



Spending Wisely: A Budget Reform Action Plan for Ghana

Ghana Aid Effectiveness Forum (GAEF)



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Acknowledgment

This paper was written by Mr. Samuel Zan Akologo, Country Director of SEND Ghana and Mr. Jason Lakin, Programme Officer for the International Budget Partnership (IBP).

It was originally presented by Mr. Zan Akologo at the Ghana Aid Effectiveness Forum meeting in September, 2010 to make a case for budget advocacy under the title “Ghana’s Moment? Civil Society and Budget Reform.”

The GAEF is grateful to the authors.



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Executive Summary

Ghana has made incredible progress in recent years, both in terms of democratic consolidation and development outcomes. In addition to the achievement of an increasingly competitive political sphere and greater macroeconomic stability, successive governments have made important commitments to spending on key social priorities such as health, education, agriculture and social protection.

By the end of 2010, a major influx of oil revenues should start to flow onto Ghana's budget. These revenues have the potential to help Ghana consolidate its middle-income status, with an evolving welfare state. But, as this paper argues, they also have the potential to become a missed opportunity. Ghana needs to undertake key reforms of its financial management systems to improve the transparency and effectiveness with which it spends public money. Without these reforms, Ghanaians will not benefit from the increased revenues and the unique opportunity presented by the Jubilee field will be squandered.

When a government has access to new revenues, two important questions must be answered. The first question is: *on what* should this money be spent? As always, governments must make trade-offs between key priorities. In order for those trade-offs to serve the best interests of Ghanaians as a whole, **we believe that there should be**

an open, transparent debate about which priorities the government ought to finance. The Ghana Aid Effectiveness Forum calls on the Government of Ghana to join with us in promoting a National Day of Discussion around budget priorities, where government, citizens and development partners can debate and discuss ways to use the new increment in revenues from oil.

The second question that arises from the realization of new revenues is: *how* will the new money be spent? Will the expenditure itself be transparent? Will citizens be able to monitor it? Will it actually reach the people it is supposed to reach? Will anyone be held accountable for waste or mismanagement? **We believe that Ghana needs to make substantial improvements in its approach to managing public funds to ensure that new money is spent wisely, transparently and effectively.** We call on government to begin to undertake the reforms detailed in this report immediately.

This report is a call to immediate action. The Ghana Aid Effectiveness Forum, in conjunction with other partners in civil society, including the CSO Platform on Oil and Gas, the Right to Information Coalition, the International Budget Partnership, and Oxfam America, believe that the time is now to make serious reforms in Ghana's budget process and budget priorities. If Ghana's government is to spend new monies wisely, there is no time to waste.

The rest of this paper discusses weaknesses in Ghana's budget process, and then makes concrete suggestions for reform. Over the course of the next year, GAEF will build on this work to produce further research on specific areas of financial management reform, as well as a detailed set of proposals for how to use increased

revenues to bolster Ghana's social sector.

The key budget process weaknesses we identify are:

Lack of Transparency. Ghana's budget process has become more open in recent years, but the country still scores only a 54 out of 100 on the Open Budget Index. Government of Ghana provides insufficient information on how it is actually spending public money during the year, once the budget is approved, and inadequate explanations at the end of the year for divergences between economic forecasts and actual outcomes. CSOs frequently complain about the inability to access information on actual expenditures during and after the budget year, and some institutions, like the National Health Insurance Authority, are particularly opaque.

Lack of Adherence to the Budget. The key to a good budget process is that once decisions about how to spend money are taken by government and approved by parliament, the government sticks to these decisions. If these decisions, which are captured in the enacted budget, are not adhered to, then budgeting loses its meaning, and money can be spent in ways that are not transparent and that do not reflect the outcome of public debate. Government of Ghana has struggled to adhere to the enacted budget over the past several years, which has led to certain ministries spending more than they have been allocated. The result has been the growth of expenditure arrears, which is essentially a form of debt that is being contracted without public approval. Lack of adherence to the budget therefore leads to lack of transparency and accountability in public spending.

Limited Oversight. Ghana has made great strides in recent years in creating a more effective external audit office to monitor government spending. Nevertheless, the audit service still lacks sufficient funding to fulfill its mandate. Audit reports are also released more than 6 months after the end of the reporting period, and the auditor provides insufficient information about follow up of audit findings.

Furthermore, for an auditor to have an impact on accountability, parliament must use audit reports to hold officials accountable. Although the Public Accounts Committee in parliament does review audit reports, it has done so irregularly and there is a backlog. Without regular review and follow-up on AG recommendations, there will continue to be limited oversight of public spending and those who mismanage funds will not be held to account.

Leakages in Spending. Ghana has significantly increased public spending on health, education, and social protection in recent years. However, not all of this funding is actually making it down to the local level where it really impacts the lives of ordinary Ghanaians. Increasing the effectiveness of spending requires government to identify and monitor points of leakage, and provide consistent information about the execution of the budget to civil society so that they can aid in ensuring that money spent on social services reaches intended beneficiaries.

The Ghana Aid Effectiveness Forum calls on the Government of Ghana and the Parliament of Ghana to take the following steps to improve management of public expenditure:

Pass a comprehensive Right to Information Bill. Although GoG has made it clear that it backs an RTI bill, the draft bill has been stuck in Parliament for some time. With oil revenues set to flow, there is no longer time to waste on this important legislation.

Produce and publish expenditure reports during the year. In order for government, parliament and citizens to be sure that actual spending is happening when and where it should be, the government must produce in-year expenditure reports and make them available widely. These reports will allow government, parliament and civil society to track the budget and ensure that it is properly implemented. The government should also increase the information provided at the end of the year, so that citizens can understand not just how, but why, government spending may have deviated from what was approved in the budget. Parliament should, in turn, conduct public hearings on these deviations.

Introduce stronger fiscal controls to ensure budget adherence. Expenditure arrears reduce the fiscal space for GoG to undertake spending on agreed-upon social priorities. Failure to set realistic spending guidelines and stick to them risks saddling Ghana with more debt in a way that is non-transparent. All major spending, including special arrangements with foreign partners, should be brought into the budget process, where it can be debated in an informed and public manner.

Increase the regularity of parliamentary oversight and strengthen ties between Ghana's Auditor General (AG) and civil society. The potential for mismanagement of funds is only likely to

increase with the increase in oil revenues. Parliament needs to be operating at its most effective as an oversight agent. This means more regular oversight, additional support for the PAC, and more timely information provided by the executive branch. This would also be an opportune time to strengthen the links between civil society and the AG, so that CSOs can help the AG to monitor expenditure flows more effectively. Partnerships of this kind exist in other middle-income countries, and in West Africa, and the time is now to build them in Ghana.

Finally, the GAEF calls on government to:



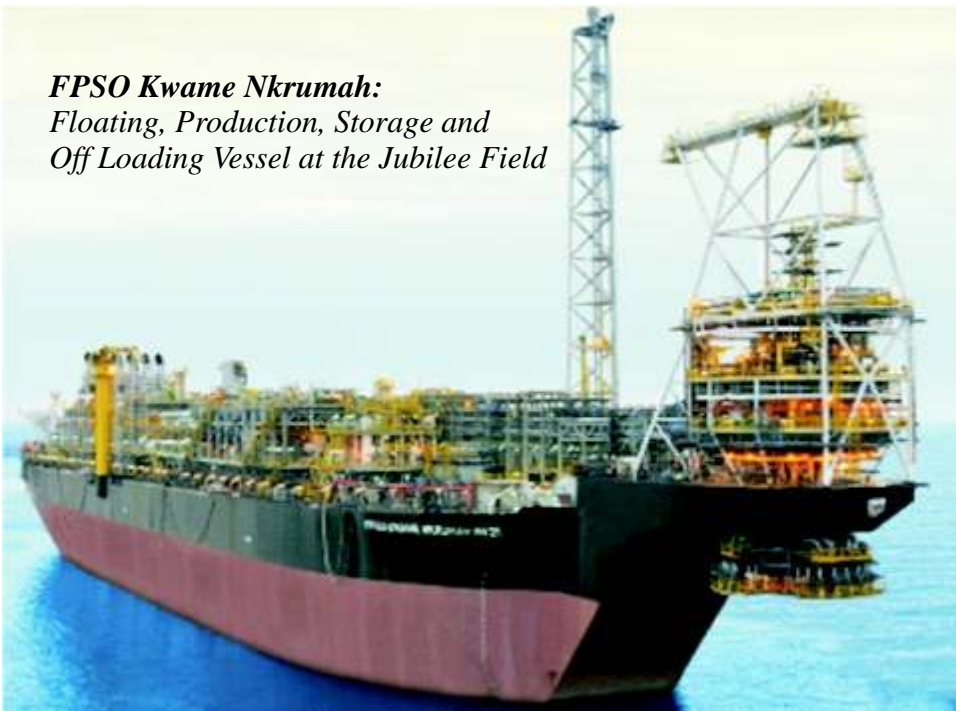
AID Effectiveness Parallel Conference, September 2008

Announce a moratorium on new spending based on oil revenues until after a National Day of Discussion has been called. A National Day of Discussion will allow key stakeholders to debate proposals for how best to use Ghana's oil revenues to improve Ghana's welfare.

I. The New Oil Revenues and Ghana's Fiscal Position

In 2007, oil was discovered off the coast of Ghana. The so-called Jubilee find represents a significant potential boost to Ghana's oil revenues. The World Bank has estimated an increase in revenues of about US\$20 billion over the next two decades.¹ Furthermore, in September, 2010, Tullow Oil announced another find (Owo-1) next to the Jubilee field, which promises to increase these estimated revenues still further.²

*FPSO Kwame Nkrumah:
Floating, Production, Storage and
Off Loading Vessel at the Jubilee Field*



¹World Bank, "Economy-Wide Impact of Oil Discovery in Ghana," PREM 4, November 30, 2009
http://siteresources.worldbank.org/INTGHANA/Resources/Economy-Wide_Impact_of_Oil_Discovery_in_Ghana.pdf

²<http://www.marketwatch.com/story/tullow-oil-announces-oil-discovery-offshore-ghana-2010-09-13>

Ghana's potential revenues from oil represent a limited but significant boost to the overall size of the budget, one that is large enough to provide substantial benefits to Ghanaians, but also pose significant risks. Countries with heavy reliance on oil have tended to struggle to achieve balanced development under democratic regimes. Resource dependence has been associated with corruption, conflict, and state failure in what is often referred to as the “resource curse.” The resource curse is driven by both political and economic factors. Economically, for example, natural resource production can lead to distortions in the economy that weaken other sectors by causing the country's exchange rate to rise, and export sector to suffer. Politically, governments that rely heavily on natural resource wealth may reduce their need to tax citizens, and may therefore avoid obtaining citizen approval for their spending decisions, undermining democratic accountability.³ Fending off these challenges requires that Ghanaians recognize them early on, and try to create institutions that ensure prudent financial management and oversight.

In recent years, Ghana has reduced poverty, achieved macroeconomic stability, reduced inflation, and consistently increased economic growth. In 2009, growth was 4.1 percent, while inflation fell below 10 percent; in 2010, growth is expected to be between 5 and 6 percent. Nevertheless, there are still concerns about the fiscal sustainability of government expenditure, increases in debt, and poor financial management. The fiscal deficit in 2010 is

³If citizens do not see revenues from extractives as “their money,” in the same way as revenues from taxation, they are less likely to demand accountability for resource revenues. For more on the resource curse, see Jim Schultz, *Follow the Money*, Open Society Institute: New York, 2005.

above the target agreed with the IMF, and the government continues to spend beyond the budget.⁴ After a large decline in Ghana's debt stock in 2006, external debt has steadily been rising since 2007.⁵ Against this background, oil revenues offer opportunities for continued growth and development, but these opportunities demand immediate improvements in financial management, as we discuss further below.



A Group discussion on the Budget process by AEF members at the Pre-CG information sharing session, September 2010, Accra

⁴International Monetary Fund, "Statement at the Conclusion of an IMF Mission to Ghana," October 1, 2010. <http://www.imf.org/external/np/sec/pr/2010/pr10372.htm>

⁵World Bank, World Development Indicators, "External debt stock (DOD, Current US\$)," http://data.worldbank.org/indicator/DT.DOD.DECT.CD?cid=GPD_49; CEPA, "CEPA Cautions Against Excessive Borrowing," October 25, 2010. <http://www.cepa.org.gh/pressreleases/Heritage%20Report85.pdf>

A background image showing several Ghanaian banknotes fanned out, including one-cent and five-cent notes. The text is overlaid on this image.

II. Ghana's Budget and Budget Process

Ghana's budget and budget process have improved in recent years, both in terms of the way in which the budget is allocated, and the way in which public expenditure is managed. In this section, we review assessments of Ghana's budget, including both **on what** Ghana spends money (the budget allocations and expenditures by sector) and **how** it spends money (the budget process), identifying strengths and weaknesses.

We find first that Ghana has increased expenditure on the social sector, but still needs to expand further the coverage of key social programs. Second, GoG has substantially enhanced the transparency of its budget process, the quality of the information it provides, and the quality of oversight in recent years, but there is nevertheless considerable room for improvement.

On what does the government spend money?

The first question we may ask of a government's budget is whether it has the right priorities when it allocates funds. This is a question for Ghanaians to decide collectively. We suggest that government has made some key investments in priority social sectors, but that there is a need for still further spending to achieve overall development and enhanced equity.

Over the last 5 to 10 years, GoG has increased spending in a number of areas, including education and health. GoG has introduced

several new programs, including the National Health Insurance Scheme (started in 2003 and expanded since), the School Feeding Program (started in 2004 and expanded since), an educational capitation grant (started in 2005 and expanded since), a conditional cash transfer scheme for the poor (LEAP) (started in 2008) and a public works program targeting youth unemployment (UNICEF 2009). Government also introduced a new program this year (Savannah Accelerated Development Authority) to reduce inequities in growth between the North and South of Ghana.

These programs are reflected in the budget, with increased expenditure on social services and social protection. Between 2003 and 2007, Ghana increased public sector health expenditure as a share of the public budget from 8.7% to 10.7% (and as a share of GDP from 2.7% to 4.3%). Education expenditure similarly rose over this period from about 2.8% of GNI to 4.7% of GNI⁶.

Nonetheless, major gaps remain. Ghana is far from achieving the MDG related to sanitation, and requires major investments to improve access. Only 13% of Ghanaians had access to basic sanitation in 2008.⁷ Although access to health care has increased with the introduction of NHIS, the program needs to expand considerably to reach everyone who needs it.⁸ In 2008, it covered just over half the population. Efforts made to institute gender mainstreaming processes have not yielded significant outcomes and a lot more must be done to ensure gender equity. The LEAP cash transfer program appears to have had some successes, but it only

⁶World Bank, World Development Indicators, "Health expenditure, public (% of government expenditure)," <http://data.worldbank.org/indicator/SH.XPD.PUBL.GX.ZS>; "Adjusted savings: education expenditure (% of GNI)," <http://data.worldbank.org/indicator/NY.ADJ.AEDU.GN.ZS?page=1>.

⁷United Nations Statistics Division, <http://unstats.un.org/unsd/mdg/Data.aspx>.

⁸SEND, "Balancing Access with Quality Care: An assessment of the NHIS in Ghana, 2004-2008," May 2010.

reaches a small part of the population (about 26,000 households in 2009) and needs to be scaled up.⁹

These expansions will require further budget allocations. Yet between 2007 and 2010, GoG decreased the share of the budget going to the social sector (which includes health and education) from 47 to 42 percent.¹⁰ And between 2006 and 2009, funding classified as “poverty reduction” funds across different budget heads also fell, from 36 to 27 percent.¹¹ As new monies flow onto the budget, there is a need to ensure that development needs continue to be prioritized in terms of budget allocations.

Budget Transparency

Ghana received a 42 on the International Budget Partnership's Open Budget Index (OBI) in 2006, a 50 in 2008, and a 54 in 2010, demonstrating consistent improvement over time in budget transparency.¹² Areas of improvement include the transparency and quality of the mid-year expenditure review report, which provides information on how the government is spending against its goals, and an increase in the accessibility and quality of the annual audit report from Ghana's Auditor General.

⁹UNICEF, “Social protection to tackle child poverty in Ghana,” Briefing Paper, February 2009 (http://www.unicef.org/wcaro/wcaro_32_UNICEF_ODIbriefing_paper_Ghana_LOW.pdf).

¹⁰This calculation is based on the expenditure allocations in the 2007 and 2010 budget statements, rather than actual spending. Between these years, the government changed its sectoral title from Human Resources to Social, and Local Government was moved into the sector. The calculations take this into account, and are based on discretionary financing from GoG, IGF, and donors during these years.

¹¹Based on actual figures from Jan-Sep 2006 v. Jan-Sep 2009. See MOFEP Budget Proposal 2007 and MOFEP Budget Proposal 2010, Appendices (<http://www.mofep.gov.gh/documents/Budget200710.pdf>; <http://www.mofep.gov.gh/documents/appendices2010.pdf>).

¹²International Budget Partnership, Open Budget Index 2010, “Ghana” (<http://internationalbudget.org/files/OBI2010-Ghana.pdf>).

However, GoG has been inconsistent in its reporting during the year on expenditure, having made in-year reports available at one point, and then failing to provide them on a timely and consistent basis thereafter. This makes it very difficult to track expenditures. GoG has never produced a public pre-budget statement that would allow citizens and parliament to prepare for the budget process and participate in a debate about the broad outlines of policy or departmental shares of the budget. The government has also been inconsistent in its production of an easy to use Citizens Budget that would allow citizens to understand and form opinions about government priorities and key budget allocations.

In addition, the budget documents that Ghana does make available to the public are insufficiently comprehensive: for example, the budget lacks information about the costs and benefits of proposed changes in current policies that would allow for public debate, and the year-end report is missing key information on divergences between expected and actual expenditure, and forecasted and actual economic conditions. Citizens can currently determine only how, but not why these divergences exist.

Ghana also scores poorly on the degree of transparency of sub-national finances. For example, the country scored a D+ in 2009 on the transparency of inter-governmental financial relations according to the Public Expenditure Management and Financial Accountability, or PEFA, assessment (see more on PEFA below). In a context of partial decentralization of service delivery, it is essential that transfers from central to local level be transparent.

Openness and Participation

The lack of transparency of the budget makes it difficult for citizens, operating through parliament or through independent civil society organizations, to have an impact on budget priorities. OBI 2010 classifies the legislature's participation as only “moderate,” reflecting the lack of input into the budget process.¹³ Parliament receives less than 6 weeks to go through the budget proposal before voting on it, limiting its ability to impact allocation decisions taken by the executive. Executive consultations with the legislature are not as open as they could be.



*Simultaneous group discussions on the Ghana Aid Policy by
AEF members, September 2010, Accra*

At the same time, parliament fails to fully exercise its powers to hold hearings on the budget, invite citizen participation, or report back on

¹³Ibid.

the results of hearings it does hold. For example, parliament holds no hearings on the overall fiscal framework in the budget. While some hearings are held on specific MDA budgets, reports on these hearings are not released to the public. Because in-year reports are not regularly published by the executive, the public lacks full information both about allocation decisions, and about what MDAs are actually spending during the year.

Financial Management and Internal Oversight

Ghana's public finance management systems were assessed in 2006 and 2009 as part of the Public Expenditure Management and Financial Accountability, or PEFA, review process. Between 2006 and 2009, Ghana improved in some key areas: more of GoG's public spending is on-budget and appropriately recorded, the audit process has improved, there is increasing oversight by parliament, and there have been improvements in the government's procurement process.¹⁴

However, the 2009 assessment also reveals continued weaknesses. The 2009 PEFA is particularly critical of the lack of budget discipline: the continued divergence between what is *budgeted* and what is actually *spent*. This results from both inadequate estimates during the formulation of the budget, as well as management failures during the course of the year.

Poor management of budget execution has led to the accumulation

¹⁴PEFA, "Ghana: Public Finance Management Performance Report and Performance Indicators," June, 2006; PEFA, "Ghana: Public Financial Management Performance Assessment Report Volume I: Central Government," January 2009. (<http://web.worldbank.org/WBSITE/EXTERNAL/PEFA/0,,contentMDK:22687152~menuPK:7313203~pagePK:7313176~piPK:7327442~theSitePK:7327438,00.html>)

of expenditure arrears, a form of domestic debt that is not subject to the normal budget debate over debt. *Expenditure arrears* refer to failures to pay suppliers of services to government that must eventually be paid, and therefore add to the stock of debt.¹⁵ For example, if the government hires a contractor to build a road, but is unable to pay the contractor in a given fiscal year, this becomes an expenditure arrear which should be paid the following year (often with interest). In the case of Ghana, there are also substantial expenditure arrears to statutory funds, like the Ghana Education Trust Fund (GETfund) and the DACF.¹⁶

Ghana's arrears problem is not simply a carryover from past management problems; as the IMF notes, new arrears have accrued in 2009 and 2010.¹⁷ Bank of Ghana provisionally estimated GHC 200 million in arrears for the first quarter of 2010, which is itself double what the government initially estimated for the first quarter¹⁸ of 2010, and equal to over 8% of total estimated expenditure in the first quarter. In addition, lack of budget discipline is driven by unplanned increases in public sector wages, such as the shift to the “single spine” salary structure this year.¹⁹ Related to this, the government has generally ignored domestic borrowing limits, allowing it to pile up domestic debt (Bank of Ghana shows a large

¹⁵PEFA, “Ghana,” 2009.

¹⁶IMF, IMF Country Report No. 10/178, 2010 (<http://www.imf.org/external/pubs/ft/scr/2010/cr10178.pdf>)

¹⁷Ibid.; “Statement at the Conclusion of an IMF Mission to Ghana,” October 1, 2010

¹⁸Bank of Ghana, Quarterly Bulletin, 2nd Quarter, Chapter 5, 2010 (<http://www.bog.gov.gh/privatecontent/public/File/Research/Quarterly%20Bulletin/Qtr2010/quarterly%20bulletin%20-%20second%20edition%20chaps5.pdf>).

¹⁹World Bank, “Economy-Wide Impact of Oil Discovery in Ghana,” PREM 4, November 30, 2009; CEPA, “Budget Targets Will Be Missed,” Wednesday October 20, 2010.

increase in domestic debt financing between 2009 and 2010).²⁰ The failure to properly budget for actual expenditure undermines the budget process, and renders public debate over spending priorities less relevant.

Another problem with Ghana's financial management system that is frequently cited by officials, civil society, and external reviewers, is the long delay in transfers between different agents within government. Regardless of whether these problems occur between the Ministry of Finance and the line ministries, or between the line ministries and service providers, payment delays have been identified as pervasive both by the PEFA assessment and by a number of CSOs studying social expenditures in Ghana, across sectors such as education and health.²¹

External Oversight of Financial Management

Oversight of the budget in a parliamentary democracy like Ghana's should be provided by the parliament, in conjunction with the Auditor General. Typically, the auditor investigates executive branch financial management and tables its findings in parliament for MPs to scrutinize them. Although the PEFA assessment finds an improvement in the audit process, Ghana still scored only a D+ on legislative scrutiny of audit report findings in 2009. This low score partially reflects the fact that Ghana's audit process suffered serious problems in 2006-2007, when Parliament refused to accept the

²⁰Bank of Ghana, Quarterly Bulletin, 2nd Quarter, Chapter 5.

²¹PEFA 2009; Edward Ampratwum and Daniel Armah-Attoh, "Public Expenditure Tracking Survey in Education: Tracking Capitation Grant In Public Primary Schools In Ghana," Research Paper 19, CDD-Ghana, 2010; SEND, "Balancing Access with Quality Care," 2010.

legitimacy of the auditor. This era is now past, but the PEFA notes that parliamentary oversight is not yet fully developed.

Leakage and Misallocation

Leakages may be understood as points in the budget execution process where funds are diverted from their proper route, either through mismanagement or corruption. Identifying leakages may also be rendered difficult by poor administrative record keeping. Leakage is of concern because money poured into a leaky bucket is unlikely to get to where it is supposed to go. To the extent that leakage exists in the social sector, it needs to be dealt with so that increased financing for the sector is not wasted.

A related problem in public finance is when money arrives at the right level, but is not spent according to program regulations. For example, funds which have been allocated for textbooks could be used to build recreational facilities instead. This is a problem of mismanagement, but not necessarily corruption. While this does not necessarily indicate attempts to use the budget for personal enrichment, it still undermines budget implementation and reduces the transparency of expenditure.

In a 2010 study of the education capitation grant in 30 districts in Ghana, the Centre for Democratic Development (CDD) identified some discrepancies when funds are transferred from central level to districts, and they found considerable leakages in transfers from districts to schools. During the 2008/2009 school year, for example,

over 60 percent of head teachers reported that they did not receive the full capitation grant amount to which their school was entitled.²²

The findings on leakage at the school level echoed a 2007 PETS carried out by the government in the education sector; the 2007 PETS also found that education financing was being used for expenditures not sanctioned by the program, including travel costs for administration.²³ CDD's new study also found poor recordkeeping, particularly at local level, which was a key obstacle to tracking actual expenditures; data for most schools was simply not available. Widespread problems of poor record-keeping were also uncovered by a 2010 Ghana Integrity Initiative study.²⁴

²²Ampratwum and Armah-Attah, "Public Expenditure Tracking Survey in Education," CDD-Ghana, 2010: 38.

²³Ibid.

²⁴Vitus Azeem, "An overview of the Africa Education Watch Ghana Report," January 28, 2010. (http://www.tighana.org/Publication/AEW_overview.pdf).

The background of the page features a stack of Ghanaian banknotes, including one-cedi and five-cedi notes, fanned out and slightly blurred. The text is overlaid on this background.

III. Summary and Implications for New Revenues from Oil

Our analysis of Ghana's budget and budget process has significant implications for new revenues coming onto the budget from oil profits. Government of Ghana needs to use this money in ways that advance development, and it needs to be aware of the weaknesses in its current approach to managing money that may undermine attempts to do so.

Targeting Expenditures for Development Priorities. There is no one “right” way to allocate scarce funds, but the analysis here suggests that there are some fairly obvious development needs in Ghana that should be considered when debating how to spend new revenues. Among these needs are the expansion of existing programs in health and sanitation, education and social protection to all those who need them.

Even with new revenues available, Ghanaians must make important choices about whether to spend money now or invest it for consumption later, and whether to deal with deficit and debt financing issues now or later. Once those decisions have been taken, there are additional choices to be made about the kinds of spending and investment that should be made. These choices require informed and open debate.

Lack of Transparency. Ghana's budget process has become more open in recent years, but the country still scores only a 54 out of 100

on the Open Budget Index. Government of Ghana provides insufficient information on how it is actually spending public money during the year, once the budget is approved. CSOs frequently complain about the inability to access information on public spending, and some institutions, like the National Health Insurance Authority, are particularly opaque.

If Ghanaians are going to participate in a national dialogue about how to spend oil revenues, they need more and better information about how the government spends its money overall. Without increased transparency, informed debate becomes difficult.

Lack of Adherence to the Budget. The key to a good budget process is that once decisions about how to spend money are taken by government and approved by parliament, the government sticks to these decisions. If these decisions, which are captured in the enacted budget, are not adhered to, then budgeting loses its meaning, and money can be spent in ways that are not transparent and that do not reflect the outcome of public debate. Government of Ghana has struggled to adhere to the enacted budget over the past several years, which has led to certain ministries spending more than they have been allocated. The result has been the growth of expenditure arrears, which is essentially a form of debt that is being contracted without public approval. Lack of adherence to the budget therefore leads to lack of transparency and accountability in public spending.

The increase in expenditure arrears reduces the amount of funding available for other development priorities. The key point here is that, once Ghanaians make choices about how to spend money, and

those choices are reflected in the budget, that budget must dictate how funds are actually spent. Otherwise, the concepts of participation and informed debate over priorities are rendered meaningless.

Limited Oversight. Ghana has made great strides in recent years in creating a more effective external audit office to monitor government spending. Yet for an auditor to have an impact on accountability, parliament must use audit reports to hold officials accountable. Although the Public Accounts Committee in parliament does review audit reports, it has done so irregularly and there is a backlog. Without regular review and follow-up on AG recommendations, there will continue to be limited oversight of public spending and those who mismanage funds will not be held to account.

Ensuring that the budget is adhered to requires a combination of internal and external controls. Government should increase its internal management procedures, but there is also a need for enhanced oversight from outside of government.

Leakages in Spending. Ghana has significantly increased public spending on health, education, and social protection in recent years. However, there are concerns that not all of this funding is actually making it down to the local level where it really impacts the lives of ordinary Ghanaians. Increasing the effectiveness of spending requires government to identify and monitor points of leakage, and provide consistent information about the execution of the budget to civil society so that they can aid in ensuring that money spent on social services reaches intended beneficiaries.

In addition to leakage, analysts have identified problems of mismanagement, where funds arrive at the right level but are used for the wrong services, and long payment delays also induce mismanagement, when funds designated for one purpose are used to fill a hole someplace else.



IV. Recommendations

In light of the foregoing, the Ghana Aid Effectiveness Forum, in conjunction with its partners, calls on the Government of Ghana and the Parliament of Ghana to take the following steps to improve management of public expenditure.

Pass a comprehensive Right to Information Bill. Although GoG has made it clear that it backs an RTI bill, the draft bill has been stuck in Parliament for some time. With oil revenues set to flow, there is no longer time to waste on this important legislation.

Produce and publish expenditure reports during the year. In order for government and citizens to be certain that actual spending is happening when and where it is supposed to be happening, the government must produce in-year expenditure reports and make them available widely. These reports will allow government, parliament and civil society to track the budget and ensure that it is properly implemented. The government should also increase the information provided at the end of the year, so that citizens can understand not just how, but why, government spending may have deviated from what was approved in the budget.

Introduce stronger fiscal controls to ensure budget adherence. Expenditure arrears reduce the fiscal space for GoG to undertake spending on agreed-upon social priorities. Failure to set realistic spending guidelines and stick to them risks saddling Ghana with

more debt in a way that is non-transparent. GoG must introduce stronger internal controls on spending, and improve estimates for spending by line ministries. All major spending, including special arrangements with foreign partners, should be brought into the budget process, where it can be debated in an informed and public manner.

Increase the regularity of parliamentary oversight and strengthen ties between Ghana's AG and civil society. The potential for mismanagement of funds is only likely to increase with the increase in oil revenues. Parliament needs to be operating at its most effective as an oversight agent. This means more regular oversight, additional support for the PAC, and more timely information provided by the executive branch. This would also be an opportune time to strengthen the links between civil society and



Parliament of Ghana in session

the AG, so that CSOs can help the AG to monitor expenditure flows more effectively. Partnerships of this kind exist in other middle-income countries, and the time is now to build them in Ghana. There are even models in West Africa, where Liberia's auditor has recently begun to reach out more pro-actively to citizens and citizen groups, both to disseminate findings, and to use local knowledge to identify areas where auditing can improve.²⁵

Finally, the GAEF calls on government to:

Announce a moratorium on new spending based on oil revenues until after a National Day of Discussion has been called. A National Day of Discussion will allow key stakeholders to debate proposals for how best to use Ghana's oil revenues to improve Ghana's welfare.

In turn, the Ghana Aid Effectiveness Forum commits itself to:

Produce alternative proposals for how to spend new revenues from oil. These proposals will be costed, take into consideration opportunity costs, and be vetted by civil society.

Further monitor government expenditure, identify leakages and propose solutions. CSO members of the GAEF will help to identify areas for improved financial management in the various sectors where they work, and make concrete suggestions for how to reduce leakage and mismanagement.

²⁵See International Budget Partnership, "Open Budget Survey 2010," Washington, D.C. (http://internationalbudget.org/files/2010_Full_Report-English.pdf)

Work with government to increase transparency of government, donor and CSO financing. All of the partners interested in the development of Ghana have an obligation to promote transparency and to manage their funds effectively, including CSOs.

Bring the Right to Information coalition on to the Aid Effectiveness Forum to ensure the quick passage of the RTI bill into law.

Work to ensure that gender concerns are mainstreamed in the Medium Term National Development Plan.

Together, we can ensure that the new oil revenues are spent wisely.



Participants at CSO Parallel Conference on Aid Effectiveness, September 2008, Accra

List of Platforms/RFO's

GAEF Platforms

1. Network for Women's Rights in Ghana (NETRIGHT)
2. Growth and Poverty Forum (GPF)
3. Local Governance Network (LOGNET)
4. Participatory Monitoring and Evaluation (PM&E) Network
5. Ghana Anti-Corruption Coalition (GACC)
6. MDGs Secretariat
7. Trade Union Congress (TUC)
8. Ecumenical Association for Sustainable Agriculture and Rural Development (ECASARD)
9. Friends of the Earth Ghana
10. Right to Information Coalition
11. Ghana National Education Campaign Coalition (GNECC)
12. Coalition of NGOs in Water and Sanitation (CONIWAS)
13. Alliance for Reproductive Health Rights (ARHR)
14. Civil Society Platform on Oil and Gas

GAEF Regional Focal Organisations

1. Trade Aid – Upper East Region
2. Pro – Net – Upper West Region
3. Action Aid – Brong Ahafo Region
4. Centre for Human Rights and Advance Legal Research – Ashanti Region
5. Friends of the Nation – Western Region
6. Association of Church Development Projects – Northern Region
7. Rural Watch – Eastern Region
8. The Development Institute – Volta Region
9. Centre for Rural Enterprise Development – Central Region
10. Shai Area Progressive Union – Greater Accra Region

Country Director
Samuel Zan Akologo
Mobile: 024-431 8807

SEND-GHANA Offices:
Accra
A28 Regimanuel Estates, Nungua Barrier,
Sakumono Accra, Ghana
Tel: 233-0302-716860, 716830
Fax: (0302) 716830
E-mail: info@aeafh.org
Website: www.aefgh.org