

THE LENPA FORUM CASE STUDY, APRIL 2005

**Multi-Donor Budget Support and Capacity Development:
emerging lessons from Ghana**

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1. Summary and Conclusion

- 1.1 There appears to be a virtuous and mutually reinforcing relationship between improving capacity for macroeconomic and public financial management, the GPRS, HIPC, the IMF PRGF and the MDBS programme. It is difficult, and possibly unnecessary, to identify attribution to each of these developments. During the past three years these processes have combined to deliver higher rates of growth, lower domestic borrowing, lower interest rates, and increased spending on poverty related expenditures.
- 1.2 MDBS has supported capacity development by providing additional budget resources to fund such investments, and by using dialogue and monitoring to concentrate attention on crosscutting reforms to tackle bottlenecks. This approach has been more successful in some areas than others, with PFM providing a notable success. While the relationship between MDBS capacity development and complementary TA support is complex, emerging experience indicates that small-scale and co-ordinated TA can provide technical direction when senior officials drive the reforms and MDBS provides the incentives, resources and focus.

2. Background

- 2.1 The Ghana Poverty Reduction Strategy (GPRS) and the supporting Multi-Donor Budget Support (MDBS) programme are well into their third year of implementation. This paper attempts to extract the early benefits with regard to capacity development drawing the OECD-DAC General Budget Support Evaluation Framework.
- 2.2 The paper is structured as follows:
 - Description of the MDBS programme in Ghana
 - Developing capacity to manage predictable aid flows
 - Macroeconomic Management and MDBS
 - MDBS builds the capacity of government to plan and co-ordinate
 - MDBS and Capacity Development to implement the GPRS

3. Description of the MDBS programme in Ghana

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3.1 Nine donors² signed a Framework Memorandum for MDBS with the Government of Ghana in 2003. This sets out the main principles for the MDBS programme including the use of joint reviews and assessments, and, a common performance assessment framework (PAF) with triggers for disbursement and monitorable targets.

3.2 While the AfDB and World Bank make single annual disbursements, the bilateral and EC partners provide budget support in two annual and equally sized tranches. These comprise: a fixed tranche that is provided early in the year that is subject to minimal conditions (an IMF Programme); and, a variable tranche that depends on performance against a small number of triggers agreed with government. For 2005, the PAF contains ten disbursement triggers in common with the World Bank PRSC (plus two outcome triggers adopted by the bilateral and EC partners), that cover areas of growth and private sector development, human development and governance, including public financial management³.

3.3 In addition to the increased budgetary resources, the MDBS process delivers joint missions between donors, observers and the IMF, common assessment frameworks and co-ordinated sector groups that provide the incentive for capacity development.

4. Developing capacity to manage predictable aid flows

4.1 One of the aims of MDBS is for government and donors to work more closely to improve the predictability of aid flows. In 2002, the year before MDBS was introduced, less than half of planned budget support was disbursed. Disbursements rose to 90% of the planned amount in 2003, and just over 100% in 2004.

4.2 The improvement in predictability can be partly attributed to the MDBS arrangements including: the selection of conditionalities based on government's GPRS and sector plans; and, improved information sharing amongst donors. In addition, this paper will argue that the co-ordinated policy dialogue and additional budgetary resources has provided the focus and resources for government to concentrate on key crosscutting reforms such as public financial management. This has helped government to accelerate progress in areas that are critical for sustained and uninterrupted budget support.

4.3 The bilateral and EC two-tranche system contributes to predictability through the use of the fixed tranche and the small number of triggers. However, the approach could be improved if the size of the variable tranche could be determined before the budget. With the current arrangements the government can

² AfDB, Canada, Denmark, EU, Germany, Netherlands, Switzerland, UK and the World Bank. France joined in 2005 bring the number of donors to 10. Japan, US and the United Nations participate as observers.

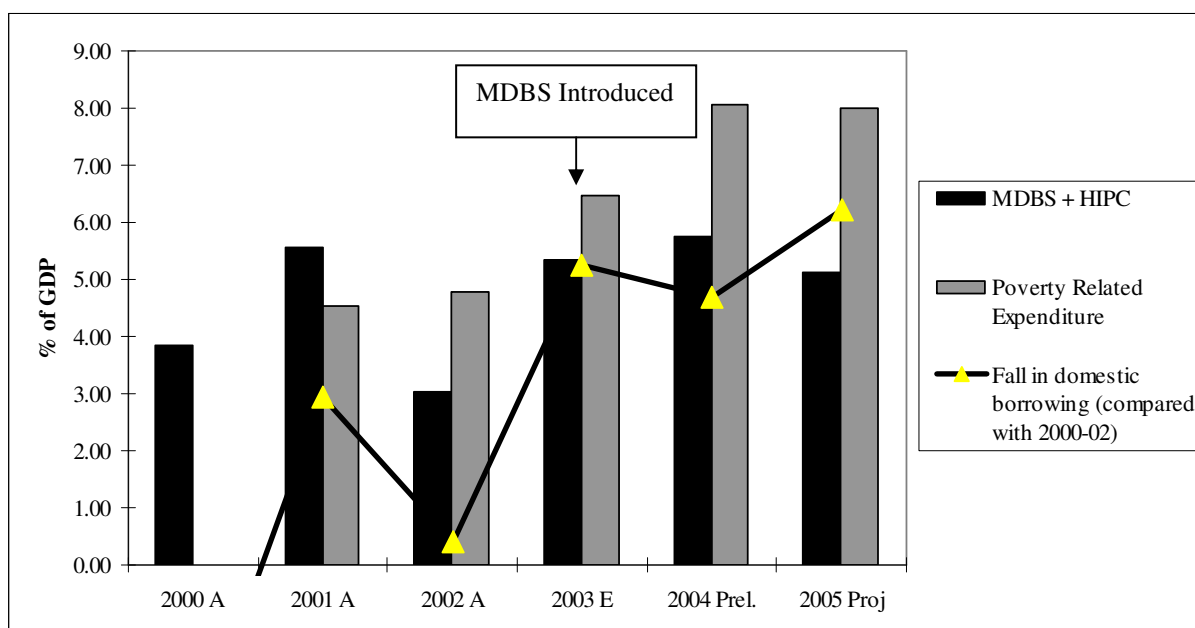
³ The detailed arrangements used by the Bilateral and EC partners are agreed with government on an annual basis in the "Technical Annex to the Framework Memorandum". The arrangements used by the AfDB and the World Bank are captured in their credit agreements.

be well into the budget year before the actual size of the variable tranche is known. However, the uncertainty is reduced by the on-going dialogue with donors and monitoring of progress towards the triggers. To further improve predictability donors and government could work towards moving the MDBS assessment to before the budget statement.

5. Macroeconomic Management and MDBS

5.1 At a macro level one can draw tentative conclusions that the implementation of the MDBS programme working in concert with the IMF PRGF has bolstered the government's efforts to stabilise the economy. Over the past three years this has resulted in sustained growth of over 5%, control over inflation despite rising world oil prices, falling fiscal deficits and borrowing and lower interest rates. At the same time, revenue collection has increased, HIPC completion has been achieved, and an ever greater share of resources are being allocated to poverty reduction expenditure. Perhaps the most impressive achievement was to sustain this level of management throughout an election period. Figure 1, illustrates how MDBS and HIPC flows combined with higher revenues have allowed government to increase spending on poverty related areas while cutting domestic borrowing.

Figure 1: A comparison of MDBS and HIPC expenditure with Poverty Related Expenditure and the cut in domestic borrowing (from 2000-02 levels)



Sources: MoFEP and IMF.

5.2 Much of the credit for the government's macroeconomic policies can be attributed to the capacity of a group of dedicated officials in the Ministry of Finance and Economic Planning (MoFEP) and Bank of Ghana (BoG), backed by the Finance Minister and the Governor. They, in turn, seem to have increasingly enjoyed the backing of the President that has been crucial in a context where historically the MoFEP has lacked power. The growing stature of the MoFEP can be partly explained by the additional budgetary resources that have been brought under its control. MDBS flows and HIPC savings amount to around \$0.5bn a

year. The additional discretionary budget resources combined with greater alignment between the budget and the GPRS have allowed the Ministry to exerting greater control over expenditure, budgeting and PFM reform. MoFEP has responded to this responsibility by bringing in experienced Deputy Ministers and senior officials from outside government.

- 5.3 As we consider the impact of MDBS on the macroeconomic picture it is important to consider the strong complementary role that the IMF PRGF has played over the past three years. At one level, it would be difficult, if not impossible for many donors to provide budget support without the degree of comfort that an IMF programme provides. The IMF has played an important role in working with the government's economic team to deliver the positive trends that have accompanied the introduction of budget support such as the achievement of zero net domestic borrowing in 2003 and improved expenditure control.
- 5.4 Since 2003, at the invitation of the government, the MDBS group and the IMF have conducted joint missions to reduce the burden on government. In Ghana, as with many developing countries, the same officials are responsible for: developing and monitoring the PRSP, negotiating the IMF and World Bank loans, working on the MDBS programme, as well as implementing macroeconomic and growth policies and managing the budget. In some notable cases this is in addition to their ministerial or parliamentary roles.
- 5.5 The joint missions have generally followed a three-stage approach: 1) the IMF lead the initial meetings on the macroeconomic framework and budget implementation. These initial meetings have increasingly focused on the GPRS implementation drawing on the work of the Annual Progress Report (APR); 2) structural reforms, including PFM, public service reform (PSR), private sector development and trade, decentralisation and M&E jointly led by the World Bank, donor sector leads and the IMF; and, 3) social and productive sectors with the World Bank and donors leading on sectors such as health, education, and natural resources. The MoFEP has established an MDBS Secretariat, co-financed by government and donors, to manage the missions and on-going dialogue.

6. MDBS builds the capacity of government to plan and co-ordinate

- 6.1 The government has increasingly set and led the agenda for MDBS reviews and discussions. While the donors play a key role in the preparations and assessments, the government's team has considerably strengthened co-ordination amongst ministries and exerted their leadership. The government team is led by the Deputy Minister of Finance and Economic Planning supported by the MDBS Secretariat and four crosscutting sector leads who co-ordinate inputs across government. The general sense is that the MDBS programme and its associated reviews, policy matrices and policy dialogue provide an opportunity for government officials to sharpen prioritisation, the management of the GPRS and cross-sectoral collaboration. The MDBS process helps to provide an interface between the budget, crosscutting reforms and sector policies, and fosters government-wide co-ordination and accountability for the implementation of the GPRS.

- 6.2 The Deputy Minister and the MDDBS secretariat work together to provide a crucial policy co-ordination function. The Deputy Minister tends to organise and represent the inputs of Ministers and liaise with Cabinet; while the Secretariat provides information and seeks advice at a technical level across government. Since last year they have been supported by four representatives from various Central Management Agencies⁴ who co-ordinate with ministries within the broad themes of the PAF. This process has strengthened considerably over the past few years resulting in a much more effective cross-department approach to achieving measures in the policy matrix and ultimately the GPRS.
- 6.3 Ministries such as health and education, which have relatively good capacity in planning, human resource and financial management, are leading the way in managing strategic plans, working within the GPRS, providing strong budget submissions and contributing effectively to the MDDBS discussions. While there have been significant improvements, sectors such as water, roads, energy, agriculture and natural resources, have found it more difficult to engage with the MDDBS process. This partly reflects the strong reliance of these Ministries on donor financing, systems and project management units that divert attention away from their engagement with the budget process. However, it also highlights the continuing, albeit improving, variance between the planned and actual budgets. For example, the Ministry of Roads and Transport argue that they do not believe that currently the budget can reliably deliver its financial requirements.
- 6.4 In the coming years the ministries of health and education could play a key role in discussions about increasingly providing donor finance to these sectors through the budget, rather than through dedicated funds and projects that bypass the government's PFM systems. It is more difficult for other Ministries that are either, heavily project dependent or peripheral to the GPRS to see their role within the MDDBS programme. The respective Ministries of health and education have taken important steps towards coherent planning and budgeting through the seven-year old sector-wide approach (SWAp) in health and the emerging SWAp in education. The problem of budget fragmentation is still present, but the sectors are far less dependent on project implementation units and stand-alone projects than other sectors. In addition, more resources have been allocated to investment, planning human resource management and M&E.
- 6.5 Both health and education have institutionalised planning and review in the form of annual summits with donors and civil society organisations. In part thanks to the MDDBS process, MoFEP has taken a more active and higher level interest in these summits which is helping to address cross-sectoral issues reform issues such as incentives to encourage staff to work in poor remote areas and payroll management. One of the best examples of how inter-ministerial work is improving as a result of the GPRS approach supported by MDDBS is government's reaction to the slowing, possibly halting, decline in child mortality. In response government has matched continued increases in funding to health with additional support for rural water.

⁴ Including MoFEP, the Office of the Senior Minister and the National Development and Planning Commission.

- 6.6 In the past year the bilateral and EC donors have introduced the use of health and education outcome disbursement triggers on a pilot basis⁵. There has been support for this move from the sector, while MoFEP has raised concerns about the extent to which government has control over the outcome. It is too early to tell what the impact will be and a government and donor-working group has been tasked with reviewing experience and increasing the results focus of the PAF. However, there are signs that issues around data, and impact have gained greater prominence in MDBS discussions. In other sectors where monitoring and planning are less well advanced the move towards outcome indicators may be slower.
- 6.7 The improvement in government policy co-ordination supported by MDBS has been mirrored by attempts from donors to improve the effectiveness and co-ordination of sector groups. The MDBS donor group has forged links with 16 existing sector groups, identifying an MDBS Sector co-ordinator, and encouraging regular meetings between the co-ordinators and the MDBS co-chairs. The sector groups are varied in terms of mandate, composition and the extent of government participation. This improved co-ordination is resulting in improved design and monitoring of the PAFs and raising appropriate reforms issues to a higher level of dialogue. This is the first year that donors have worked within the agreed “MDBS Structures and Principles” aimed at streamlining and formalising co-ordination. This has put in place a structure with two co-chairs⁶ supported by representatives from each donor agency including observers.
- 6.8 One of the expected benefits of the budget support approach is that it shifts accountability for spending and service delivery from donors to the Executive and ultimately Parliament. Donor support provided directly to line ministries that bypasses government’s PFM systems, undermines accountability, the budget process, and the role of MoFEP. For example, only 15% the Ministry of Education’s non-salary budget comes from the consolidated fund, with the rest coming from a statutory fund, internally generated funds and donor projects⁷.
- 6.9 Given the dependence of key ministries on direct support this has raised concerns that a rapid switch to budget support will leave ministries short of critical non-salary budgets. On the other hand there needs to be a significant shift in the share of budget support to improve incentives for government to improve the budget process by bringing a greater share of the budget under the control of MoF and the PFM system.
- 6.10 Experience with MDBS, and the increases in social sector funding, suggests that budget support better funds areas of the budget that have always been funded (e.g. recurrent costs for health and education). It will take longer for the budget to

⁵ Increase Gross Primary Enrollment Rate in three most deprived regions; and, increase utilization of health services in deprived regions

⁶ The World Bank as a permanent co-chair, with the other co-chair filled on a rotating basis by one of the donors: 2002/03 DFID, 2003/04 Canada, 2004/05 EC, 2005/06 Netherlands.

⁷ MoEYS non-salary budget financing: GoG-15%, Donors- 9%, Ghana Education Trust Fund- 62%, District Assembly Common Fund (Primary and JSS)- 5%, HIPC- 9%. Source: MoEYS budget submission 2005

evolve to finance those areas traditionally funded by donor projects, ranging from technical assistance (TA) for reforms to big-ticket infrastructure. In addition, governments tend to put less emphasis on research and international TA than donors and therefore project support tends to better fund these activities than the budget. This suggests that shifts from project to budget support will need to be phased to accommodate the budget reallocation process. The phasing should be fast enough to provide the incentives for change while recognizing the difficulty in of shifting allocations in any democracy. The difficulty of phasing a transition from project to budget support should not be underestimated due to the level of co-ordination required within the MDBS group and with other major donors.

6.11 Despite the move towards budget support the 2005 budget reports over 500 current donor projects worth a total of more than \$500m. This list may not even be fully comprehensive, but this may be offset by a number of dormant or completed projects that are included. While many of the projects will provide implementation capacity inevitably each project will incur transaction costs and will place a burden on key officials.

7. MDBS and Capacity Development to implement the GPRS

7.1 From the experience of MDBS, capacity is being built in two important ways:

- a) Providing space for the budget to finance capacity development.
- b) Concentrating attention, through dialogue and monitoring, on key crosscutting reforms to address bottlenecks to GPRS implementation. This is providing incentives and improving the efficiency of government's reform effort.

7.2 The MDBS performance assessment framework (PAF) that underpins monitoring and disbursement decisions includes a range of capacity development policy actions. Actions in the PAF are derived from the GPRS and government sector plans and serve to focus attention on areas that require inter-departmental action. The current policy actions are a mixture of disbursement triggers (denoted by '*' below) and targets:

- *Implementing priority areas of public sector reform aimed at improving service delivery capacity of the civil service, including (i) finalizing and implementing a professional HR framework; (ii) developing a communications strategy; and (iii) commencing organizational restructuring of the civil service.
- *Strengthen the institutional framework for the implementation of the private sector development and trade strategies.
- Secure additional funding to build the capacity for GPRS M&E
- *Issue a management contract for the Electricity (distribution) Company of Ghana (ECG)
- *Establish capacity in each Ministry to carryout procurement and internal audit functions consistent with the new acts.
- Expand the computerised budgeting and public expenditure system to help build capacity to implement the Financial Administration Act.

- Build capacity in local government by implementing the National Decentralisation Action Plan.
- Assess and expand the teacher and health worker retention schemes to improve service delivery in deprived areas.

7.3 Each of these activities will require concerted effort from a range of ministries. GoG has found it hard going directly tackling the public sector reform agenda however the range of capacity building activities that the government is engaged in provides encouragement that capacity is being built to improve the effectiveness of the additional resources flowing to the key sectors.

7.4 However, over the past three-years the MDBS programme seems to have been successful in helping government to accelerate capacity development in some areas more than others. There has been positive progress in the areas of public financial management, planning, GPRS M&E and health and education sector management. While, progress has been more difficult in the areas of civil service reform and decentralisation. The dual elements of budget resources and dialogue provided by MDBS cannot entirely explain the variable pace of capacity development. Capacity development depends on a combination of political will, institutional incentives and complementary donor support. Political difficulties, particularly in the lead up to elections may explain the faltering progress on civil service reform. However, the question of what complementary support to MDBS is required is crucial to ensure that the GPRS is implemented efficiently and effectively.

7.5 Despite the move to budget support donors continue to support government's various capacity building efforts through a range of projects. In addition, government departments send a steady stream of project proposals to donors for technical assistance outside the budget process. Increasingly this support is being provided as part of co-ordinated sector programmes, and *ad hoc* requests are rejected to encourage the use of the budget process.

7.6 There is a sense in Ghana that targeted donor support is required to complement the beneficial capacity building affect of budget support. This is partly to try and speed-up reforms critical to ensure improved service delivery and use of public funds, and partly in recognition of the large volume of TA still provide by donors. In response to this, a proposal was developed to earmark a portion (about 5%) of MDBS funds for TA in 2003. However, the government was reluctant to restrict the use of budget support and the development stalled.

7.7 However, a range of donors contest that while it may not be desirable to ring-fence budget support for TA, there is a need to better co-ordinate the existing support provided to TA outside of MDBS. Therefore work is commencing on a fund to improve the consistency and coherence of donor support form reforms in the areas of PFM and civil service reform. This fund aims to eliminate the need for stand-alone projects and provide a mechanism to assess government requests and provide quality TA. The fund is intended to provide the kind of small-scale, fast and responsive support that is difficult for any budget process. It will not provide major resource transfers for government reforms (such as retrenchment or IT installation) this will be carried out by MDBS.

7.8 Support to PFM reform provides an interesting example of supporting capacity development through budget support. Donors have taken a new approach since 2003 when a major multi-donor support programme (Public Financial Management Reform Program (PUFMARP)) came to an end. PUFMARP commenced in 1997 and included:

- Development of an MTEF, \$4m, co-financed by DFID;
- Budget and Public Expenditure Management System (BPEMS) IT-based accounting system, \$13m; World Bank
- Revenue Management, \$9.4m; World Bank
- Procurement, \$0.3m; World Bank
- Development of HR, IT and Legal frameworks. World Bank
- DFID also provide related support to Payroll Management (IPPD) and to the VAT Authority,

7.9 The final evaluation scored the programme's outcome as unsatisfactory with the expected results judged to be far too ambitious because of the complex institutional and policy reforms required. The evaluation concluded that the government was ill-equipped to manage the challenges presented by the programme, and there were short-comings in the management and supervision by all parties.

7.10 In theory, the PUFMARP programme provided a framework for ambitious and comprehensive reform with co-ordinated donor support. In practice, the support was often fragmented with donors working in isolation on different areas. Donor support was characterised by large and complex IT projects managed by project units, donor financed consultants and seconded civil servants.

7.11 However, despite the difficulties, arguably PUFMARP provided the foundations for the recent progress in PFM reform. Donors now provide support in three ways:

- small-scale TA to support government led initiatives such as DFID's secondment of a procurement adviser to the MoFEP to help implement the reforms;
- diagnostics and monitoring including the annual World Bank-led multi-donor External Review of PFM;
- and, Multi Donor Budget Support (MDBS) policy dialogue. PFM forms a central part of the PAF and accounts for four of the 12 triggers in 2005. These activities are co-ordinated through a donor group and MDBS policy dialogue.

7.12 The PFM donor group provides a forum to: share experiences and information on donor support; maintain a shared support strategy; and, agree assessments and messages to provide to government. Since the end of PUFMARP much of the capital expenditure required for PFM reforms have been financed by the budget. The government has allocated some \$1.7m in this year's budget to implement the reforms.

7.13 The government has recently passed three PFM acts⁸ that provide the overarching framework for PFM reforms. Specific actions are captured in an annual action plan. This approach has given rise to significant gains in public sector support during the past few years. In 2004, donors carried out a range of fiduciary risk assessments⁹ that reported significant progress. For example, the HIPC Fiduciary Risk Assessment and Action Plan report¹⁰ concluded that Ghana had made substantial progress in implementing PFM reforms, albeit from a low base, compared with other HIPCs. Ghana moved from achieving 1 out of 15 benchmarks in 2001, to 7 out of 16 (the procurement benchmark was added) in 2004.

7.14 There is still much to be done on PFM with fiduciary risk still considered to be high. However, the new approach of MDBS backed with flexible and coordinated small-scale support appears to be paying dividends. The MDBS policy dialogue and incentives seem to have strengthened of the Finance Ministry and emboldened senior officials providing the overall drive. However, this has been supported by technical advice notably in the areas of financial reporting and cash and debt management.

⁸ Financial Administration, Procurement and Internal Audit.

⁹ An updated Country Financial Accountability Assessment, the HIPC Appraisal and Action Plan, Public Expenditure Review and the IMF Report on the Observance of Standards and Codes (ROSC).

¹⁰ World Bank, 2004, <http://www1.worldbank.org/publicsector/pe/hipcpapers.htm>