:

a. the extent to which the counterfactual would be aid which is used to finance local costs. If the counterfactual is aid spent off-shore, such as international technical assistance, then MDBS does potentially add to international reserves;

b. the extent to which the foreign exchange from MDBS is in fact "absorbed" through addition imports and a larger balance of payments deficit on the current account.

3.E.20. Over the initial period of MDBS, international reserves showed a declining trend from 2003, when measured in months of import cover. This was in a period when imports were expanding rapidly. In cash terms reserves increased from $1.5 billion in 2003 to $2.3 billion in 2006. Reserves declined further to 2.7 months in 2005-7 and to 2.3 months in 2008, which is below the recommended secure levels of at least 3 months (Figure 3.E.4). The reserves are recovering under the IMF programme (the aim is to achieve 4 months) by 2014.

Figure 3.E.4: Level of International Reserves, 2003-2010



Source: IMF

3.E.21. MDBS over the period 2003-2010 amounted to $2.8 billion. This is significant relative to actual levels of reserves over the period but it was necessary for Ghana to borrow from the IMF in order to address the financial crisis of 2009. The MDBS relationship neither prevented the problem of low reserves arising, nor provided sufficient counter cyclical finance in order to maintain reserves at an acceptable level.

Lower domestic debt and/or lower interest rates

3.E.22. To the extent that budget support is not spent in the budget, i.e. expenditure is not increased (in comparison with what would have been the case without aid), and instead the grants can contribute to a reduced requirement for domestic borrowing, then a benefit of budget support could be lower domestic debt and less pressure on domestic interest rates. This could reduce "crowding out" of private sector investment through lower pressure on interest rates.

3.E.23. As far as domestic debts are concerned, pressure on domestic borrowing resulted from the fiscal pressure. There was considerable discussion of domestic debt in the August 2005 Article IV Paper. The stock of domestic debt had reached nearly 24% of GDP in 2003 and was projected to fall to less than half this level (11.4%) by 2005. Domestic debt was the nominal fiscal "anchor". The government's aim was to reduce the stock of debt by half from the level at the end of 2002. The IMF urged the government to move further, in order to create more "fiscal space" or scope for expansion of spending on a sustainable basis.

3.E.24. According to the IMF, the fiscal deficit expanded sharply to a peak of 14.5% in 2008; this figure would have been higher in practice had payment arrears been fully factored into the accounts. This has had an adverse impact on the stock of domestic debt which has increased to around 30% of GDP in 2010 (revised programme figure), having been close to this level in 2008 and a little lower in 2009 (28%). There is no discussion of a fiscal anchor in the 2010 document, although the aim of reducing the stock of domestic debt is discussed.

3.E.25. As far as interest rates are concerned, there is limited discussion of these in the 2010 IMF review, though it is shown that nominal interest rates increased considerably in the second half of 2008 by around 10%.[59] This does demonstrate the problem of public borrowing and high inflationary expectations crowding out private sector investment – the growth of domestic credit declined sharply through 2008.

3.E.26. The conclusion one could draw then is that, to the extent that domestic debt would have been still higher in the absence of MDBS, there are benefits in terms of constraining the growth of the domestic debt stock. However, earlier targets for constraining debt were thrown substantially off

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[59] June 2010 IMF Op. Cit. Figure 3 Page 8.

course by the fiscal expansion leading up to the last election, and therefore the scale of domestic debt has been extremely large even in the context of MDBS. Any contribution of MDBS to constraining domestic debt is therefore modest, and more importantly the dialogue around MDBS was not effective in maintaining the "fiscal anchor" in place.

Lower external debt

3.E.27. The previous section considered the extent to which MDBS might have led to reduced domestic debt, to the extent that the aid was not spent, and similarly MDBS could also potentially lead to lower external debt, to the extent that it was not absorbed through a larger current account deficit.

3.E.28. Ghana's stock of external debt declined sharply during the period of MDBS as a result of the debt relief initiatives (HIPC and MDRI). The overall external debt stock reduced from 127% of GDP in the year 2000 to a low of 25% by 2007. The relief that this provided from debt service provided resources which are equivalent to budget support.

3.E.29. External debt started to increase again after 2007 as a result of the fiscal situation, forcing the government to increase both external and domestic debt flows. The $750 mn Eurobond marked an important milestone in terms of accessing non-concessional capital markets, though this was not sustained in the light of the global financial crisis The provisional figure for 2009 in the 2010 IMF report was 32.5% of GDP. The current account deficit after official transfers increased to 18.7% of GDP in 2008. This should decline quite sharply according to the IMF programme, but the debt stock will remain well above 2007 levels.

3.E.30. The stock of debt is substantial relative to the possible contribution that MDBS could have made to moderating it. Debt relief has clearly had a much more substantial and direct benefit in terms of reducing external debt than MDBS. (MDRI debt relief generated $485m in 2007, and was described as "massive" in the 2007 Article IV paper). The total stock of external debt in 2009 is equivalent to about $10 billion.

3.E.31. A clear focus of the IMF programme is to limit non-concessional borrowing which is in fact a performance criterion. This was breached in November 2009 with a loan that was narrowly above the threshold for concessional terms. The availability of grant financing is clearly an important factor in enabling the government to limit and if possible eliminate non-concessional financing.

4. Summary and Conclusions

Summary

4.1 The foregoing analyses have examined performance against each of the MDBS objectives. To what degree can MDBS claim (partial) responsibility for the performance under each of these potential benefit areas? Specifically, to what extent were the areas of progress and of lack of progress attributable to MDBS (including putting the areas on GoG's agenda and/or accelerating progress)?

4.2. The analyses provided in this paper are drawn together in Box 4.1 at the end of this section. The analysis summarises for each of the potential benefit areas the assumed transmission mechanism, the progress in the given indicators over the MDBS period, and the extent to which any progress made may be attributed (in part or whole) to MDBS (either the resources themselves or the dialogue).

4.3. In summary, the strongest benefits to MDBS have come in the areas of donor harmonisation and the aid agenda, and policy dialogue and the overall reform agenda. In the former, the most successful elements have been a more harmonised view of the policy agenda, greater efficiency for government in the policy dialogue, and an improved DP architecture for policy dialogue, and, through the relative predictability of MDBS, a greater increase in overall aid predictability.

4.4. In terms of the policy dialogue, the strongest benefits appear to be in enabling a broader voice for the DPs involved and a more balanced dialogue, stronger GoG-DP ownership of the reform programme, and the resulting increased accountability of government for the delivery of reforms. These appear to have enabled GoG to increase the pace of some planned reforms faster than they otherwise would have been undertaken. GoG officials also appear to appreciate the dialogue and the engagement with DPs on the reform programme.

4.5. The least direct benefits to MDBS were on the macroeconomic effects and the performance of sector indicators and of overall PFM. On the other hand, the policy dialogue around PFM may have helped leverage additional technical support and to facilitate the acceleration of some planned reforms. Non-MDBS resources appeared to play an important role in enabling GoG to make progress towards its sectoral indicators.

Concluding remarks - implications for next steps

4.6. In the longer term, the effectiveness of MDBS as a strategic forum for dialogue is threatened by several factors, including:

- DPs may shift from budget support to other aid instruments as part of a general trend towards viewing budget support with greater scepticism. With increasing pressure for accountability and results, budget support has become vulnerable in this regard because the results are diffuse and often not easily measured.

- With access to oil and gas revenues, Ghana's aid dependency will potentially fall below a level at which it has an incentive to take significant account of DP viewpoints.
- With the re-estimation of Ghana's Gross National Income, Ghana has already apparently graduated to middle income status and will over time justify less aid. One view expressed to the review team by a key DP was that DPs could divide into two groups – a group which would remain engaged on policy dialogue (and remain within the budget support group) and a group which would focus on MDG delivery, particularly in the disadvantaged Northern regions.
- Dialogue with non-DAC donors and investors, notably China, is of increasing importance. Whilst aid volumes from non-DAC donors are currently small, this belies the political significance of dialogue with other partner countries.

4.7. Whilst this analysis was not intended to come up with specific recommendations, in the light of the above analyses, a number of implications may be drawn for how DFID may consider taking its budget support forward, particularly in the light of an apparent declining trend in MDBS. In particular, it would seem sensible for DFID to build on those areas where budget support has had the greatest success, namely in facilitating a policy dialogue, both overall and at sector level. Additionally, maintaining flexibility, in terms of the types of indicators used and the ability to accommodate, and adapt to, unforeseen circumstances appears to have been a key to sustaining the MDBS group. The performance tranche appears to have been taken seriously by GoG, but the necessity of defining measurable indicators may weaken its overall impact in terms of desired performance. Consequently, more may be made of the holistic assessment, with less reliance on specific detailed indicators. Finally, in terms of service delivery to key sectors, rather than relying effectively on trickle-down from the Consolidated Fund (bearing in mind the weaknesses in getting those resources to the sectors, and using them effectively), it would appear to make sense to place a greater focus on targetted support to sectors.

Box 4.1: Summary of MDBS Benefits and Direct Attribution			
Assumed Benefit from MDBS	**Transmission mechanism**	**Performance over MDBS Period**	**Extent of Likely Attribution of Performance to MDBS**
Policy dialogue and overall reform agenda			
Acceleration in the pace of reforms	Discipline of performance monitoring and incentive effects of performance tranche lead to more rapid implementation of reforms	Performance was strong in the period 2003 – 2006, and following the fiscal slippage is again on a positive trajectory.	This is a challenge given the absence of a counterfactual. There is evidence from the earlier evaluation and from discussions that the government did in fact find MDBS an incentive for faster implementation, though the performance tranche itself may not have provided a strong incentive effect.
Strengthened ownership of the reform agenda	Process was designed to empower the government in proposing the targets, enabling the government to lead the process.	Ownership is generally perceived to be strong. Government and DPs were able to renegotiate where policy actions were agreed but not achieved.	The MDBS process is likely to have strengthened the role of MoFEP in holding MDAs to account and bringing coherence to the overall reform agenda. The role of triggers and performance tranches were challenged by the 2006 evaluation, but were nevertheless retained and used as a tool for progress monitoring and accountability.
Broader donor voice leading to a balanced dialogue	The joint nature of the process gave a voice to all of the main donors in the policy dialogue which as a result could not focus only on the concerns of the largest donors.	Policy dialogue seems to have been broad in sectoral coverage, and nature of conditions (policy and outcome triggers).	This is likely to be strongly linked because MDBS process included all of the main donors and allowed smaller donors to influence the process through sector dialogue and the MDBS group.
Reinforcement of IMF-led Macro Dialogue	IMF was an observer to MDBS. MDBS donors can reinforce messages on macroecnoomic reform.	Macro performance was stronger during periods of IMF programmes than in the intervening period. But macro stability was not maintained after 2006, showing limitations of the MDBS dialogue to influence the macro environment.	No very strong evidence from 2006 onwards. MDBS donors did not engage very substantially on macro issues and the World Bank emergency support was provided outside of the MDBS conditionality framework.

Box 4.1: Summary of MDBS Benefits and Direct Attribution			
Assumed Benefit from MDBS	**Transmission mechanism**	**Performance over MDBS Period**	**Extent of Likely Attribution of Performance to MDBS**
Increased accountability of government for delivery on reforms	MDBS provided a clear framework for government to set targets and measure progress.	The MDBS framework was maintained throughout the period. Strong commitment from government and donors to processes.	Whilst the annual performance review of GPRS could have provided such accountability, in practice this was viewed as too general and therefore MDBS did in practice provide discipline and accountability which would have been absent without MDBS.
Service delivery and progress towards MDGs			
Progress towards MDG targets	Additional above-the-line resources to the Consolidated Fund provide space to direct resources to meet GoG's/DP priorities for service delivery (e.g. MDGs)	Discernible progress was made towards most of the MDG indicators	Limited direct attribution to MDBS of greater service improvements (through additional resource argument). Whilst the share of discretionary (MDA) resources flowing to MDG-related sectors (particularly health and education) increased relative to other sectors over the past decade, most of this increase went to pay for significant increases in wage rates; relative flows to other line items either stagnated or decreased. GoG dialogue with MDBS, other DP partners and intra-GoG (APR) aligned on MDGs, so difficult to single out MDBS for attribution.

Box 4.1: Summary of MDBS Benefits and Direct Attribution			
Assumed Benefit from MDBS	**Transmission mechanism**	**Performance over MDBS Period**	**Extent of Likely Attribution of Performance to MDBS**
Progress towards GoG service delivery targets (as set in GPRS)	Additional above-the-line resources to the Consolidated Fund provide space to direct resources to meet GoG's/DP priorities for service delivery (e.g. GPRS targets)	As with MDGs, there was discernible progress towards most of the GPRS indicators over the MDBS period	As with progress towards MDG targets, there is limited direct attribution to MDBS for similar reasons. The share of resources in the health sector increased with the introduction of the NHIF, but being non-Consolidated Fund, this was not a mechanism for increasing Consolidated Fund resources to this sector. Thus, the ability of GoG to link Consolidated Fund resources to GPRS service targets depended on the existence of efficient PFM systems, which, as indicated, are weak.
Improved technical efficiency of public spending in relevant sectors	Process of allocating and using additional resources to the Consolidated Fund efficiently to maximise desired sectoral outputs and results	Technical efficiency deteriorated, as measured in the health and education sectors	Existing weaknesses in PFM systems and processes to direct resources for service provision were put under greater pressure by reduced fiscal discipline in the latter part of the MDBS period - this could be seen as a weakness on the part of MDBS dialogue but it is also possible that the MDBS dialogue served to check even greater deterioration. Without a counterfactual, this remains an open question.

Box 4.1: Summary of MDBS Benefits and Direct Attribution			
Assumed Benefit from MDBS	**Transmission mechanism**	**Performance over MDBS Period**	**Extent of Likely Attribution of Performance to MDBS**
Donor harmonisation and aid effectiveness			
Greater efficiency in the policy dialogue for government	Government could discuss policy and agree targets with donors as a group rather than separately	MDBS DPs accounted for a large proportion (approx.30%) of overall aid, and process was used inclusively to include non MDBS DPs through sector working groups and as observers.	Positive impact of MDBS. Although there were criticisms that the MDBS process involved excessive transaction costs and focused too much on triggers rather than core policy dialogue, the MDBS process was evidently valued by all parties, given that it survived so long.
An improved donor architecture for dialogue	MDBS provided a framework for strong sector groups linked through triggers to the overall reform agenda.	Performance was variable across sectors with some performing much better than others.	On paper, other processes such as the review of the poverty reduction strategy and the government joint assistance strategy and review are more strategic, but in practice MDBS could be seen as the central element of the donor architecture.
A more harmonised view of the policy agenda	MDBS forced the major donors to reach a common position on performance and priorities, agreed with government.	The harmonisation of views was costly in terms of transaction costs for donors and government, but valuable nevertheless.	Arguably a major success of the process – enabling the major multilaterals to work with each other in a common framework, as well as with all the key bilateral donors.
An increased share of aid which is reflected in the budget and aligned to national priorities	MDBS was more amenable to inclusion in government budget resources and planning systems than alternatives.	MDBS was in fact pooled with government resources and therefore on budget, whereas other funds were increasingly listed in the budget publication but not aligned fully.	2006 evaluation noted that the opportunity to use the MDBS process for putting more aid on budget was missed. Since that evaluation, SBS and pooled funds have been a greater feature of ext assistance. Nonetheless, 2009 PEFA indicates that less than 50% of aid used nat'l procedures; since 30% of total aid is GBS (and hence uses nat'l procedures), the overwhelming majority of non-GBS does not.

Box 4.1: Summary of MDBS Benefits and Direct Attribution

Assumed Benefit from MDBS	Transmission mechanism	Performance over MDBS Period	Extent of Likely Attribution of Performance to MDBS
More predictable aid	Budget support is subject to less uncertainty than other forms of aid and is highly predictable.	Strong performance evidenced by 2006 evaluation and PEFA assessments.	The change in the way that the performance tranche was designed enabled in-year predictability. Overall there is good evidence that MDBS performed well on predictability in Ghana.
Reduced transaction costs for donors	Donors can increase their flows through budget support at little marginal cost. There are also economies of scale	Continued references to the high transaction costs of MDBS dialogue, driven by the large number of donors involved and the focus on specific triggers. On other hand, marginal costs of MDBS resource flows are v. low, meaning that increases in MDBS flows may be achieved at low additional cost.	Absence of clear comparison of transaction costs between instruments are constraint on clear conclusions. World Bank preparation costs for PRSC are lower than project costs, and this is likely to be replicated by other DPs.
PFM and domestic accountability			
Relative increase in poverty-related expenditures (greater allocative efficiency)	Additional above-the-line resources to the Consolidated Fund allow GoG to direct greater resources to poverty-reducing activities	No systematic increase or decrease in poverty-related actual expenditures as a share of the overall budget Relative allocations in the budget (planned) towards poverty-related spending improved in the early part of the MDBS period, then declined. In % of GDP, poverty-reducing expenditures increased on average (but note caveat of poor data quality)	Larger resource envelope did not translate into a discernible effect on poverty-related expenditures. This fact could be seen as partly attributable either to a failure of the MDBS dialogue and/or to systemic PFM weaknesses; more likely to be latter since planned allocations were more poverty-related (could be effect of dialogue) than implemented budgets (reflecting weaknesses in budget execution).

Box 4.1: Summary of MDBS Benefits and Direct Attribution

Assumed Benefit from MDBS	Transmission mechanism	Performance over MDBS Period	Extent of Likely Attribution of Performance to MDBS
Improved budget credibility	Additional above-the-line resources to the CF enables GoG to strengthen its budget processes	Budget credibility deteriorated in the latter half of the MDBS period	Neither MDBS resources nor the related dialogue had an effect on improving budget credibility. Whether or not budget credibility would have been worse in the absence of MDBS is an open question.
Progress in PFM systems and processes in line with GoG PFM reform programme	Additional above-the-line resources to the CF enables GoG to make progress in specific measures in its PFM reform plan Policy dialogue provides leverage for additional technical assistance to support GoG PFM reform measures	Most PFM system performance indicators have remained unchanged; improved indicators match number which deteriorated. Most progress made in establishing legislative frameworks, improved timeliness, content of budget info to Parliament Least progress made in implementing new legislation, enforcing budget discipline, effective oversight of spending	MDBS may have helped leverage additional resources, e.g. for technical assistance It is likely that the MDBS joint dialogue facilitated preparation of the GoG PFM reform programme and strategic plan. It is also likely that progress on some reform measures was accelerated through focus provided by MDBS Progress on some measures (e.g. opening up PAC hearings to the public) did not appear directly related to MDBS dialogue

Box 4.1: Summary of MDBS Benefits and Direct Attribution			
Assumed Benefit from MDBS	**Transmission mechanism**	**Performance over MDBS Period**	**Extent of Likely Attribution of Performance to MDBS**
Progress in PFM systems and processes in line with MDBS triggers	Additional above-the-line resources to the CF enables GoG to make progress in specific PFM measures related to MDBS trigger areas Policy dialogue provides leverage for additional technical assistance to support PFM reform measures in MDBS trigger areas	Whilst most triggers related to 1 or more measures in the PFM reform strategy, this is perhaps not surprising since the strategy itself covers most areas of PFM. Whilst all triggers were met or declared met, they did not translate into progress in related PFM systems and processes	Implementing GoG's comprehensive PFM reform plan required prioritisation of reform measures; MDBS triggers *de facto* substituted, at least in part, for GoG's own priorities (which may or may not have been perfectly aligned), thus potentially altering the sequencing for these measures. Other measures, which have since proved to be critical, such as budget discipline (particularly wagebill) and expenditure arrears were not addressed as part of MDBS
Improved domestic access to, participation in, and accountability for, budget processes	Through the MDBS policy dialogue, including leveraging relevant technical assistance	Mixed progress. Most progress made in greater public access to budgetary information (with some exceptions), opening PAC hearings to the public, and improvements in combatting perception of corruption Least progress made in decentralising spending decisions, public sector reform, and GoG responses to PAC issues	It seems likely that the MDBS dialogue facilitated progress on some (but not all) measures through the scrutiny provided by the framework.
Macro-economic stability			
More rapid economic growth	Provision of resources for investment and promotion of a more pro growth policy environment	Economic growth was more rapid in Ghana than the sub Saharan average, and the pace of growth accelerated through the period of MDBS.	MDBS resources not significant in macroeconomic terms. Policy agenda was more focused on social issues than the growth agenda, and performance in the key energy sector was not as good as most other sectors.

Box 4.1: Summary of MDBS Benefits and Direct Attribution

Assumed Benefit from MDBS	Transmission mechanism	Performance over MDBS Period	Extent of Likely Attribution of Performance to MDBS
Lower fiscal deficit	MDBS resources reduce the deficit after grants and allow higher spending without requiring borrowing.	Fiscal deficit reduced in 2003 – 2005 period but increased sharply thereafter.	MDBS contribution was small relative to the size of the fiscal deficits. Apparent lack of effective policy dialogue to constrain the deficit.
Lower inflation	Provision of MDBS is less inflationary than alternative financing. Macro dialogue promotes more appropriate inflation policies.	Inflation has generally been above the estimated threshold at which there may be a growth reduction,	Unlikely that MDBS was a significant factor in constraining inflation in Ghana. Resource flows small in relation to financing gaps.
Increased international reserves	MDBS flows can be used to augment international reserves rather than absorbed in the balance of payments.	Reserves increased over 2003 – 2006 but then declined to low levels in 2008. Now increasing.	Potentially a useful contribution from MDBS, but GoG also needed to use credit markets and IMF to access adequate finance. MDBS did not prevent the problem of falling reserves.
Lower domestic debt and interest rates	Government can choose not to spend MDBS and instead reduce use of domestic debt to finance expenditure.	Domestic debt expanded sharply and aims to reduce the debt levels were thrown off course by fiscal deficits.	Potentially a modest contribution but given the performance in this area, MDBS seems to have been fairly ineffectual.
Lower external debt	Government can substitute MDBS for external borrowing, implying that the aid is not absorbed through imports and not saved in reserves.	External indebtedness fell sharply until 2007 due to HIPC and MDRI, but then increased again following the use of capital markets in 2007 and new borrowing to offset the financial crisis.	Small impact relative to MDBS. HIPC and MDRI had greater impact on reducing external debt

Annex 1
Triggers related to service delivery in social sectors

2009	**Status**	**Related to MDG and/or GPRS indicators?**
Education Reduce disparities in education service delivery and increase resources for deprived districts with the view to improving completion in basic education. Primary Completion Rate: Deprived Districts: 86.0% National : 90.6%	Not met	GPRS
Health 45% of expected deliveries attended by trained health workers.	Met	GPRS
Vulnerability and Exclusion Governance Ministries of Employment & Social Welfare, Education, Health and Local Government & Rural Development to agree on assignment of institutional responsibilities, budget, detailed objectives, action plan & timeline for the adoption & use of a common targeting mechanism for the LEAP, NHIS & School Uniform Programmes.	Met	No
Water The Environmental Health and Sanitation Directorate of MLGRD, in collaboration with CWSA, GSS and NDPC finalize targets, a strategy and an investment plan for improving access to sanitation.	Not Met	Indirectly to MDGs and GPRS
2008		

Education 1. Improve equity and access to basic education (by reducing disparities in education service delivery, increasing resources for deprived districts, and improving infrastructure in shools). Indicators: • Deprived districts NER (primary 77.7% • National averages NER (primary) 81.6%	Met	MDGs
Education 2 Improve the quality of learning through in service training on the new curriculum (30% of teachers) and supply textbooks for core subjects to all primary schools. Indicator 1:1 in 3 core subjects in all the 53 deprived districts.	Met	Not directly
Health Percentage of children fully immunised by age one (Penta – 3 coverage as proxy indicator) greater than 85%	Met	GPRS
Water 57% access to safe water in rural communities and small towns, as defined in CWSA 5 year investment plan	Met	MDGs
2007		
Education. Reduce disparities in enrolment ratios and efficiency indicators between deprived districts and national averages by better targeting of resources: Targets Deprived districts, NER (primary) 57%, PTR 38:1 National averages NER (primary) 75%, PTR 35:1	Met	MDGs
Health 1 More than 50% of the indicators in the basket of indicators for measuring sector performance improve in comparison with 2007	Met	MDGs GPRS
Health 2 Increase in health spending (FY 2007) which leads to accelerated progress towards the MDGs by increasing in real terms GoG expenditure on item 3 of the health budget (services) with an improved execution rate on item 3.	Met	Indirect on MDGs

Health 3 National Health Insurance scheme becomes increasingly effective. 36%of population, including indigents and other exempt categories, are issued with ID cards	Met	GPRS
Water 55% access to safe water in rural communities and small towns	Met	MDGs
2006		
Education 1 Continue to improve national Gross Primary Enrolment Rates (GPER) in Academic Year 2006/07 with no deterioration in national Gender Parity Index (GPI)	Met	MDGs
Education 2 Increase the level of public expenditure on primary education to at least 33% of total public expenditure on education	Not met	Not directly
Education 3 Equip Teacher Training Colleges to specialize in the training of Mathematics and Science teachers. Report on provision and equipping of laboratories in 5 selected TTCs	Not fully met	Indirectly to GPRS
Health 1 Accelerate progress towards achieving MDG 4 and 5 by: Increasing utilization of insecticide-treated bed nets (ITNs) by children under 5 years to 30% nationally; and Malaria Case fatality reduced to 2.3	Met	MDGs
Health 2 Increase health spending to accelerate progress toward the MDGs: Absolute increase in spending on item three of the health budget (services)	Met	MDGs
Water Adopt the National Water Policy (NWP) and begin implementation, including: a. Approve the 5-year investment plan and implementation framework for Rural Water. b. Up-date the SIP and approve the 5-year investment plan for Urban Water.	Not yet met	Not directly

Annex 2

Overview of PFM Reform Measures, 2003-2009[60]

PFM legislative and regulatory environment

Between 2003 and 2010, the following legislative or regulatory instruments were promulgated:

- Internal Audit Agency Act (2003)
- External Audit Agency Act (2003)
- Finance and Administration Act (2004) [Organic Budget Law]
- Financial Regulations (2004)
- Public Procurement Act (2004)

Budget planning and appropriation

Improvements recorded between 2003 and 2010 include:

- The 2006 Budget Statement was the first to be presented to Parliament, and the first Appropriations Act to be promulgated, before the beginning of the budget year to which it related. Each Budget Statement since then has been presented to Parliament and promulgated before the beginning of the relevant budget year.
- Following the 3-year GPRSI national strategic plan (2003-2005), the GoG prepared GPRSII (2006-2009), through a process managed by NDPC, in consultation with DPs. This was intended to provide the government's strategic national development framework and guide its allocation of resources.
- The Budget Statement has improved the amount of information it contains (e.g. on retained internally-generated funds [IGFs]).

Disappointing progress was made in the following areas:

- weakness in monitoring and evaluation of the GPRS;
- translating the broader policy objectives in the GPRS into sectoral strategy documents - experience is mixed;
- translating sectoral policy objectives into budget priorities (making a clear link between policy priorities and budgetary allocations);
- making the budget documents, and the trade-offs therein, clear and meaningful.

Budget execution (implementation)

Improvements recorded between 2003 and 2010 include:

- The elaboration of guidelines for a strengthened commitment control system (2004);
- The establishment of an Expenditure Management Committee (2006);
- The closing of a number of bank accounts (including redundant or unauthorised accounts) in preparation for a Treasury Single Account (TSA);

[60] Evidence for this annex has come from published reviews of public financial management (e.g. ERPFMs, PERs and PEFA assessments)

- A harmonised chart of accounts, covering MDAs and MMDAs, was agreed;
- An integrated payroll and personnel database (IPPD2) became operational;
- A number of decentralised treasuries were established and became operational. These treasuries were intended to facilitate more timely releases of funds to cost centres in critical areas, such as education.

Whilst efforts were made to improve the budget execution process, disappointing progress was made in the following areas:
- the effective operation of the planned commitment control system;
- expected improvements in timely expenditure authorisation (including for commitments) through the implementation of the planned Financial Management Information System (BPEMS) were not forthcoming;
- procurement rules and procedures were not always followed and contributed to the re-accumulation of arrears after 2006;
- being able to ensure that appropriated resources were provided in a timely fashion and in line with budgetary allocations.

Accounting, reporting, recording

Improvements recorded between 2003 and 2010 include:
- Some monthly budget execution reports have been made available to the public through MoFEP's website;
- more timely completion of monthly budget execution reports;
- Information on retained IGFs contained in budget execution reports.

Disappointing progress was made in the following areas:
- Monthly budget execution reports have not been made public regularly; there can be a significant lag (the most recent report available is for March 2007);
- expected improvements in timely accounting and recording expenditures through the implementation of the planned Financial Management Information System (BPEMS) were not forthcoming;
- little progress made in incorporating externally-financed project expenditures in CAGD reports.

Audits

Improvements recorded between 2003 and 2010 include:
- internal audit agency established, and the process of establishing IAUs in MDAs begun;
- backlog of audits completed by GAS (2005 and 2009);
- timeliness of submission of external audit reports to Parliament has improved in recent years.

Areas of more limited progress included:
- Follow-up actions taken by MDAs on audit recommendations; an attempt was made to improve follow-up through the establishment of Audit Recommendation Implementation Committees (ARIC) in budget entities, but these were reported to be ineffective.
- Audit reports being presented to Parliament in a timely manner;

- PAC reports prepared and follow-up actions taken.