



Economic Commission for Africa

**Second Meeting of the  
African Learning Group on  
the Poverty Reduction Strategy Papers  
(PRSP-LG)**

18-21 November 2002  
Brussels, Belgium

The PRSP Process in Ghana



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The views in this paper are solely the author's; they do not necessarily reflect the views of the Economic Commission for Africa or its officers.

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## Introduction

Outside of post-apartheid South Africa, Ghana is the only country in sub-Saharan Africa that has undergone fundamental economic and political transformations over the past decade and half. Although the results of the economic reform programs have been far from being satisfactory from the point of view of poverty reduction and strengthening the productive sectors of the economy, the emergence of vibrant civil society, opposition parties, and a free and independent media on the other hand has been a spectacular development by the standards of sub-Saharan Africa. The peaceful and democratic transfer of power from Jerry Rawling's National Democratic Congress (NDC) government, which dominated Ghanaian politics for almost 20 years, to a pro-business government of the New Patriotic Front (NPP) in December 2000 is a clear demonstration of how far Ghana has traveled politically over the past decade. The prospects for the future appear promising in spite of the parlous state of the economy today. There are still many mountains to climb and rivers to cross by the NPP government, but the basic ingredients required for economic and political renewal have already been put in place.

## The Development Context

Through much of the second half the 1980s and the 1990s, Ghana was touted as the most successfully adjusting country in Sub-Saharan Africa. The economic reform program implemented between 1983-92, with the support of the Bretton Woods institutions, was the first attempt to introduce important market principles into the economy. While Economic Reform Program (ERP I) (1983-86) focused on stabilizing the economy by reversing the long term decline in production of goods and services, and by reducing the budget deficit and containing inflation, ERP II (1986-91) focused on deep seated structural issues in the economy, such as increasing domestic savings, mobilizing resources, investing on infrastructure, and on improving the efficiency of the public sector.<sup>1</sup>

While these early reforms were credited for successfully stabilizing the Ghanaian economy and generating some growth, the country has yet to receive the rewards of self-sustaining growth rates of around 8% per annum and wean itself off of foreign aid by attracting private investment. During the adjustment period (1980-1990), Ghana's performance averaged 3%. In addition, maintaining macroeconomic stability has remained illusive during most of the 1990s and the early part of 2000-2001. Periods of relative fiscal and monetary discipline were inevitably punctuated by periods of high inflation. Inflationary pressure typically emerged as a result of fiscal relaxation at the time of general elections, in the form of an 80 percent increase in wages to civil servants associated with the 1992 elections and a rapid burst of public investment associated with the 1996 elections. Although the government instituted sweeping reforms in 1997 to stabilize the economy, this was relatively short lived. Policy reversal soon followed. The terms of trade deteriorated and fiscal loosening leading up to the 2000 elections aggravated the scale of the economic crisis.<sup>2</sup> The key question among some of Ghana's development partners today is whether the current government can avoid repeating these same mistakes as it sets its eyes on the 2004 elections.

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<sup>1</sup> Devarajan, S, Dollar, D., and Holmgren, T., **Aid and Reform in Africa**, World Bank, (Washington, D.C: 2001)

<sup>2</sup> World Bank, **Country Assistance Strategy 2000-2003**, p.25

The difficulty in maintaining macroeconomic stability is further compounded by the failure of previous adjustment reforms to revitalize the basic foundations of the productive sectors of the economy that hold the greatest potential for reducing poverty. The stabilization programs produced a limited success in the growth of agriculture and manufacturing, propelling expansion only in services on the back of a debt financed import/consumption boom.<sup>3</sup> While cocoa producers did indeed benefit from the stabilization and adjustment policies of the 1980s, the vast majority of subsistence farmers were left to fend for themselves. In 1970, for example, agriculture accounted for more than half of the nation's total value added, but declined to just over 40 percent in the 1990s. Industry also declined from about 20 percent to 14 percent during the same period.<sup>4</sup> Little of the externally funded budget support was spent on supporting directly productive activities.

Despite lackluster performance of the economy and occasional fiscal 'slippage', as was the case in 1992, 1993 and 1996, large inflows of external aid continued unabated. Between 1983 and 1999, Ghana received eight loans from the IMF totaling \$1.4 billion and 23 loans from the World Bank amounting to \$840 millions.<sup>5</sup> As long as the country stayed on track in implementing IMF/Bank programs, bilateral donors also continued to provide large amounts of aid. The temporary interruptions by the IMF and the World Bank following fiscal 'slippage' in the early 1990s were out of the ordinary as the programs were restarted as soon as the government resumed the required reforms. By 1990, Ghana had become the ultimate test of structural adjustment and donors were unwilling to see it fail even when policy reversal became more frequent.<sup>6</sup> This was in sharp contrast to donor behavior towards other African countries experiencing similar problems.

The massive aid flow, World Bank funding in particular, had been critical to many specific projects and to lubricating the economic machinery at a time when many facets of the Ghanaian economy had all but stopped. External flows also helped offset the terms of trade decline that the country experienced in the late 1980s. With retail shops stocked with donor-financed imported consumer goods, aid created the illusion of better things to come in the minds of ordinary Ghanaians. In many respects, Ghana's development partners were as equally guilty as the government for creating an illusion of a "cathedral in the desert". The large and persistent fiscal and external gaps created a heavy debt burden that could not be sustained by the end of the 1990s. As a result Ghana had no recourse but to seek relief under the HIPC Initiative.

## **1. Nature, characteristics, and depth of poverty**

Poverty is a multi-dimensional concept, which encompasses levels of income, nutrition, health, literacy and insecurity. The main government instruments for monitoring poverty in Ghana are the Ghana Living Standards survey (GLSS) that is conducted every five-year, and the Core Welfare Indicators Questionnaire, an annual survey that measures poverty levels using selected indicators.

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<sup>3</sup> Aryeetey, Ernest and Adrian Cox, "Aid Effectiveness in Ghana", in J. Carlsson, G. Somolekae, and N. van de Walle, (eds.), **Foreign Aid in Africa: Learning from Country Experiences**, Nordic Africa Institute (Uppsala: 1997)

<sup>4</sup> Government of Ghana, **Ghana Poverty Reduction Strategy 2002-2004**, p.18

<sup>5</sup> Armstrong, R.P., "Ghana Country Assistance Review: A study in Development Effectiveness", World Bank, Operations and Evaluations Department (1999); World Bank, **Ghana: Country Assistance Strategy**", Washington, D.C: 1998.

<sup>6</sup> Yvonne M. Tsikata, "Successful Reformers: the Case of Ghana", in Devarajan et al., **Aid and Reform in Africa**, World Bank (Washington, D.C: 2001), p48-52

**Table 1**  
**Geographical Distribution of Incidence of Poverty in percentages**

Region	1991/92	1998/99
NATIONAL	51.7	39.5
Greater Accra	25.8	5.2
Central	44.3	48.4*
Western	59.6	27.3
Eastern	48.0	43.7
Volta	57.0	37.7
Ashanti	41.2	27.7
Bahafo	65.0	35.8
Northern	53.4	59.2*
Upper West	88.4	83.9

**Source:** Compiled from GLSS 3 and GLSS 4.

The poverty profile used for the preparation of the I-PRSP was based on data generated from GLSS3 (1991/92) and GLSS4 (1998/99). The percentage of the Ghanaian population defined as poor declined from 51 percent in 1991-92 to about 43 percent in 1998-99 in spite of the shortcomings of the adjustment programs to lay a durable foundation for long-term sustainable growth.<sup>7</sup> The decline in overall poverty, however, was not evenly distributed geographically, the poverty reductions being concentrated in Accra and the Rural Forest localities. Export farmers and wage employees in private employment enjoyed the greatest gains in their standards of living while food farmers experienced the least gains. Poverty has instead increased in some regions, notably in the Northern, Upper East and Upper Western regions.<sup>8</sup>

Poverty in Ghana also has a gender dimension. Women experience greater poverty. Gender disparities exist with respect to access to education, productive assets such as land and credit, and are marginally represented in decision-making. Socio-cultural factors continue to perpetuate the gender inequities in access to and use of services.

In addition to income poverty, progress in reducing the social dimensions of poverty has been equally mixed, with deep geographical disparities. For example, while infant mortality rates declined slightly between 1993 and 1998 nationally, the rates actually increased in the three northern regions. Malnutrition measured by underweight and stunting among children under five similarly shows adverse conditions prevailing in the north of the country compared to the national figures.<sup>9</sup> With the introduction of user fees, use of health facilities by the poor has significantly declined.

Progress in improving access to education has been quite disappointing. Gross primary school enrolment ratios have not significantly improved since 1992 and the quality of education is alarmingly low. Dropout rates remain high at about 20% for boys and 30% for girls at primary school and 15% for boys and 30% for girls at junior secondary school. Low enrolment and gender disparities are most pronounced in the north.<sup>10</sup>

<sup>7</sup> Ghana Statistical Service, 2000, **Poverty Trends in the 1990s**, Accra

<sup>8</sup> Government of Ghana, *Interim Poverty Reduction Strategy Paper (2000-2002)*, Page 3, Table 1

<sup>9</sup> Government of Ghana, **Ghana Poverty Reduction Strategy 2002-2004**, Volume 1 (February 20, 2002), p.12

<sup>10</sup> Government of Ghana, **Ghana Poverty Reduction Strategy 2002-2004**, p.13

Poverty in Ghana manifests itself in other ways. Community perceptions revealed that poverty was represented by a lack of basic necessities and facilities, an inability to provide education and medical care for the family, a lack of access to assets such as land and credit.

## 2. Changing course: From structural adjustment to poverty reduction

Long before the World Bank introduced the poverty reduction strategy paper (PRSP) in the spring of 1999, the Government of Ghana had tried to articulate a national poverty reduction strategy, albeit with limited success. The 1995 Consultative Group (CG) meeting on Ghana held in Paris marked a turning point in the government's strategy to combat poverty by establishing the institutional framework for coordinating poverty reduction initiatives countrywide. It had become evidently clear to the government that a decade of structural adjustment, while stabilizing the economy and generating some growth initially, had failed to produce structural change in the productive sectors of the economy and that poverty levels have remained unacceptably high in some parts of the country. The need to change course was obvious.

The highest policy making organ on all issues relating to poverty reduction is the Inter-Ministerial Committee on Poverty Reduction (IMCPR) established in 1995. The Minister of Finance chairs it. The IMCPR comprises all Ministers responsible for the social sector, including health, education, employment and social welfare, agriculture, infrastructure, local government and rural development. The Heads of the National Development Planning Commission (NDPC) and the National Council for Women and Development are also members of the IMCPR. When Ghana decided to prepare a PRSP, the IMCPR was given the oversight responsibility.

The IMCPR is served by an inter-agency and multi-sectoral Technical Committee on Poverty (TCOP) which provides the IMCPR with the requisite technical backstopping for ensuring effective coordination of poverty reduction oriented activities. The Poverty Reduction Unit (PRU) located at the NDPC is the Secretariat. The Director-General of NDPC chairs the TCOP. The TCOP employs the Working Group concept in promoting coordination and harmonization of ideas on poverty reduction. At the district and sector levels, the District Planning Coordinating Units (DPCUs) of the District Assemblies (DAs) and Policy, Planning, Monitoring and Evaluation Divisions (DPPMEDs) of Ministries, Departments and Agencies (MDAs) have the responsibility for coordinating poverty activities and technically mainstreaming poverty reduction into policies and plans.

Among the most notable efforts by government in the 1990s was the preparation of the **National Development Policy Framework** (1994)-- later renamed **Vision 2020**-- a twenty-five year development perspective. It proposed to turn Ghana into a middle-income country by the year 2020.<sup>11</sup> It was accompanied by a five-year policy statement entitled, **Vision 2020: the First Step**, which was used as the basis for developing the **First Medium Term Development Plan 1996-2000** (MTDP).<sup>12</sup> The latter two policy documents gave a stronger emphasis on human development while reaffirming the centrality of macroeconomic stability and private sector led growth.

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<sup>11</sup> 'Vision 2020' was produced following a highly participatory process

<sup>12</sup> Republic of Ghana, **Ghana Vision 2020: Programme of Action for the First Medium Term Development Plan (1997-2000)**, National Development Planning Commission, (Accra: June 1998).

Needless to say, these documents were allowed to collect dust in the shelf since the then incumbent government was reluctant to do anything about them until the outcomes of the December 2000 presidential elections were decided. Even if the NDC had emerged victorious, implementation of the Medium Term Development Plan (MTDP) and the Vision 2020 long term perspective would have been difficult since programs were not “fully costed”, had little impact on the allocation of resources in the budget, and that the plans did not set out measurable targets against which progress can be monitored. Despite the rhetoric of 'human development', the growth strategies that underpinned both documents were not effectively pro-poor, though policies such as free primary education and primary health did aim to expand services to all. These problems aside, the task teams responsible for preparing the GPRS did not make any reference to these documents since the team did not start out their studies by examining the merits and shortcoming what had been tried in the past. Some interlocutors even suggest that, within the NPP political circle, the MTDF was discredited by virtue of it being a product of a left-leaning populist government.

The fact remain that the Rawlings government was probably the only government in Africa, with the exception of Uganda, that was fully committed to implementing structural adjustment and stabilization programs in the hope of replicating the successful development experience of the East Asian 'tiger' economies. The NDC government faithfully followed the policy conditionality that often comes with external aid despite policy reversals in the early 1990s. The emphasis on export-oriented agriculture and private sector development was indisputable. In this respect, it is disingenuous of some officials in the NPP government to characterize the policies of the NDC government as being anti-private sector or anti-market.

The NDC's fall to grace began in the early 1990s when it lost political control of the budget. Despite its populist and pro-poor rhetoric, its spending priorities in the early part of the 1990s were driven more by concern with political patronage than poverty reduction. This often resulted in public expenditure going to regions and interest groups that were the least deserving. The situation got out of control during election years when overspending surpassed the capacity of the government to pay for new and unplanned activities. This contributed to macroeconomic stability, rising debt service, and declining real per capita spending on basic services. With debt servicing consuming a disproportionate share of the budget, the scope for pro-poor spending became ever more hard. And as Ghana entered the decade of the 1990s, it began to experience policy reversals followed by periods of lower economic growth. For the first time in more than a decade, donors began to withhold funding albeit for a short period of time.

(a) From I-PRSP to full PRSP: Evolution of the process in Ghana

In its continuing effort to tackle poverty, the Government of Ghana embarked on preparing a national poverty reduction strategy paper (PRSP) immediately after the establishment of the Enhanced HIPC initiative in 1999 by the Bretton Woods institutions. The Enhanced HIPC initiative stipulated that developing countries seeking debt relief or concessional assistance from the multilateral institutions must prepare a national Poverty Reduction Strategy Paper (PRSP) in consultations with their populations. This requirement also applied to countries wishing to access resources from bilateral donors.

In June 2000, the outgoing government of Jerry Rawlings hastily prepared an Interim Poverty Reduction Strategy Paper (I-PRSP) in a most unparticipatory manner contrary to the guidelines. Although the government claimed at the time that the I-PRSP is based on the long-term vision contained in the ***Ghana Vision 2020*** document, there is little evidence to confirm this claim. To the contrary, the I-PRSP was drawn from the World Bank's 2000-2003 country Assistance

Strategy document.<sup>13</sup> In this respect, the I-PRSP had nothing to do with poverty; and it was all about securing additional donor resources given the precarious state of Ghana's economy after the 1999 elections which came on the heels of dramatic collapse in the country's terms of trade and escalating oil prices.<sup>14</sup>

It was not surprising that the joint Boards of the IMF and the World Bank approved the I-PRSP in August 2000 considering the document's intellectual roots. In return, Ghana was granted an IMF loan--Poverty Reduction and Growth Facility (PRGF), formerly known as the Enhanced Structural Adjustment Facility (ESAF). The PRGF, which would have been active until 2002, was subsequently suspended with the coming into office of the New Patriotic Party (NPP) government. The previous government had fallen from the good graces of the IMF for failing to implement a number of prior action conditions.<sup>15</sup> This had a ripple effect on the already poor state of Ghana's economy.

The fragility of the Ghanaian economy despite 20 years of adjustment was evident in the financial bankruptcy of the state, which the new government inherited in December 2000. The New Patriotic Party (NPP) government had little time to celebrate its electoral victory as it soon found itself in the midst of an economic crisis. The new administration had to rely on overdraft facilities to keep in the apparatus of government running. The negative terms of trade, which began in 1999 as a result of the collapse of the cocoa market and the simultaneous escalation of the price of oil, deteriorated further as the Cedi lost half of its value in 2000 and the inflation rate reached the 40 percent range for the first half of 2001, and domestic debt interest payments were consuming half of all revenue.

Faced with a huge fiscal deficit and high inflation, the new government quickly put in place a strong program of stabilization that helped arrest the economic slide. The inflation rate declined to 21.3 percent at the end of the year, and the Cedi depreciated by only 4.1 percent over 2001.<sup>16</sup> The interest rate is moving toward affordable levels. The government's willingness to implement a number of prior action conditions opened the door for the reactivation of the PRGF and the disbursement of the outstanding tranche. In addition, Ghana qualified for debt relief under the Enhanced HIPC initiative, reversing the previous government's position not to apply for HIPC status. As a result, the government now saves about \$200 million a year in debt service payment.

#### (b) Preparation of the full PRSP

The preparation of the full PRSP for 2002-2004 (or GPRS as it is called in Ghana) started in August 2000 right after the joint Boards of the IMF and the World Bank had accepted the I-PRSP. The process was initially scheduled to be completed by October 2001. It was not until May 2002 that the final document was made public. Responsibility for the preparation of the PRSP rested with a special Task Force established within the National Development Planning Commission (NDPC), of the Ministry Planning, Regional Economic Cooperation and Integration. Five core teams were established with particular responsibilities for providing inputs into the crucial policy framework phase. These included: macroeconomics; gainful

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<sup>13</sup> World Bank, **Country Assistance Strategy 2000-2003**, The World Bank (Accra: 1999).

<sup>14</sup> Killick, Tony and Charles Abugre, *Institutionalizing the PRSP approach in Ghana*, Strategic Partnership with Africa (September 26, 2001).

<sup>15</sup> The Center for Budget Advocacy, **The 2001 Budget: A Call to Honour the Social Contract**, Integrated Social Development Centre (ISODEC), Accra (2001), pp.13-14

<sup>16</sup> World Bank, **Ghana and the World Bank 2002: A partnership for Progress**, World Bank, (Accra: March 2002), p.8

employment/production; human resource development/basic services; vulnerability and exclusion; and governance.<sup>17</sup> These thematic areas were identified in a preliminary situation analysis. Each team comprised representatives of appropriate MDAs, NGOs, civil society and donors. A consultant was appointed to serve each team. The teams were required to carry out their studies in consultation and collaboration with the appropriate MDAs.

Concurrent with the commencement of the diagnostic studies, local level community consultations were conducted in a sample of 36 communities. Consultations included participatory poverty analysis. Consultation workshops were also held in 12 districts and six administrative regions. On completion of draft reports by teams, a technical workshop attended by MDAs, NGOs, civil society and donors was held to harmonize and synthesize teams' work into a framework of mutually supportive program objectives. The output of this technical workshop provided a basis for further study and elaboration of proposals by the Poverty Reduction Unit of the National Development Planning Commission (NDPC) drafting team. The NDPC prepared a Poverty Reduction Policy Framework (PRPF) and its conclusions were reviewed, discussed and validated during a two-day National Economic Dialogue (NED) that was held in mid-May 2001. A follow-up workshop was held for development partners in July and an instructional workshop for MDA's that same month.

Questions have been raised about the relevance of the Task Force, as there was no framework to guide its work for coordination and consultation. The core teams went along producing their respective contributions without a clear oversight from the Task Force. Although task teams were required to carry out their studies in consultation and collaboration with appropriate DMA's, the quality of consultations with line ministries varied. For example, the macroeconomic task team had done a much better job since it had frequent consultations with the Ministry of Finance and the Bank of Ghana. The same cannot be said about the other task teams whose assignments did not necessarily fit with the mandate of a particular ministry or department.

The fact that an under-resourced National Development Commission (NDPC), with five professionals and limited administrative support, led the GPRS process did not help things for the better. It was not possible to ensure the integration of the outputs of the core teams with formal government structures.<sup>18</sup> Consequently, the PRSP has so far little influence on the budget process and is poorly integrated with SWAps and other line-ministry policies. The only exception has been the multi-donor supported sector-wide approach being tried with the Ministry of Health, and which has shown great promise.

With the exception of its pro-private sector orientation, the full PRSP does not indicate any significant departure from the policies pursued by the NDC government. The financial bankruptcy of the state has created conditions whereby the NPP is prepared to implement policies that often come as requirement for securing external assistance. With only a year and half away from the next presidential election, some donors have expressed concern that the fiscal loosening that happened during the 1996 and 1999 elections might happen again. In addition, donors are concerned that an array of institutional reforms that are critical for the successful implementation of the GPRS may suffer the same fate as others in the past. These concerns are likely to increase rather than streamline conditionality.

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<sup>17</sup> Government of Ghana, **Ghana Poverty Reduction Strategy 2002-2004**, p.31

<sup>18</sup> Interview with Joe Abbey, Ernest Aryeetey and Paul Dariguba (UNDP), Accra (July 2002).

### 3. Content of the growth strategy in the PRSP

The objectives of the government's medium term priorities (2002-2004) is to open up the country and introduce competition and create an enabling environment for the private sector within a stable macroeconomic environment.<sup>19</sup> This goal will be achieved by:

- Ensuring sound economic management for accelerated growth;
- Increasing production and promoting sustainable livelihoods;
- Direct support for human development and the provision of basic services;
- Providing special programs in support of the vulnerable and excluded;
- Ensuring good governance and increased capacity of the public sector; and
- The active involvement of the private sector as the main engine of growth.

The emphasis over the period of 2002-2004 will be on stabilizing the economy and laying the foundations for sustainable accelerated and job creating agro-based industrial growth. The priority areas include:

**Infrastructure:** The objective is to open up the country, introduce competition and create an enabling environment for the private sector through roads, ports, telecommunications and airways.

**Modernized agriculture based on rural development:** to develop the country to become an agro-industrial economy by the year 2010, through land reform, encouragement to grains and new cash crops, and supporting the private sector to add value to traditional crops such as cocoa.

**Enhanced Social Services:** The objective is to enhance the delivery of social services to ensure locational equity and quality, particularly with regard to education and health services, changes in the educational system, model health centers, and replacing "cash and carry" system with alternative systems of financing health care.

**Good Governance:** the objective is to ensure the rule of law, respect for human rights and the attainment of social justice and equity. This is to lead to the strengthening of the three arms of government, the executive, judiciary and the legislature in terms of numbers, technology, training and equipment. Governance reform also includes enhancing transparency and accountability in public financial management, public sector reform and decentralization of power to the districts.

**Private sector development:** The objective is to strengthen the private sector in an active way to ensure that it is capable of acting effectively as the engine of growth and poverty reduction. This is to lead to the creation of wealth at a faster rate in order to reduce poverty in a sustained manner. The creation of a Ministry for Private Sector is in part a demonstration of the government's stated objective of the "golden age of business". There is, however,

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<sup>19</sup> Adapted from the "Executive Summary" of the **Ghana Poverty Reduction Strategy 2002-2004**, pp.-iii

skepticism among those in the private sector that they are capable of speaking for themselves than a government bureaucracy, and they have taken a wait and see attitude what the new ministry is supposed to do.

The PRSP is a rolling three-year document and it has to be revisited after the first three years of implementation. While the “wealth creation and private sector development” approach that the government has adopted is to be welcome, questions have been raised about the adequacy of the poverty strategy as well as the process. *The strategy is not explicit in terms of demonstrating the links between its wealth-creation and private sector development bias and poverty reduction.* The strategy is silent on how to address the priority action identified by communities in the national participatory poverty analysis. As it stands now, the GPRS is a long-term vision squeezed into a three-year program of action. It would have been appropriate to concentrate first on tackling the priorities identified by communities, which could serve as building blocks for the long-term of objective of wealth creation and private sector growth. For example, the links between the construction of three inter-state highway system connecting Ghana to the rest of West Africa and overall poverty reduction are unclear. On the other hand, one can see the contribution of access road to poverty reduction in the rural areas.

**Results of the Participatory Poverty Analysis (PPA)  
Priority Action Identified by Communities**

- Small scale irrigation schemes, particularly in the northern savannah.
- Provision of potable water in rural areas.
- Generation of non-farming employment in rural areas
- Improved access to education and health facilities in rural areas
- Free basic education including provision of meals and clothing for children in the three northern regions.
- Measures to ensure equal rights to women
- Provision of safety nets and measures to rehabilitate those trapped within demeaning anti social circumstances;
- More equitable distribution of basic services between rural and urban areas;
- Reform of the traditional land administration and give farmers’ access to land as a monetary asset.
- Increased provision for useable vocational training schemes.

**Source:** GPRS, p.15

**The Link between the GPRS and the PRGF: is conditionality a problem?**

Recent experience in Ghana reflect deep problem of ‘adjustment fatigue’. In the early 1990s, Ghana’s economy began to falter as a result of internal and external factors. Weak external conditions in 1990/00 were compounded by a lack of fiscal control in the run up to the December 2000 elections, especially an unwillingness to implement critical revenue measures). In June 2000, the government of Jerry Rawlings hastily prepared an Interim Poverty Reduction Paper (I-PRSP) in order to secure donor resources given the precarious state of the economy. And in August 2000, the joint Boards of the IMF and the World Bank approved Ghana’s I-

PRSP and the country was subsequently granted an IMF Loan from the Poverty Reduction and Growth Facility (PRGF).

The PRGF was suspended soon after the new government came into office. The previous government had failed to satisfy the quantitative performance criteria agreed in the PRGF by December 2000. Cash strapped, the new government requested waivers from the IMF and the PRGF was renegotiated and put back on track. The renegotiated program has been supported by extensive structural conditionality through to March 2002 (with program reviews planned in December 2001 and mid-2002). Given the circumstances, it is not surprising that the conditionality under the 'revised' third-year of the PRGF is concerned with the same issues identified by a 'traditional' ESAF arrangement (clearance of arrears, divestiture and public enterprise reform, gasoline pricing, VAT reform, and expenditure control). In light of these developments, it is difficult to discern any radical difference between the PRGF and its predecessor—the Enhanced Structural Adjustment Facility (ESAF).<sup>20</sup> *What does this all mean to the question of national ownership?*

The transition from I-PRSP to PRSP has indeed been greatly influenced by concern over the potential loss of donor resources, thus the overemphasis on meeting traditional ESAF conditionalities. It is still difficult to ascertain how prior agreements under the renegotiated PRGF influenced the content of the growth strategies in the full PRSP. In theory, the process whereby the annual 'arrangement' under the PRGF is renegotiated, is supposed to bring considerable degree of accommodation to domestic policy shifts to take place. While the GPRS is relatively more focused on poverty than the I-PRSP had been, the overriding concern of the Government of Ghana has been on the chronic stabilization difficulties such as macroeconomic stability, expenditure control and clearance of arrears. A lot more work is required to demonstrate the links between the GPRS/PRGF and poverty reduction.

#### **4. In-country consultation in the PRSP process**

Unlike many other African countries, Ghana has a very vibrant civil society sector engaged in a wide range of economic, social and political transformation. The transformative potential of the civil society sector is bound to be enormous in the wake of the December 2000 democratic election.

In departure from the NDC top-down culture of decision-making, the NPP government opened up considerable space for civil society participation in the formulation of the full PRSP. Although the consultation process was flawed in many respects, civil society and the private sector—particularly those from greater Accra region—were given ample opportunity to express their views on many aspects of the document. A number of workshops were held with women's groups, the media, policy activists and think tanks, the trade union congress and the Ghana Association of Private Voluntary Organization. The draft Poverty Reduction Framework was circulated for comments from organized professional and trade associations. In addition, regional consultations were held with civil society groups as well as the political leadership and technical personnel operating at regional and district levels.<sup>21</sup> Each of the four thematic groups preparing the GPRS also had NGO representation although it was confirmed that government representatives dominated the process.

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<sup>20</sup> Killick and Abugre, p.15; World Bank, *Memorandum and Recommendation of the President of the International Development Association to the Executive Directors on Assistance to the Republic of Ghana Under the Enhanced HIPC Initiative*, World Bank, (February 4,2002), p.8.

<sup>21</sup> Government of Ghana, *Ghana Poverty Reduction Strategy: Progress Report 2002*, (undated)

The key problems with regard to the quality of consultations involved the limited time allowed for discussions and the late release of critical draft papers to civil society organizations. The large scale meeting, such as the National Economic Forum, did not lend themselves for meaningful participation as participants had to plough through large amount of papers which they had not had time to digest before coming to the meeting.<sup>22</sup> Many NGO representatives felt that they should have been given a chance to organize their own consultations with their respective constituencies before coming to the National Economic Forum. Since this did not happen, many felt that they were not in a position to take particular positions on various issues at the national consultations.<sup>23</sup> Moreover, some civil society groups charged that macroeconomic formulation was done behind closed doors despite promises of greater transparency.

Notwithstanding the above observations, the NPP government is firmly committed to the reduction of poverty. However, its options are limited by the poor state of Ghana's economy, the country's over dependence on donor resources to finance its programs, and weak capacity in government institutions to plan and implement programs. Consequently, this leads to a situation where the government has to constantly weigh the transaction cost involved if it gives too much attention to poverty reduction or to economic growth. The overriding concern for the NPP government remains the financial insolvency of the state (i.e. debt management, re-establishing fiscal discipline, raising savings rates, and overcoming the problems of the food crop farmers, and the need to get HIPC resources quickly) rather than the quality and depth of consultations with civil society. This partly explains why the results of community consultations were given less weight during the preparation of the final document.<sup>24</sup> Although this decision may look insensitive and undemocratic from the outside, the government has acted in the best interest of the people of Ghana.

Although the preparation of the GPRS is locally owned, this ownership is rather narrowly based in parts of the central government, not very consensual. Key ministries and other agencies that are expected to implement the GPRS were given little prominence in the task teams preparing the GPRS. Many government representatives in the task teams were relatively junior officers who could not authoritatively speak for their ministries. Overall, the participatory process in Ghana was far from being perfect. At the same time, however, there is no denial that the PRSP process has expanded the scope of dialogue on development involving the government, civil society and the development partners.

## 5. Financing the PRSP

The PRSP does not present a coherent strategy on how the government is going to pay for its programs. While the plan talks about reversing past practices of public borrowing from domestic and foreign sources and replacing it with direct financing inputs from both the private sector and non-profit institutions, the strategy is unrealistic since it hinges on a number of difficult institutional reforms in the public sector that are a prerequisite for successful implementation of the GPRS programs.<sup>25</sup>

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<sup>22</sup> Killick, Tony and Charles Abugre, **Institutionalizing the PRSP Approach in Ghana**, Strategic Partnership With Africa (September 26, 2001), pp.27-32

<sup>23</sup> Interview with five civil society leaders in Accra (July 2002).

<sup>24</sup> Killick, Tony and Charles Abugre, **Institutionalizing the PRSP Approach in Ghana**, Strategic Partnership with Africa (September 26, 2001).

<sup>25</sup> Government of Ghana, **Ghana Poverty Reduction Strategy**, pp.156-160

On the domestic front, for example, measures to increase the level of resources derived from traditional funding sources are primarily public sector driven. This implies greater revenue mobilization, more efficient use of existing resources through expenditure monitoring and rationalization, and increased access to concessionary donor funds. Achievements of these objectives require an effective and efficient public sector capable of designing and implementing consistent policies. Resource mobilization also requires a frontal attack on corruption, improving tax assessment and collection, and improving public procurement policies and procedures. Ghana's track record in implementing public sector reform has been abysmal and the prospects for the future are very dim.

The GPRS set a guideline that no less than 80 percent of the foreign financing for the plan should comprise grants and concessionary loans. While Ghana's development partners are increasingly predisposed to provide direct budget support, they would only reward the government for its deeds and not for its words. Given the poor financial condition of the government, government stipulations on the composition of future donor financing is meaningless since it has little leverage on its principal financiers. As Killick and Abugre had argued, "the credibility of the GPRS process, the final product and its prospects for implementation are regarded as crucial for any major shift in donor positions".<sup>26</sup>

## **6. The Link between the PRSP, the MTEF and the adequacy of financial management**

Government capacity in budget preparation and public expenditure management remains extremely weak despite previous attempts, particularly through the Public Finance Management Reform Program (PUFMARP). A Public Expenditure Review undertaken by the government in 1993 highlighted the following problems in public financial management: weak budget preparation, the lack of uniform and adequate accounting system, weak expenditure monitoring and control mechanisms, and the lack of ownership and accountability by the Ministries, Departments and Agencies (MDAs). Weaknesses also remain in other areas of public financial management: inadequate capacity for both internal and external audit, low revenue collection, incomplete and untimely information on the cash assets of the Government, poor aid and debt management, lack of a national procurement code.

In 1994, the government created the **National Institutional Renewal Program (NIRP)** in order to focus and give strategic directions to the many reform activities taking place within the public sector. This was followed by the publication of a policy directive, "Public Sector Re-invention and Modernization Strategy for Ghana: Transforming vision into Reality" (PUSERMOS) in 1997. The strategic document provided a framework for integrating, sequencing and monitoring the reforms in the public sector.<sup>27</sup>

Among the key pillars of the proposed reform was public financial management. The government introduced the Public Financial Management Reform Program (PUFMARP), which seeks to develop an integrated financial management system in government in order to enhance efficiency, transparency and accountability. The first and critical component of PUFMARP is the **Medium Term Expenditure Framework (MTEF)**. The MTEF provides a methodology for costing objectives in detail, and prioritizing them to fit within the available resources, both between and within sectors. By looking at government and donor flows, and at the recurrent and development budget, in a single framework, it aims to focus all resources on a consistent,

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<sup>26</sup> Killick and Abugre, p.12

<sup>27</sup> World Bank, *Public Sector Management reform Project (2nd Phase)*, Report No. PID11261

prioritized, and sustainable set of activities. Since its introduction in 1998, there have been two MTEF cycles covering 1999-2001 and 2000-2002. However, integrating the GPRS into the MTEF process has proved to be difficult for reasons discussed below.

- ***Integrating GPRS into the MTEF process***

The integration of the GPRS into the MTEF and annual budget process started with the meetings of the working group that constitute the MTEF Secretariat—Budget Division of the Ministry of Finance (MOF) and the Poverty Reduction Unit of the NDPC between July and September 2001. The principles and guidelines were faithfully followed but the process was deeply flawed. Although the GPRS draft was used to guide the discussions, many representatives/participants did not have the basic knowledge of the content of the GPRS. For a number of reasons, it was not possible to have the required level of representation at MDA level in numbers, quality and commitment. The selection of representatives was unclear resulting in “shifting of participants from meeting to meeting”. Most representation was typically below the level of policymakers and there is no evidence of any Chief Director (head of ministry) calling subordinates for their views/opinions, contributions to the MTEF or GPRS process. Similarly, there is no evidence of any Chief Director briefing the Minister as to developments, difficulties, and progress. Because of “shifting consultees”, the process has been compromised as far as ownership is concerned.<sup>28</sup>

The NPP government is very anxious to ensure that the GPRS and the MTEF are brought into alignment with each other. However, two years into its first term of office, getting ministries, agencies and departments to cost objectives and to prioritize their expenditure within a resource constraint has remained a huge problem that demands political leadership from the top. With the exception of the Ministry of Health, which has tried to reflect the GPRS in its budget, actual expenditures by other ministries bore little resemblance to initial budgetary allocations.<sup>29</sup> The costing of policy actions remains a difficult task, and where it has been done, the quality varies from sector to sector. The first ballpark costing of the GPRS came close to \$7 billion over a three-year period. This was unrealistic and could not be accommodated within the resource envelope as presented in the macroeconomic framework. The revised costing which the government released in July put the cost of the GPRS at \$5 billion over a three-year period, about \$1.2 billion a year. This latest figure is more realistic and within the absorptive capacity of the government.

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<sup>28</sup> Dr. Joe Abbey, "The Ghana Poverty reduction strategy (GPRS): The story is better in the telling", unprocessed.

<sup>29</sup> Interview with the Ambassador of Denmark.

### **Best Practice in Decentralized Budget Management: The Case of Ghana Ministry of Health**

Ghana Health has a decentralized budget management system, with more than 400 budget management centers, each managing and accounting for funds. They have been subject to inspection by independent accounting firms to assess their readiness to manage their own funds based on standard criteria. Those not meeting the criteria have had their funds managed at the next highest level, and have been given technical support to help them meet the standard. This approach has enabled Ghana health to prepare regular financial reports and audited accounts with a favorable audit opinion. Ghana health is also unique in conducting a procurement audit of expenditures within the sector. It is this attention to meeting requirements of financial accountability, which has enabled the health sector to attract pooled funding from donors, whereas they have been generally reluctant to move away from their own financial accountability requirements.

**Source:** adapted from Foster and Zormelo, p32; also *Ghana and the World Bank 2002*, p.18

The government still has a long way to go before it improves the prioritization and costing of programs. The preparation of the MTEF lacks legitimacy since government has not given a strong lead on strategic spending priorities. Aggregate ceilings are not realistic and, as a result, MDA's have no incentive to comply with the requirements of the MTEF.<sup>30</sup> This explains why the GPRS did not find expression in the 2002 Budget. The lack of budget discipline undermines the effectiveness of government spending on poverty. Until Ministries, Departments and Agencies (MDAs) are held accountable for not respecting the budget and the priorities of the MTEF, poor financial management will continue to hamper government effort at reducing poverty in Ghana. *Reinforcing political accountability by MDAs will require political leadership from the top.*

Moreover, the MTEF Secretariat at the Ministry of Finance is extremely weak despite effort by DFID to strengthen the budget unit. Ownership of the MTEF is limited exclusively to the minister and a small pool of advisors attached to the budget office. Many mid-level civil servants below the rank of director are left out of the process. The skewed incentive structure where consultants are paid 10 times more than the director creates a lot of bureaucratic resistance. Reliance on donor financed external consultants, while solving the immediate problem, is not sustainable in the long term. Attracting high quality Ghanaians into the public service remains a problem.

A large part of poor financial management and erratic budget discipline is also attributed to poor morale in the public service. Thirteen years of attrition has taken a heavy toll on the civil service. Despite the fact that a high share of government budget in the MDA's goes towards salary, the appalling conditions of service in the public service are described as among the worst in sub-Saharan Africa. The service just does not have the capacity to handle such sophisticated new initiatives like PUFMARP. Lack of capacity problem has extended to the accountability institutions themselves, with late preparation of audit reports and delayed consideration by Parliament, undermining the prospects for prompt action against those fond guilty of wrongdoing.<sup>31</sup>

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<sup>30</sup> Mick Foster and Douglas Zormelo, **How, When and Why does Poverty get Budget Priority: Poverty Reduction Strategy and Public Expenditure in Ghana**, Overseas Development Institute, Working Paper 164 (London: April 2002).

<sup>31</sup> Foster and Zoremelo, p.32

The MTEF has not, so far, followed a problem solving approach. It has been more technocratic than strategic. The focus of the MTEF has been on activity based budgeting, which is not governed by more realistic assumptions concerning the resource envelope. The government has not centrally taken a strong line on the direction in which resources need to shift. Aggregate ceilings are not realistic and binding spending decisions are made outside of the budgetary process.<sup>32</sup> A large share of the budget is allocated to general administration, which provide both finance and opportunity for new unplanned commitments. For example, the government has committed the country to five new foreign missions and a new building to house the Ministry of Foreign Affairs. Such practices outside of the regular budget process defeat the whole purpose of Medium Term Expenditure planning and prioritization.<sup>33</sup> Such practices take place because regulations are not enforced and disciplinary action is not taken against those MDA's failing to comply.

Finally, the credibility of the MTEF depends on the ability of the government to consistently maintain macroeconomic stability. Over the past decade, this has proved to be difficult as periods of relative fiscal and monetary discipline in Ghana were inevitably punctuated by periods of high inflation. The difficult macroeconomic position leaves government with little room for maneuver. What this means is that, in the short term, Ghanaian authorities cannot be ambitious about reducing poverty in the country. Moreover, they should not expect a windfall from HIPC as that depends largely on meeting certain macroeconomic and financial targets. Achieving these targets all depends on successful implementation of a wide range of difficult reforms designed to improve the efficiency and effectiveness of the state.

- ***Use of IT for Financial Management***

The second component of PUFMRP is the Budget and Public Expenditure Management System (BPEMS). The government is highly committed to the modernization of the financial management system through expanded investment in information technology. New software from Oracle technology is being tested on a pilot basis. The new technology permits the classification, recording and analysis of financial transactions in a timely and standardized manner. A draft IT strategy document has been prepared which sets long term vision of government on the expanded use of IT in financial management and decision-making. But the system must be made user-friendly.

Investment in technology alone is not going to solve the problem of public financial management. Strategies must be developed to secure the services of competent accountants, IT specialists, procurement experts and auditors. This can only happen with comprehensive civil service reform and the restructuring of incentives comparable with the prevailing market rates.

## **7. Debt Relief and Social Investment:**

Despite implementing a series of reforms supported by several Structural Adjustment Credit (SAC) loans from the World Bank since the early 1980s, Ghana's foreign debt has remained relatively high. The World Bank has been the principal lender supporting the country's economic reform process, providing some \$4.5 billion in IDA resources. As a consequence, about half of Ghana's \$6 billion debt is owned to the Bank. Needless to say, the

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<sup>32</sup> Killick and Abugre, pp. 24-26; Interview with DFID-Accra team (July 2002).

<sup>33</sup> Interview with Dr. Joe Abbey.

implementation of some of the projects/programs has not yielded the desired results sufficient to impact positively on poverty. While the economic recovery programs have a positive impact on the macroeconomic position, they failed to invigorate the productive sectors of the economy.<sup>34</sup>

At the 10<sup>th</sup> Consultative Group Meeting in Accra in November 1999, the then Government announced its decision not to apply to the HIPC Initiative. This was based on an evaluation of the likely level of debt relief that was going to be available at that time, in comparison with the expected loss of external flows, particularly from Japan. During the subsequent 18 months as the country got into election frenzy, the Cedi underwent a major real depreciation as Ghana's terms of trade deteriorated sharply, and a re-evaluation of the potential relief under HIPC was carried out in February 2001 based on the new HIPC rules. The depreciation and the revised HIPC framework more than tripled the amount of relief available to Ghana.

In early 2001, Ghana decided to seek debt relief under the HIPC initiative. This program seeks to bring the debt position of poor countries that have performed well to a level that is affordable. IDA and IMF made a preliminary assessment of the country's eligibility in May 2001 and agreed to support Ghana under the Enhanced HIPC Initiative through the Decision point meeting in February 2002. As a result, Ghana is now enjoying relief on \$3.7 billion out of its \$6 billion total debt. IDA's contribution amounts to \$1.4 billion, to be disbursed over a 20-year period (see Table 2). IDA began providing debt relief immediately in the form of interim debt relief so did other bilateral creditors and the IMF. The bulk of the relief will be delivered upon reaching the Completion point. This has reduced Ghana's annual debt payments by almost \$250 million a year, releasing resources that can now be used to support the fight against poverty. But the release of the funds is dependent on the GPRS process.

**Table 2**  
**Scheduled of Debt Service Reduction**  
**Under the Enhanced HIPC Initiative**

Calendar Year	Amount to be reduced (in thousands of \$)
<b>TOTAL</b>	1,445,745
2002	32,928
2003	44,953
2004	48,852
2005	53,028
2006	57,021
2007	60,304
2008	64,135
2009	68,231
2010	71,299
2011	75,167
2012	79,388
2013	81,282
2014	82,711
2015	85,049
2016	85,997

<sup>34</sup> Yvonne M. Tsikata, "Successful Reformers: The Case of Ghana", in Devarajan et al., **Aid Reform in Africa**, The World Bank (Washington, D.C: 2001), pp.47-97.

2017	86,624
2018	86,320
2019	86,958
2020	87,125
2021	87,009
2022	21,326

**Source:** World Bank, GHANA: HIPC Qualification Document, p.11

About 80% of HIPC resources will go toward poverty reduction program while remaining 20% will be used to pay down the domestic debt. This said, the real impact of HIPC on poverty could be minimized because of the absence of complementary government resources. While HIPC resources are flowing, regular non-salary government resources budgeted to sector activities are not flowing.

There is also a problem of ensuring transparency of HIPC resource allocations. Although the government has established a special account at the Bank of Ghana to track the disbursement of HIPC funds toward social programs, there is no mechanism for civil society and donors to participate in monitoring the end of use of the funds. In addition, HIPC funds are not co-mingled with existing poverty programs, such as the Social Investment Fund (SIF), the Village Improvement Program (VIP), and the District Assembly Common Fund, in a coordinated manner so that to be able to determine the actual impact of expenditure on poverty reduction.<sup>35</sup>

## **8. Monitoring poverty outcomes**

The government is committed to establishing a continuous poverty monitoring system. Within the context of decentralization policy, district authorities and communities are given considerable scope for participation in the monitoring process although the issue of capacity at district level remains a problem.

The main government instrument for monitoring poverty and social conditions are the Ghana Living Standards Survey (GLSS), the Ghana Demographic and Health Survey (GDHS) and the Core Welfare Indicators Questionnaire (CWIQ). While the GLSS is conducted once every five year, the CWIQ measures poverty levels on an annual basis using selected indicators. The next Ghana Living Standards Survey (GLSS-5) is scheduled to be carried out in 2002/2003. Both instruments provide data sets and information on different population groups at regional and national levels. The results cover demographic, economic, social and household indicators. The third instrument, the Ghana Demographic and Health Survey (GDHS), provides reliable information on fertility and family planning behavior, infant and child mortality, nutritional status, and the utilization of maternal and child health services. The last survey was taken in 1998.

Within the context of Ghana's decentralized planning structure, capacity development for monitoring at the district level remains weak and efforts are underway to beef up capacity. As part of the country poverty reduction program, a district-based poverty monitoring system is being implemented on pilot basis starting in early 2000. Communities will be directly involved

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<sup>35</sup> The VIP is funded by World Bank/IFAD and KfW and has a budget of \$60 million. The Social Investment Fund, which is funded by UNDP and Africa Development Bank, has a budget of \$18million.

in identifying specific indicators that reflect local realities. In addition, participatory poverty assessment (PPA) and beneficiary consultations will be held.

## 9. Assessing capacity needs

The GPRS process in Ghana lack an institutional focus, whether in the form of capacities for policy analysis, implementation, evaluation and monitoring. The state of Ghana's public administration remains a major impediment to institutionalizing poverty-focused programming. Government has little in house capacity, which in turn contributes to weak learning from experiences and slower response to events. Previous attempts to strengthen the effectiveness of government institutions have produced negligible results. Brautigam identifies four dimensions of state capacity as critical for economic renewal:<sup>36</sup>

- **Regulatory or legal capacity:** which enables the state to set and enforce the rules of economic and social interaction, leading to greater predictability;
- **Technical capacity:** which gives the state specialized abilities to assist producers and manage macroeconomic policy, leading to greater stability;
- **Extractive or taxation capacity:** which allows the state to raise revenues to pay for its programs;
- **Administrative capacity:** which encompasses the management skills that provide effective government service.

These four critical ingredients of state capacity are severely lacking in Ghana. The main problems and weaknesses are explained by deficiencies in (a) policy design, coordination and implementation, (b) an inefficient organizational and management structures (c) unclear mandates, responsibilities and operational objectives of public sector institutions, and (d) a wage structure which has created a lack of skilled staff in critical areas. Low wages and poor working conditions in the public service have helped erode the integrity of the public service. As a result, performance and motivations are poor, resulting in unsatisfactory quantity and quality of service delivery.

Efforts to reform the public sector in Ghana are not new. It has been tried throughout the adjustment period and, more vigorously since the mid-1990s with very disappointing results. During the adjustment and stabilization phase of the reform process, both the government and donors became concerned about implementation capacity within the public sector, as well economic policy coordination. Consequently, measures to strengthen key policy functions in the Ministry of Finance and to reform the civil service became an important component of the structural adjustment program. A civil service reform program was launched in 1987 with support from the World Bank. But this intervention was limited in scope since it was primarily geared to support the adjustment programs. Overall, government commitment was weak and targets for retrenchment were very low.

A decade later, Cabinet approved the Public Sector Reinvention and Modernization Strategy (PUSERMOS) as the framework for rebuilding government and conducting public sector management reforms. PUSERMOS seeks to transform state institutions, their accountability and performance framework and their relationship with the private sector and civil society. Unfortunately, little progress was made since there was no political will on the part of

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<sup>36</sup> Deborah Brautigam, "State Capacity and Effective Governance", in Benno Ndulu and Nicolas van de Walle (eds.), **Agenda for Africa's Economic Renewal**, Overseas Development Council, Transaction Publishers (New Brunswick, N.J: 1996), pp.81-105

government to go through the promised reforms. With the 1999 presidential elections looming over the horizon, the rhetoric of retrenchment of civil servants and maintaining budgetary discipline disappeared for the political lexicon of the NDC government. Because of political expediency, attempts to improve the effectiveness of the Ghanaian State machinery was delayed, further undermining an effective attack on poverty. Weaknesses in public sector performance are evident in the following areas:

- **Capacity for policy analysis:** Centrally and in the MDA's, government lacks in-house capacity for policy analysis and monitoring. This is a paradox since Ghana is one of the few African countries endowed with a number of research institutions, think tanks, local consultancy agencies, and policy-oriented NGOs. Yet, no effort is made by government to utilize existing knowledge and capacity outside of government. The problem has been low pay and poor condition of service in the civil service that had forced many competent professionals to leave the service in droves. Retaining and motivating skilled staff has been a problem across the public service. Stopgap measures often funded by donors, such as recruiting consultants at salaries ten times more than the salary of a regular civil servant, had done nothing but to deepen the situation of low morale in the civil service.
- **Capacity for implementation and monitoring:** As mentioned before, the public sector in Ghana is afflicted with a lot of apathy. No delegation of power and responsibility to staff below the rank of directors. Ownership is therefore limited to the top people only. In a recent newspaper interview, the departing World Bank country director, Peter Harrold described the underlying causes of poor implementation track record in Ghana in this way:<sup>37</sup>

“...Ultimately, the most important thing is that the public sector has to go through a form of serious reform. You cannot have a public sector that is just run from the top. The hard work is done by the middle level personnel; the actual paper work to get investments approved, to rapidly clear custom goods etc. are done by the middle level personnel but they are the worst paid. The top-level personnel have a different way of compensation. Living in a bungalow, with garden boys and drivers are all emoluments. If the middle level personnel are adequately remunerated, most of the problems with implementation would be solved”.

- Monitoring is also hampered by the failure to invest in research and data collection. The most dramatic failure in this regard has been the inability (or unwillingness) of government to utilize existing research and analytical capacity that is housed in a number of local research institutes, think tanks, consultancy firms and policy-oriented Non-governmental organizations.
- **Capacity in public financial management:** The state of Ghana's public expenditure management and accountability system is in complete mess. While the implementation of the MTEF has improved budgeting system,

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<sup>37</sup> John Hanson, “Peter Harrold – A Supremo Bids Farewell”, *Financial Times of Ghana*, (July 29-August 4, 2002), pp.12-13

overall financial management remains weak in areas such as cash flow management, monitoring actual expenditures, auditing, and consistent application of financial regulations.<sup>38</sup> In addition, public procurement policy is neither clearly defined nor transparent. The credibility of the GPRS hinges on the ability of the government to have control over state spending by reinforcing political accountability to respect the budget and the priorities of the MTEF. Without it, it would be hard to count on critical donor resources necessary for the financing of the GPRS. In addition, very little use of IT infrastructure is used for financial management purposes.

- **Capacity for resource mobilization:** It has been demonstrated that much of the potential revenue collected never reach the central treasury. The tax system is plagued with many problems, including corruption, tax evasion, abuse and misapplication of exemption laws. A corruption survey undertaken by the Center for Democracy and Development (DCC) in 2000 revealed that over 70% of Ghanaians see corruption as a serious problem. Customs and excise departments, immigration, police, the Internal Revenue Service (IRS) and the judiciary were identified as being the most corrupt public institutions. In terms of service delivery agencies, metropolitan and district assemblies were also rated poorly for integrity.<sup>39</sup> While recent government decision to streamline procedures in tax collection, limit exemptions and raise the withholding tax are all in the right direction, a lot more creative solutions are needed to mobilize new resources, increase the effectiveness of existing resources. Much of the focus in the GPRS to deal with this problem concerns itself with institutional strengthening and omits the important facts of recruitment and retention of professional staff.
- **Capacity for coordination:** Besides the problem of attracting competent professionals to the public service, coordination has been hampered by constant inter-ministerial guerilla warfare as well as the disconnect between key sector ministries to the Ministry of Finance and the Ministry of Planning. To address this problem, the NPP government has established an Economic Committee of the Cabinet chaired by a senior Minister to ensure better liaison between planning and finance as well as other ministries with reform responsibilities. Needless to say, weak institutional capacity in terms of facilities, equipment and logistics and shortage of skilled manpower to carry out technical functions in key management and operational agencies of government remain a monumental headache.<sup>40</sup> Both the Ministries of Finance and of Planning lack the minimum analytical capacity in macroeconomic analysis and budget preparation and tracking outcome.

## 10. Realigning donor relations

The GPRS will be the centerpiece around which all development partners will formulate their programs in Ghana. The policies contained in the GPRS are exactly the same ones that donors

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<sup>38</sup> Foster et al. ...

<sup>39</sup> Center for Democracy and Development (CDD-Ghana), **The Ghana Governance and Corruption Survey: Evidence from Households, Enterprises and Public Officials**, (August 2000).

<sup>40</sup> These include: Economic Committee of the Cabinet, the Ministries of Finance, Planning, Trade and Industry, Foreign Affairs, the Bank of Ghana, and the State House.

have been pressuring the government to implement. The Consultative Group (CG) meeting has become an important forum to strengthen this relationship and hammer out any remaining differences over policy matters. In addition to the main meetings, a quarterly mini-CG is held.

Ghana remains overwhelmingly dependent on external resources. Over 70 percent of Government's expenditure is externally funded. Net aid as a percentage of GNP is estimated to be 10%. Lending played a predominant role in the aid program throughout the reform years. Because of this excessive dependency on aid, the influence of the IMF and the World Bank on policies and the composition of government spending remain very strong. This of course raises questions about country ownership of the PRSP.

Donors have shown a great deal of commitment and flexibility to support the PRSP process in Ghana. Preliminary effort has been to focus on multi-donor support on long-term institutional reform. The Health Sector reform is an excellent example that should be replicated widely in other sectors also. In addition, a number of donors have been providing technical assistance to strengthen financial management: DFID (MTEF), CIDA (fiscal decentralization), and the European Union (audit service). UNDP and the World Bank also have been providing support to strengthen policy analysis and monitoring capacity in the Ministries of Finance and of Planning, whereas EU, GTZ, UNDP and CIDA are supporting reforms in local government decentralization and the national governance program.

## **RECOMMENDATIONS and the way forward**

A frontal attack on poverty in Ghana hinges, among other things, on improving the efficiency, effectiveness and quality of public services and policy management. The NPP government has set in motion an array of institutional reforms under the umbrella of the National Institutional Renewal Program (NIRP). The NIRP provides the overall framework for coordinating a number of major reform initiatives, which were intended to add up to a comprehensive attack on the causes of weak public sector management. Government resolve to enforce all these initiatives is still untested and only time will tell.

Donor support should be focused on long-term institutional reform and strengthening—not on short-term projects. The World Bank has in particular been cognizant of this need by developing what it called “adaptable program loans (APLs)” that are granted for 9-12 years long, enabling the government to take a long view of a sector. The second phase Public Sector Management Reform Project—an Adaptable Program Loan—is designed to improve the efficiency, effectiveness and quality of public services and policy management. The project supports reform efforts in the five critical areas, which ECA believes are critical for the success of the GPRS. These include the following:

***Civil Service Reform:*** The thread that ties together all the reforms that come under the NIRP (i.e. PUFMARP, MTEF, BPEMC, etc.) is civil service reform. The Civil service performance Improvement program (CISPIP), which started with central ministries, is now being extended to Districts who are much closer to the poor. The CISPIP involves

performance improvement plans and beneficiary assessment of services provided. While these are important innovations, they don't address the issue of changing the incentive structure in the civil service system. Low capacity in government institutions is the result of low wages and poor working condition in the public service. This has resulted in dramatic attrition rates, paralyzing the efficiency and effectiveness of the public service. Civil service reform must, therefore, be linked to a budget process in which performance influences budget allocations, and to a transparent medium term pay and employment strategy.<sup>41</sup>

***Public financial management:*** The NPP government must make a strategic decision on spending priorities by setting realistic aggregate ceilings on spending by the MDAs. The principle that government agencies are offered greater certainty and autonomy in allocating funds within their resource envelope in exchange for preparing performance – based budget must be respected. Lack of consistency on the part of the central government in setting strategic spending decisions and to stick with them sends the wrong signal to the MDAs that the government is not serious about budget discipline. The unpredictability of the release of funds to MDAs in particular undermines the legitimacy of the MTEF process. Low MDA compliance has also to do with the absence of credible sanctions from the government. Therefore, public financial management involves more than preparing MTEF and investing in Information Technology for financial management. ***It is about political will and a commitment by government to bring greater accountability and transparency in managing taxpayer's money.*** The government has to lead by example.

One way of ensuring compliance is to strengthen the oversight functions of the Auditor-General, the Anti-Corruption Bureau and the various Parliamentary Committees. This should be complemented with civil society participation in the budget process as well as in monitoring at district levels. Organizations such as the Center for Budget Advocacy of ISODEC can play an important watchdog role to ensure that expenditure and taxation decisions are pro-poor.

***Decentralization reform:*** The NPP government inherited a system of decentralization that had its roots in the 1992 Constitution, which mandated that, as far as possible, the administration of the country should be decentralized. These included: political decentralization, administrative decentralization, decentralized development planning and program implementation, fiscal decentralization, decentralized management of public-private partnership, and external support for decentralization. Although decentralization of key government services and responsibilities to the district level has started, the process has been slow. Most central government agencies are resisting decentralization. It is important that the government establish a central body—**National Decentralization Secretariat**—to oversee the implementation of the decentralization process.<sup>42</sup> The Secretariat gives prior attention to the following issues:

*i. Accelerate fiscal decentralization*

The key challenge is the coordination of public finance and development planning policies and programs within the framework of decentralized development under the MTEF. Although there has been an appreciable increase in revenues of Assemblies

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<sup>41</sup> Foster and Zormelo, p.xii

<sup>42</sup> This was a recommendation previously made by the Governance Task Force.

since decentralization began, the continued retention of funds in central ministries and departments when the functions have been delegated continues to undermine local development efforts.<sup>43</sup> The fact that line ministry staff controls most district spending and they account only to their parent ministry goes against the notion of local control. This also complicates the need to align the MTEF budgeting and accounting system with the real needs of the District Assemblies and their departments as one organic unit for local level development. Without a rapid fiscal decentralization, implementation of the GPRS objectives will be difficult.<sup>44</sup>

ii. *Strengthen capacities of district assemblies*

Capacity at the district level in policy analysis, budget management, implementation and monitoring is extremely poor due to the shortage of adequately trained human resources. This is related to the unattractive civil service conditions, the lack of local level power of appointment (which is centralized in Ministry of Finance and the Public Services Commission) and the poor social infrastructure conditions in the districts. Concerted effort must be made to change the incentive structure in order to attract high caliber people. This is critical because there is now a multiplicity of actors on poverty reduction at the district level (NGOs, donors, etc.) whose activities need to be integrated to the overall district plans.

***Economic management and coordination:*** At present, economic policy formulation and execution responsibilities are distributed between a number of agencies, including ministries of Finance, Planning, Trade and Industry, Foreign Affairs, Sector ministries, the Bank of Ghana and the National Planning Commission and State House, raising a serious coordination problem. It is of the utmost importance that government and the development partners develop modalities for strengthening institutional and analytical capacity at the Ministry of Finance, Planning and the Economic Committee of the Cabinet focusing on fast track measures to enhance capacity for macroeconomic policies and program formulation. These measures must be linked to the broader issue of civil service reform and financial management discussed above.

In addition, effective economic management and coordination will require the following measures:

- (i) Powerful ministries with reform responsibilities, such as Finance, Planning and Local Government, are held accountable for all reforms that come under the National Institutional Renewal Program (NIRP). It must be made clear to head of agencies that the 'guillotine' rather than the 'velvet glove' will be used for failure to comply with government directives, or for not respecting the budget and the priorities of the MTEF.
- (ii) Invest in a cost-effective computerization and information sharing program to enable information sharing and management between the Ministry of Finance, the Bank of Ghana, the National Planning Commission and Sector Ministries;
- (iii) Design a hyper-linked websites, email services and managed electronic discussion groups between research and policy units of Finance, Planning, Bank

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<sup>43</sup> Ministry of Local Government and Rural Development, **Decentralization in Ghana: Implementation Status and Proposed Future Directions**, Accra (March 2002), p.10

<sup>44</sup> At the moment, the Canadian International Development Agency (CIDA) is providing assistance to the government to develop policies and strategies on fiscal decentralization.

of Ghana, State House Economic Committee of Cabinet and selected think tanks.

Even after instituting these measures, it is expected that the disjuncture between planning and budgeting will persist. It is advisable for the government to begin to think about the merits and pitfalls of merging the National Development Planning Commission (NDPC) with the Ministry of Finance. This should not be an arbitrary decision, but one based on good research and hard facts.

**Divestiture program:** Under the Economic Reform program and the stabilization program periods, progress in reducing the state's role in public enterprises was slow due to vested interests, political sensitivities, and lack of technical capacity for implementation. By 1991, the government had divested only 42 of approximately 300 state owned enterprises. The Divestiture Implementation Committee should be given more resources and clear timetable to speed up the pace of privatization on the basis of through research.

**Invest heavily on IT infrastructure:** Many aspects of the strategy to improve the effectiveness of the public sector can be enhanced by significant investment in Information Communication technology. Despite a burgeoning and vibrant private sector, ICTs for delivery of government and public services is limited. Current effort by the Office of the President to coordinate ICT policies should be accelerated by crating a special agency responsible for overseeing the implementation national ICT policy. While initial efforts should be directed at strengthening ICT applications for financial management, the long-term aim should be on enhancing information disclosure and exchange of ideas across government agencies and with the private sector and civil society. Besides deregulating the sector, special exemptions must be granted to importers of IT technology.

**Establish a Poverty Relief Fund:** In addition, to the above critical reforms to improve the effectiveness of the public sector, the government should establish a structure to manage and oversee all the poverty related funds in a coordinated manner, much like the Uganda Poverty Action Fund (PAF). It is important that the governance structure of such an entity should involve participation from civil society, the private sector, the government and donors, with clear cut criteria for the release of funds and a mechanism for monitoring outcome at the national and district level.

List of Persons/institutions consulted

Name	Title	Organization
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Mr. Kwabena Yeboah-Duah	Business Management	Private Enterprise Foundat.
Mr. Moses H Agyemang	Senior Economist	ActionAid-Ghana
Mr. Kojo Mbir	Program Coordinator	UNDP-Accra
Mr. Alfred S. Fawundu	Resident Coordinator	UNDP-Accra
Mr. Paul Derigubaa	Poverty Specialist	Trades Union Congress
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