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Cedis	=	US\$0.0001
US\$1	=	¢ 9,073

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ACRONYMS AND ABBREVIATIONS

AAP	HIPC Accountability Assessment Plan
ADMU	Aid Debt Management Unit (MoFEP)
AFD	Agence Française de Développement
AFREX	Africa Communications
AFTFM	Africa Financial Management
AFTPC	Africa Procurement
AFTPR	Africa Public Sector Reform and Capacity
AFTP4	Africa Poverty Reduction and Economic Management 4
APR	Annual Progress Report of GPRS
BDI	Budget Deviation Index
BOG	Bank of Ghana
BPEMS	Budget and Public Expenditure Management System
CAGD	Controller and Accountant General Department
CEPS	Customs, Excise and Preventive Services
CF	Consolidated Fund
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
DANIDA	Danish International Development Agency
DFID	UK Department for International Development
EA	Expenditure Authorisations
ECG	Electricity Company of Ghana
ERPFM	External Review of Public Financial Management
FAA	Financial Administration Act
GDP	Gross Domestic Product
GoG	Government of Ghana
GPRS I	Ghana Poverty Reduction Strategy for 2003-2005
GPRS II	Ghana Growth and Poverty Reduction Strategy for 2006-2009
GWCL	Ghana Water Company Ltd
HIPC	Heavily Indebted Poor Country
IGF	Internally Generated Funds
IMF	International Monetary Fund
IRS	Internal Revenue Service
KfW	Kreditanstalt für Wiederaufbau
LTU	Large Taxpayer Unit
MDAs	Ministries, Departments and Agencies
MDBS	Multi-Donor Budgetary Support
MDGs	Millennium Development Goals
MoFEP	Ministry of Finance and Economic Planning
MoE	Ministry of Education
MoH	Ministry of Health
MoRT	Ministry of Roads and Transport
MTEF	Medium-term Expenditure Framework
NEPAD	New Partnership for Africa's Development

NHIF	National Health Insurance Fund
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Surveys
PFM	Public Financial Management
PFM PR	PEFA PFM Performance Report (Volume II of 2006 ERPFM)
PI	Performance Indicator
PTR	Pupil Teacher Ratio
IPPD2	Integrated Payroll and Personnel Database
PREM	Poverty Reduction & Economic Management
QFA	Quasi Fiscal Activity
SF	Statutory Funds
SOE	State Owned Enterprise
S&MT AP	GoG Short and Medium-Term Action Plan for PFM
TOR	Tema Oil Refinery
USAID	United States Agency for International Development
VALCO	Volta Aluminum Company
VAT	Value-Added Tax
VRA	Volta River Authority
WBI	World Bank Institute

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PREFACE

This report summarizes the findings of the 2006 External Review of Public Financial Management (ERP FM). The ERP FM takes place annually in the context of the Multi-Donor Budget Support (MDBS) framework for Ghana, jointly with several development partners. This year the report incorporates a Public Expenditure and Financial Accountability Assessment (PEFA) Public Finance Management Performance Report and Performance Indicators (PFM PR), in addition to the customary review of recent economic developments and outlook, fiscal performance, progress in implementing Ghana's growth and poverty strategy, and review of public financial management reforms.

The 2006 ERP FM team is especially grateful to the Minister of Finance and Economic Planning and his senior management team for providing strong leadership during the external review that took place in Accra from February 20 to March 8, 2006, and for allocating significant staff time to the exercise. The 2006 ERP FM team greatly benefited from discussions with the Government team led by Honorable Dr. Akoto Osei (Deputy Minister, Ministry of Finance and Economic Planning – MoFEP), which involved Honorable Agyeman Manu (Deputy Minister, MoFEP), Mr. Francis Akwetey (Assistant Auditor General), Mr. Nana J.B. Siriboe (Chief Director, MoFEP), Mr. Christian Sottie (Controller and Accountant General), Mr. Kwabena Adjei-Mensah (Deputy Controller and Accountant General), Mrs. Grace Adzroe (Deputy Controller and Accountant General), Mr. Harry Owusu (Executive Secretary, Revenue Agencies Governing Board), Mr. A.B. Adjei (Chief Executive, Public Procurement Board), Mr. Patrick Nomo (Director General, Internal Audit Agency), Dr. Regina Adutwum (Director General, National Development Planning Commission), Dr. M. Bawumia (Special Assistant to Governor, Bank of Ghana – BoG), Mr. S. B. Nyantekyi (Director of Budget, MoFEP), Dr. Ernest Addison (Head, Research Department, BoG), Mr. Kwabena Oku-Afari (Head, Policy Analysis Division, MoFEP) and Mrs. Yvonne Quansah (Head, Aid/Debt Management Unit, MoFEP), Mr. Enoch Cobbinah (Head, Non Tax Revenue Unit, MoFEP) and Mr. David Quist (Ag. Head, World Bank Desk, MoFEP). Key support was also received from senior officials of the State Enterprises Commission, and several ministries, departments and agencies (MDAs) of the education, health, roads and transport, local government and rural development, and public sector reform areas.

Special thanks go to the members of the Parliamentary Finance and Public Accounts Committees, and their Clerks for accepting to meet with the team to review issues related to the PEFA assessment. The 2006 ERP FM review also builds on invaluable information coming from discussions with non-governmental organizations (Ghana Anti-Corruption Coalition, Association of Ghana Industries, ISODEC and SEND Foundation).

The 2006 ERP FM was prepared by a team led by Marcelo Andrade, and involved Carlos Cavalcanti (Co-Chair MDBS, World Bank), Daniel Boakye and Simplice Zouhon-Bi (AFTP4), Edward Olowo-Okere and Fred Yankey (AFTFM), Smile Kwawukume (AFTPR), Tsri Apronti and Anthony Mensa-Bonsu (AFTPC), Ruby Bentsi (DFID), Kofi Tsikata (AFREX), Kofi Marrah (WBIRC), Mike Stevens (Consultant), Mary Betley (Consultant, Mokoro), and Peter Fairman (Consultant, Oxford Policy Management). Administrative and secretarial support to the team was provided by Emmabel Hammond (AFC10), Marta

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The preparation of the 2006 ERPFFM involved MDBS donors and observers, in particular David Kuijper (Co-Chair – MDBS, the Netherlands), Jean François Arnal and Bernard Poudevigne (AFD), Archie Book (CIDA), Peter Larsen (DANIDA), Guy Samzun (European Commission), Daniel Arghiros (Governance Advisor, DFID), Christian Rogg (PFM Sector Lead – MDBS, DFID), Shinichi Tamamitsu and Takafumi Nakase (Japan), Wolfgang Weth and Hoppe Felicitas (KfW), Phillipe Sas (Switzerland), and Jerry Manarolla and Ted Lawrence (USAID). The Resident Representative of the International Monetary Fund in Ghana, Alphecca Muttardy, also contributed to 2006 ERPFFM review.

The detailed comments provided by the peer reviewers Bill Dorotinsky (PREM Public Sector), Gert Van Der Linde (AFTFM), and Paul Walters (DFID) are gratefully acknowledged. The ERPFFM team also gratefully acknowledges detailed comments provided by Guy Samzun (European Commission, Delegation in Ghana), peer reviewer of the PFM PR. Nichola Smithers (AFTPR, previously with PEFA Secretariat) and Frans Ronsholt of the PEFA Secretariat answered technical queries from the team on the PEFA framework and provided invaluable guidance, comments and support throughout the exercise. The work was carried out with guidance and supervision of Robert Blake, Sector Manager of AFTP4, and Mats Karlsson, Country Director for Ghana, Liberia, Sierra Leone, Burkina Faso and Guinea.

EXECUTIVE SUMMARY

Main Messages

1. The year 2005 was a challenging one due to sharp increases in international crude oil prices, but the Government maintained a prudent fiscal strategy and continued to manage the economy well. By allowing domestic petroleum product prices to adjust, subsidies were considerably reduced. Thus the Government was able to contain domestic borrowing and make sure the downward trend of interest rates continued. In turn this reduced interest costs in the budget and ensured that a larger share of credit was available to meet private sector needs from the banking system. This sustained economic growth, estimated at 5.8 percent in 2005. Inflation was moderate, the exchange rate remained relatively stable, and foreign exchange reserves continue to be robust. In this way, the Government achieved most of the macro-stabilization goals of the 2003-05 Ghana Poverty Reduction Strategy (GPRS I).
2. The Government also ensured that pro-poor spending continued to be emphasized in the budget. Most recently, the Government has adopted a follow-up program, GPRS II, which covers the period 2006-2009. This retains the poverty reduction goals of GPRS I, but more explicitly emphasizes the importance of economic growth to enable Ghana to achieve middle income level by 2015. The strategy also aims at achieving targets set out in the New Partnership for Africa's Development (NEPAD) and the Millennium Development Goals (MDGs).
3. The Government has also moved forward strengthening the public financial management (PFM) system which has underpinned the country's encouraging outcomes. Using the PEFA performance measurement framework, the assessment shows that Ghana's PFM system is performing at an average standard, and in some respects it rates above average.
4. The main recommendations of the 2006 External Review are for the Government to:
 - **Continue pursuing sound macroeconomic policies and improving the business environment**, by maintaining a stable and competitive exchange rate, further reducing inflation, and controlling the public sector wage bill, to sustain economic growth and poverty reduction;
 - **Sharpen the priorities, improve the sequencing and costing of the Short and Medium Term Action Plan for PFM Reform**, in the light of capacity and resource constraints to better identify actions that can produce results quickly while still pursuing those which will take longer to bear fruit;
 - **Deepen the coverage and improve accuracy of CAGD monthly budget execution reports**, by including retained Internally Generated Funds and donor project aid;
 - **Align better GPRS II and the annual budget, by strengthening the MTEF** and increasing its capacity to reflect the costs of existing and new policies and programs, and thus make the budget more credible;
 - **Monitor and evaluate efficiency of public sector investments and undertake Public Expenditure Tracking Surveys (PETS)** to identify ways of improving the efficiency and effectiveness of service delivery and funding constraints; and

- **Strengthen the governance framework for state owned enterprises (SOEs)** by enforcing the requirement for all SOEs to submit annual financial and operating plans, and quarterly implementation reports, and continue to adopt measures to mitigate fiscal risks.

5. The remainder of this executive summary elaborates on key findings of the review. First, it covers recent economic developments and reviews the budget in relation to the Government's growth and poverty reduction policies and programs. After, it summarizes the main findings of the assessment using the Public Expenditure and Financial Accountability (PEFA) framework and identifies areas of strength and challenges ahead. The detailed findings of the PEFA Public Finance Management Performance Report (PFM PR) constitute volume II of the 2006 ERPFM.

Findings and Assessment

Macro-Economic Developments

6. In 2005 the economy demonstrated its resilience by maintaining strong economic growth, estimated at 5.8 percent of GDP, in the face of a sharp rise in international crude oil prices, which rose from an average of US\$37 per barrel in 2004 to US\$54 in 2005. This growth has been sustained by strong private sector investment, associated with growing external private remittances, and a high level of public investment, particularly in the roads sector. On a gross basis, total investment is now close to 30 percent of GDP. Such a high a capital output ratio suggests scope for improving the efficiency of investment and thus accelerating growth.

7. A key step in Ghana's ability to adjust to higher oil prices was the deregulation of domestic petroleum product prices in February 2005. This has allowed the pass through of higher international oil prices to consumers without additional subsidies through the budget. This in turn enabled the Government to adhere to its budget targets for the year, providing the fiscal space to adjust without greatly damaging programs, even as revenues weakened in the final quarter due to lower than forecast import tax revenues.

8. The higher cost of oil imports was partly offset by an increase in gold and timber export earnings. Also noteworthy was the continued high inward flows of private remittances, augmented by aid receipts and debt relief. Inflation is estimated at an average monthly year-on-year rate of 14.9 percent, pressure from increased fuel prices was mitigated by a cedi/dollar exchange rate which has changed little in nominal terms during the year (in fact appreciating in real effective terms).

9. Assuming the Government maintains its present commitment to sound economic and fiscal policies, Ghana can reasonably expect similar growth in incomes in the near future. If the business environment can be further improved, and public investments made more efficient, economic growth in the medium term could be in the 6-8 percent range. In turn this would improve Government revenues, which together with the savings in the fuel subsidy and reduction in domestic debt payments, should create the fiscal space necessary to accommodate further poverty reducing expenditures, the pressure for which is growing, particularly in the education and health sectors. Strong growth would also facilitate the Government's program of public service reforms.

Aggregate Fiscal Performance

10. In the past year, Ghana has commendably stuck with prudent fiscal policies, achieving its domestic debt reduction target through increasing the domestic primary budget surplus as a ratio to GDP. As a result, the GPRS I objective of halving the end 2002 domestic debt to GDP ratio by end 2005 was achieved. The ratio fell from 23.7 percent of GDP at end 2002 to 10.8 percent by end 2005. When faced with shortfalls in expected import revenues, due in part to the effect of high oil prices on domestic import demand and some delays in the disbursement of external assistance, the Government acted to curtail expenditure. In the 2006 Budget Statement the Government commits to continuing this prudent management of fiscal policy.

11. Earlier reviews have drawn attention to fiscal risks from state owned enterprises (SOEs). Due to actions taken by Government, such as legally requiring remittance of profits, the settlement of cross debts, and more automatic tariff adjustments, these risks are now being reduced, though not eliminated. Furthermore, some SOEs have had their balance sheets improved through Government debt relief. Arrears and losses still persist, and if the restarting of VALCO will require a heavily subsidized power tariff, the latter should be made explicit through the budget, if necessary by supplementary appropriation in 2006, to ensure that VRA's financial position is not to be eroded. A further step would be to implement the Government's policy of making SOEs submit annual financial and operational performance plans, followed by quarterly progress reports.

12. Tax administration is gradually improving, with domestic revenue collection at 23 percent of GDP in 2005 (18 percent in 2002), due to improved compliance, though tax arrears (for example VAT) remain a problem. Meanwhile plans to further improve collection efficiency include: expanded use of IT systems to track and collect taxes, reviewing customs exemptions, extending self-assessments, simplifying VAT on small businesses, and improving customer relations.

Budget Performance

13. In 2005 revenues proved to be lower than forecast, but the Government was able to control MDA expenditures and broadly keep them within its fiscal target for the year.

14. However, as in previous years, there were much larger variations between budget and outturn at the budget heads level, which have been increasing. The Budget Deviation Index (BDI) has been estimated at 33 percent across the main budget heads in 2005. While there are factors that might inflate the measures of budget variation, nonetheless, they place a question mark over the predictability of the budget. This has been partly due to the release of contingency amounts held under MoFEP's vote to pay expenditure increases (mostly wage bill) approved after the budget estimates were voted, and partly due to unbudgeted hiring's, especially of teachers. To make room for these increases, spending was offset by reductions in other areas, such as domestically financed capital spending (Item 4). This raises questions about the transparency of budgets, the planning and control of establishments and whether the budget has enough credibility for departments to plan and execute their work programs efficiently.

15. Related factors affecting budget execution are the quality of accounting and fiscal reporting, cash releases at variance with monthly expenditure plans, and delays in funds

reaching front line service units, matters that are taken up in greater detail in Chapter 2 of the Review, which recommends carrying out regular Public Expenditure Tracking Surveys (PETS).

Poverty Orientation of the Budget

16. Since the launch of the first Ghana Poverty Reduction Strategy (GPRS I), pro-poor spending has been on an ascending trend, rising from 4.8 percent of GDP in 2002 to 8.5 percent in 2005. In turn, poverty has been declining in Ghana, though much of this has come through people moving to urban areas in response to the greater opportunities offered by accelerating economic growth. But agricultural incomes have lagged, with higher incidence of poverty in Northern parts of the country. Overall, GPRS priorities have been broadly aligned with annual budgets. As already noted by previous reviews, poverty outcomes differ across the country. This reinforces the need for tracking surveys to determine whether funds are reaching front line units, and to shed light on how spending could be more effectively channelled. And if tracking surveys also extend to beneficiary assessment, these could help the Government address efficiency and effectiveness of service delivery.

17. In January 2006, the Government launched the Growth and Poverty Reduction Strategy (GPRS II), which has three strategic pillars: private sector competitiveness, human resources development, and good governance and civic responsibility. With the attainment of many of the GPRS I goals, GPRS II gives more explicit emphasis to supporting economic growth as well as poverty reduction, and making progress towards targets set out in the NEPAD and the MDGs. GPRS II now guides the 2006 budget. Overall, it seems likely that Ghana will be able to halve the poverty rate before 2015. The review emphasizes the monitoring and evaluation of GPRS II, the need to publish the results, as the Government intends to do, and to utilize fully the analysis and data forthcoming from the next Ghana Living Standards Survey. It also underscores the importance of clearly capturing Ghana's progress against the various MDGs, particularly in areas where progress is lagging.

18. Annual budgets in the past three years have broadly been aligned with the GPRS planned allocations, though with some variation on an expenditure outturn basis. While the share of Social Sector spending turned out to be larger than planned in the GPRS, this was mostly due to wage bill effects. For FY06, however, GPRS II intended allocations are different to current budget levels, with budget allocations for private sector competitiveness and for good governance much higher and for human resource development much lower than provided for in GPRS II. This disconnect suggests weaker coordination in the budget preparation process, changes in the way MDA activities have been assigned to each pillar, or a need to revisit the shares of the respective pillars assigned under GPRS II. The segmented funding framework for major ministries like the Ministry of Education may have further clouded the picture.

19. The mismatch between the GPRS and annual budgets for education is likely to be exacerbated by the future costs of present education policies. Pressure for higher education budgets will come as enrolments rise as a result of the capitation grant program, and from implementing the Government's technical and vocational education plans. A second major area of concern is health, where the costs of existing policies are not adequately captured by the MTEF, and thus in planned GPRS shares. Overall, this suggests a need to strengthen the MTEF so that it can become a more effective tool aligning policies, plans and annual budgets and also improve clarity of linkages with the GPRS II costing.

Current Performance of Ghana's PFM System

20. The PEFA assessment carried out in the context of the 2006 ERPFFM concluded that the PFM system in Ghana is based upon a solid legal and regulatory framework, and performs at an average standard, and in some areas in an above average way. Specific ratings for the 31 high level indicators¹ are shown below in Table A. The detailed PEFA assessment is presented in the Public Financial Management Performance Report (PFM PR), volume II of the 2006 ERPFFM.

21. The 2006 PEFA assessment carried out for Ghana confirms that the country's PFM system has improved since it became eligible for HIPC assistance, as concluded in the review of HIPC AAP public expenditure management benchmarks.² However, areas of concern remain and the Government recognizes the need to continue upgrading the PFM system.

22. The PEFA ratings assess performance against six core PFM objectives. The findings for Ghana are as follows:

- *Credibility of the Budget:* Aggregate expenditure and revenue outturns broadly match the budget plans, but credibility is diminished by variance across budget heads, reflecting weaknesses in budget formulation and the treatment of contingencies;
- *Comprehensiveness and Transparency of the Budget:* This has improved considerably over the past two years, through the incorporation of information on IGFs, direct donor disbursements, HIPC and statutory funds in the Budget Statement. However, in-year reporting is less comprehensive, hampering overall budget scrutiny and management;
- *Policy-based Budget:* While budgets have become more policy-based in recent years, performance is held back by: limited ability to cost strategies, the lack of effective wagebill planning, and the absence of a transparent link between planned and executed budget activities;
- *Predictability and Control in Budget Execution:* Government has improved commitment and other internal controls, but recognizes weaknesses in management and oversight of control systems;
- *Accounting, Recording and Reporting:* The Government still relies predominantly on a paper-based system, resulting in delays and data errors. Analytical and technical capacity constraints hamper MoFEP and MDA efforts to monitor and analyse budget performance; and
- *External Scrutiny and Audit:* There is now more timely completion of accounts and financial statements and submission of audit reports to the legislature, which in turn is more actively scrutinizing both budget and accounts. Reported progress has been facilitated by the timely submission of the Report and Financial Statements of the Consolidated Fund by CAGD. However, effective follow-up on audit findings remains a question, and the excessive detail of the budget documents undermines effective Parliamentary scrutiny.

¹ 28 indicators covering Government processes and 3 covering donor ones.

² IDA's Implementation of the Multilateral Debt Relief Initiative, World Bank, March 2006.

Implications for the Government's Reform Program

23. The PEFA assessment lends perspective to the Government's reform program and progress in recent years. In particular, it has overhauled the legal and regulatory framework, making clear the responsibilities and accountabilities of users of public funds, and improved the oversight role of the legislature. There is now more time for the budget preparation and approval process to be completed before the new financial year begins. The Budget Statement has become more comprehensive, and includes externally financed program expenditures and retained IGFs. The Government publishes more information on budget execution, and commitment control has been strengthened. The backlog of external audits has been reduced, and this has enabled the Public Accounts Committee to play a more meaningful role. In addition, more transparent procurement procedures are in place.

24. At the beginning of 2006 the Government published a three year Strategic Plan to continue strengthening PFM, which details both a short and medium term action plan (S&MT AP). This takes forward the existing reform drive, giving special emphasis to the implementation of a new computerized payroll and HR management system, and the continued roll out of a computerized financial and accounting system.

25. The Government's reform program coincides well with the areas reviewed by the PEFA assessment and highlighted as needing improvement. However, there are also some omissions, and in the light of constraints on implementation capacities, actions could be prioritized more explicitly. Sequencing and costing should be accorded more attention because of limitations on staff skills and resources to carry out some of the reforms, the need for prior actions in some PFM areas, and the need to minimize operational disruptions.

26. Some of the measures contained in the S&MT AP are likely to require more time. If experience of other countries is a guide, it will take longer than planned before full functionality of the computerized financial and accounting system is achieved, and likewise the introduction of the new computerized payroll and HR management system will require more time. Strengthening budget formulation and making the MTEF a more effective instrument to link plans and budgets has been recommended in previous reviews, but continues to pose challenges. Building capacity by recruiting and retaining qualified staff depends on complementary actions on the public service reform front, and increasing demand for internal audit requires a change in management attitudes. Advanced reforms such as accrual accounting and full performance budgeting lie further down the reform road.

27. On the other hand, the PEFA assessment points to actions which the Government could take to make relatively rapid progress. Such "*quick wins*" include:

- Improving the completeness of budget presentation through including the previous and current year revised estimates for MDAs, alongside the proposed budget figures;
- Including planned disbursements of external resources in the Budget Statement;
- Increasing the level of detail of outstanding payments in the Budget Statement, including an age profile (e.g. those which are more than 90 days due);
- Improving the comprehensiveness of the Controller's monthly reports through the inclusion of donor project aid and retained internally generated funds;
- Reporting separately on the use of contingency funds by MDA;

- Ensuring greater communication and accessibility of budget information to the public, including by publishing periodic CAGD fiscal reports in the Ghana Gazette (or posting them on MoFEP’s website) within one month of their completion;
- Carrying out Public Expenditure Tracking Surveys (PETS) to analyze if there are leakages of resources before they reach the service delivery level;
- Reducing the amount of tax arrears and ensuring that data is generated and published periodically;
- Publishing the proposed monthly procurement bulletin and implementing the already developed procurement monitoring tool; and
- Continuing to improve coverage of external grants in fiscal reports.

28. Over the medium term, the assessment suggests the following challenges as “*not-so-quick wins*”:

- Strengthening budget planning, particularly improving the strategic focus of the MTEF;
- Increasing the reliability of budgets;
- Building greater technical and analytical capacities, particularly in accounting/budget analysis and payroll and personnel management;
- Strengthening tax administration, including by broadening the registration of taxpayers and by enforcing compliance with rules and regulations;
- Improving timeliness of reliable information on budget allocations to MMDAs and ensuring consolidation of reported fiscal data into annual reports;
- Deepening oversight of SOEs and consolidating overall fiscal risk into a periodic report;
- Building the capacity and institutionalizing the role of internal and external audit, including in the scrutiny of compliance with procurement rules and regulations;
- Overcoming recruiting and retention problems for core technical and analytical skills; and
- Reducing gradually the use of manual systems and increasing the availability of timely information flows throughout the system.

Institutional Issues

29. Institutional issues critical to the successful implementation of the Government’s PFM reform program are reviewed, and appropriately the authorities raised them in the 2006 Budget Statement. In order to strengthen leadership and accountability, the Government plans to adopt results-based agreements and to overcome low implementation capacity, it has developed a capacity building plan to address staff shortages. The authorities also stressed the importance of aligning donors behind the S&MT AP.

30. The Review supports these objectives, but stresses the importance of making the S&MT AP a more effective roadmap for reform by better sequencing and the preparation of costings for the reform measures, within realistic timelines. There is a need to set clear priorities and expected results, against which the Government can monitor implementation of the S&MT AP.

Table A: Summary of PEFA PFM Performance Scores

		D	C	B	A
A. Credibility of the Budget					
PI-1	Aggregate expenditure out-turn compared to original approved budget	■	■	■	
PI-2	Composition of expenditure out-turn compared to original approved budget	■			
PI-3	Aggregate revenue out-turn compared to original approved budget	■	■	■	
PI-4	Stock and monitoring of expenditure payment arrears	■	■	■	
B. Comprehensiveness and Transparency					
PI-5	Classification of the budget	■	■	■	
PI-6	Comprehensiveness of information included in budget documentation	■			
PI-7	Extent of unreported government operations	■	■	■	
PI-8	Transparency of Inter-Governmental Fiscal Relations	■	■		
PI-9	Oversight of aggregate fiscal risk from other public sector entities	■	■		
PI-10	Public Access to key fiscal information	■	■	■	
C (i) Policy-Based Budgeting					
PI-11	Orderliness and participation in the annual budget process	■	■	■	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	■	■		
C (ii) Predictability and Control in Budget Execution					
PI-13	Transparency of taxpayer obligations and liabilities	■	■	■	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	■	■		
PI-15	Effectiveness in collection of tax payment	■	■		
PI-16	Predictability in the availability of funds for commitment of expenditures	■	■		
PI-17	Recording and management of cash balances, debt and guarantees	■	■	■	
PI-18	Effectiveness of payroll controls	■	■		
PI-19	Competition, value for money and controls in procurement				
PI-20	Effectiveness of internal audit controls for non-salary expenditure	■	■		
PI-21	Effectiveness of internal audit	■	■		
C (iii) Accounting, Recording and Reporting					
PI-22	Timeliness and regularity of accounts reconciliation	■	■		
PI-23	Availability of information on resources received by service delivery units	■	■		
PI-24	Quality and timeliness of in-year budget reports	■	■		
PI-25	Quality and timeliness of annual financial statements	■	■		
C (iv) External Scrutiny and Audit					
PI-26	Scope, nature and follow-up of external audit	■	■		
PI-27	Legislative scrutiny of the annual budget law	■	■		
PI-28	Legislative scrutiny of external audit reports	■	■		
D. Donor Practices					
D-1	Predictability of Direct Budget Support	■	■		
D-2	Financial info provided by donors for budget, reporting on project, programme aid	■	■		
D-3	Proportion of aid that is managed by use of national procedures	■	■		

Note: The scores range from A (highest) to D (lowest). Shaded patterns indicate a "+" score (e.g. PI-4 is a B+). PI-19 is not scored. This Table is based on PFM Performance Indicator Table, Annex A of Volume 2.

1. INTRODUCTION

1.1 The findings of the 2006 External Review of Public Financial Management (ERPFM) are intended to support the policy dialogue between the Multi-Donor Budget Support (MDBS) development partners and the Government of Ghana on public financial management (PFM) issues. In doing so, it seeks to deepen the understanding of the country's PFM issues by the MDBS partners and also to provide the Government with an assessment of its PFM policy goals and reform objectives.

1.2 After this introduction, the second chapter reports on recent economic and fiscal performance and outlook and the Government's conduct of macro-fiscal policy. A major objective of the Government in recent years, supported by development partners, has been to implement the 2003-05 Ghana Poverty Reduction Strategy (GPRS I), and now its successor, the Growth and Poverty Reduction Strategy (GPRS II). In section C of this chapter, the review takes a look, first, at how GPRS I was implemented through the budget over the period 2003 to 2005. It then analyses some issues of budget preparation and execution which the implementation of GPRS I raises. Finally, it discusses the prospects for GPRS II, as judged by the provisions of the 2006 budget, and also analyses sector specific issues.

1.3 The third chapter assesses the current condition of the Ghana's PFM system. Following the recent years' assessments of the HIPC-AAP public expenditure management benchmarks, together with the Government, the 2006 ERPFM conducted an assessment of the current PFM system using the performance measurement framework of Public Expenditure and Financial Accountability (PEFA) initiative, sponsored by a multi-donor partnership which includes the World Bank and the IMF, the European Commission, various bilateral aid agencies, and the SPA Strategic Partnership with Africa. This PEFA performance measurement framework, a component of the Strengthened Approach to PFM reform endorsed by many donors, identifies a set of high-level indicators and was adopted in June 2005. It is a tool aimed at helping governments and development partners benchmark and track progress of country public financial management systems. The full PFM Performance Report (PFM PR), with its assessment against 31 high level indicators comprises Volume II of the 2006 ERPFM as is concerned solely with diagnostics. It has also been prepared as a separate volume to help both government and development partners monitor progress against a common benchmarking. The third chapter of this report summarizes the PFM PR main findings, and reviews the implications of the baseline assessment for the government's Short and Medium-Term Action (S&MT AP) to strengthen PFM, adopted earlier this year.

1.4 The analysis in this third chapter contains: (i) an overview of the results of the PEFA assessment (Section A); (ii) an assessment of the PFM strengths and weaknesses (Section B); (iii) a discussion of the implications of the PEFA assessment results for the prioritisation and sequencing of PFM reforms (Section C); (iv) a brief description of the Government's PFM reform programme (Section D); (v) an analysis of the extent to which the Government's Short and Medium-Term Action Plan (S&MT AP) is consistent with the PEFA assessment (Section E); and (vi), a discussion of a number of institutional issues that are likely to be important in implementing the PFM reforms (Section F).

2. RECENT ECONOMIC AND FISCAL PERFORMANCE AND OUTLOOK

A. MACROECONOMIC DEVELOPMENTS

2.1 Ghana is now in its fourth year of strong economic expansion, and growth is estimated to have reached 5.8 percent in 2005. Real GDP growth is projected to continue at around 6 percent a year, with the potential to be higher. Driving Ghana's economic performance have been strong fundamentals - high levels of public and private investment (now nearly 30 percent of GDP), sound export performance, shrinking public sector deficits, surging private remittances to Ghana, and moderate inflation. These positive developments have enabled Ghana to weather sharp increases in international crude oil prices, caused by rising global demand and supply uncertainties. Higher petroleum product prices following deregulation of the sector in February 2005, thereby relieving the budget of considerable subsidies, caused inflation to spike earlier in the year and averaged 14.9 percent per annum. Since then, a generally downward trend in prices reasserted itself. Latest estimates (April 2006) suggest a year-on-year inflation rate slightly below 10 percent.³ The exchange rate also had a moderating effect on inflation, with the cedi depreciating by about one percent in nominal terms against the dollar.

2.2 Aggregate investment has continued to grow, with private investment rising as a share of GDP (17 percent in 2005) and with public investment recovering from its dip in 2002-03 (12 percent in 2005). Assuming investment remains close to 30 percent of GDP, Ghana's economy should continue to achieve robust growth rates. These could even accelerate over the medium term, through further improvements to the investment climate, and by raising the efficiency of public investment. Continued streamlining of export and import procedures, expanded private sector access to credit, improved contract enforcement and reducing property and new business registration time would further improve business incentives. Raising public investment efficiency could come about through continued public investment in the road, electric power, and water and sanitation sectors, better funding of operations and maintenance and improved management. Above all, it means continuing to improve the allocation of resources and the efficiency with which they are spent. For sustainability, it will be important to ensure that growth is driven not just by the domestic economy, but also by exports.

2.3 A demand-driven increase in international gold prices boosted the value of gold exports, and timber exports were also strong. These gains, however, were counterbalanced by a decline in cocoa earnings resulting from flat prices and a smaller harvest. As a result, total exports were only slightly higher than the 2004 figure, and were unable to match the rise in imports (24 percent) caused by the higher international oil prices (the oil import bill increased by almost 46 percent), implementation of some large scale projects and rising project aid inflows.⁴

2.4 Fortunately the slack in exports was mostly taken up by inward remittances. In dollar terms, net private remittances almost doubled in the period 2003-2005 and now represent nearly half of total export earnings. The surge in remittances, equivalent to 14.5 percent of GDP in 2005 up from 9.5 percent in 2003, suggests increased confidence in Ghana's political and economic future and the government's prudent economic policies have contributed to

³ Release of Monetary Policy Committee, Bank of Ghana, May 2006.

⁴ From 2003 to 2005, oil import bill increased by equivalent to 3 percent of GDP.

this. In turn, remittances have boosted growth by fuelling investment in construction and small businesses.

2.5 As a result, gross international reserves held by Bank of Ghana reached an all-time high of US\$1.9 billion at the end of 2005, representing about three and a half months of coverage of imports of goods and services. This level of coverage is expected to be sustained over the medium term.

2.6 Fiscal policy has remained prudent, anchored by the Government's target of progressive domestic debt reduction. The deregulation of domestic prices for petroleum products in February 2005 was a bold step towards the end of shielding domestic consumers with subsidies at the expense of the treasury. With the implementation of the new automatic price adjustment mechanism earlier in the year, the Government announced new prices for petroleum retail products, followed by two further adjustments in the course of the year. In this way, the Government largely passed on the increased costs to the economy as a whole, thereby sticking to its fiscal strategy. In turn this development coupled with significant debt relief has helped Ghana create fiscal space over the medium term to expand pro-poor and growth oriented spending.

Table 2.1: Macroeconomic Developments and Prospects, 2003-2008

	2003 Act.	2004 Act.	2005 Prel.	2006 Prog.	2007 Proj.	2008 Proj.
Real GDP Growth (%)	5.2	5.8	5.8	6.0	6.0	6.0
Inflation (% change, annual avg. CPI)	26.7	12.6	14.9	8.8	7.1	6.2
Current account balance (% of GDP) ^{1/}	1.7	-2.7	-7.1	-6.1	-5.0	-4.9
Fiscal balance/GDP (% including grants) ^{2/}	-4.6	-3.6	-3.0	-2.4	-3.5	-3.5
NPV of total government debt (% of GDP)	89.8	50.5	34.4	35.1	35.4	35.7
Of which, external debt ^{3/}	71.5	35.3	23.6	26.4	28.1	29.6
Gross international reserves (months of imports of goods and services)	3.2	3.3	3.2	3.2	3.4	3.6

1/ Including official transfers.

2/ After arrears clearance and VAT refunds.

3/ MDRI relief will reduce this ratio by several percentage points starting in 2006 (IMF Statement, Dec. 2005).

Source: Ghanaian authorities

B. AGGREGATE FISCAL PERFORMANCE

2.7 In 2005, the Government continued with its prudent macro-fiscal framework. As defined in the GPRS I, the domestic debt reduction relative to GDP is the overriding macro-fiscal target (the anchor). By allowing domestic petroleum prices to adjust, budget subsidies were considerably reduced and the government was able to contain domestic borrowing. As a result, the medium-term target for 2005 of halving the end-2002 ratio to GDP of domestic debt was achieved and the Government expects further domestic debt reduction over the medium term, to maintain the virtuous circle this fiscal strategy has brought into being (Table 2.2). Lower domestic debt service has allowed, in turn, lower interest rates which have at the same time reduced debt servicing costs to the budget, helped private sector borrowers and moderated inflation.

Table 2.2: Fiscal Performance, 2003-2008

% of GDP	2003 Act.	2004 Act.	2005 Budg.	2005 Prel.	2006 Budg.	2007 Proj.	2008 Proj.
Total Revenues and Grants	25.5	30.2	30.5	28.3	28.0	28.0	27.7
Revenue	20.8	23.8	24.6	23.0	23.5	23.3	23.0
Grants	4.7	6.4	5.8	5.3	4.5	4.7	4.7
Total Expenditure	29.0	33.3	31.9	30.7	30.1	31.3	31.0
Non-interest expenditure	22.6	29.0	28.0	27.2	27.0	29.2	29.1
Interest expenditure	6.2	4.4	3.9	3.6	3.1	2.1	1.9
Overall Balance ^{1/}	-4.6	-3.6	-2.6	-3.0	-2.4	-3.5	-3.5
Domestic primary balance ^{2/}	2.3	0.7	2.6	3.4	1.5	0.1	-0.2
External Financing, net	3.3	3.3	3.4	3.8	3.2	3.9	3.8
Domestic Financing, net,	0.6	0.1	-1.1	-1.7	-0.6	-0.4	-0.3
Stock of Domestic Debt	18.3	15.2	11.4	10.8	8.7	7.3	6.1

1/ After outstanding payments clearance, VAT refunds and including grants.

2/ Excludes grants and externally-financed capital expenditures, includes VAT refunds and discrepancies.

Source: 2003 and 2004 Audited CF Accounts; Unaudited 2005 CAGD Accounts; 2006 Budget Statement and MoFEP.

2.8 The domestic primary budget surplus rose in 2005, permitting a fall in the ratio of domestic debt to GDP to 10.8 percent from 15.2 percent in 2004 (23.7 percent in 2002). The increase in the surplus reflected mainly the impact of the deregulation of petrol prices that Government had planned for (Table 2.3, below).

2.9 There were, however some shortfalls relative to what had been planned in revenue and budget support. These were accommodated through cutbacks in domestic primary expenditure, including a lower than projected wage bill. Direct tax revenue and non tax revenue were about 2.3 percent of GDP higher than budgeted. Non tax revenue would have fallen far short of target, however, if it had not been for concerted efforts on the part of the authorities to secure large dividend payments from NCA and Cocobod during December. Indirect and trade tax collections were approximately 3.3 percent of GDP below target, partly due to the impact of high international oil prices on domestic demand and lower than expected taxes on exports of cocoa.

2.10 Savings in debt servicing relative to the budget target, partly the result of lower than projected domestic interest rates, contributed to the attaining of the domestic debt target. Domestic interest rates fell during 2005 as Government's borrowing requirement lessened and as inflationary expectations eased. The interest rate on 91 day Treasury bills had fallen to 11.5 percent by the end of 2005 from 17 percent at the end of 2004.

2.11 In the 2006 Budget Statement, the Government announced that it would continue to maintain a prudent fiscal stance. If this is sustained, it would permit further decline in the ratio of domestic debt to GDP. Government would have some leeway to make choices over the pace of debt reduction. A slower pace than indicated in Table 2.2 would probably still permit higher primary expenditure. On the other hand, maintaining the pace of domestic debt reduction would result in further savings in domestic interest payments, which could also be used to more sustainable finance primary expenditures over the longer term. The Multilateral Debt Relief Initiative (MDRI) debt relief, which is not factored into Table 2.2, would permit even more leeway for trade-offs.

Table 2.3: Actual Budgetary Allocations by Economic Classification, 2003-2005
(% of total expenditures)¹

	2003	2004	2005
Current expenditures	78.8	71.3	67.6
- Wages and salaries	29.2	26.3	27.7
- Goods and services ²	10.8	10.3	11.2
- Interest payments	21.5	13.1	11.6
of which: domestic	17.2	9.6	8.8
- Transfers ³	5.1	4.8	6.6
- Subsidies ⁴	2.3	8.3	2.6
- Other ⁵	9.8	8.6	7.9
Capital expenditures	21.2	28.6	32.4

1/ Central Government

2/ Items 2 and 3 of GoG's economic classification

3/ Transfers to households

4/ Primarily, subsidies to Tema Oil Refinery, which are being phased out.

5/ Primarily, transfers to Statutory Funds

Source: 2003 and 2004 Audited Consolidated Fund Accounts; 2005 Unaudited CAGD Accounts.

Quasi-Fiscal Activities and the Broader Public Sector

2.12 Previous ERPfMs have commented on the risks to the Government's fiscal strategy from SOE operations. The Ghana Government wholly owns about 35 non-financial enterprises, in addition to being a shareholder in another 200. Over the years, poor pricing policy, technical inefficiency, and accumulation of arrears have been the source of substantial Quasi Fiscal Activities (QFAs). These have disguised the true size of the public sector deficit, inflated domestic debt, distorted consumption and investment decisions, and had unintended distributional effects. Furthermore, their "off-budget" nature obscures legislative oversight of public finances.

2.13 Four large public enterprises, Volta River Authority (VRA), Electricity Company of Ghana (ECG), Tema Oil refinery (TOR) and Ghana Water Company Ltd (GWCL) historically have accounted for the bulk of QFAs, through a combination of pricing below cost recovery, technical inefficiency and system losses, and accumulation of revenue arrears, in many cases through non-payment of bills by ministries, departments and agencies. QFAs have raised the overall deficit of the public sector, in recent years, by an average of 3 percent of GDP, generated additional domestic debt, and contributed to the run down of critical public infrastructure.⁵

2.14 Although QFAs remain a problem in Ghana, they have been reduced by improvements in the financial position of state enterprises, due partly to the strong economic growth that Ghana has enjoyed, but also because of policy actions taken by the Government. The improved performance of some sectors (e.g. cocoa sector) in recent years has strengthened the finances of some SOEs. Water and electricity tariffs have been more regularly adjusted, without removing the incentive for ECG and GWCL to reduce system

⁵ Implications of Quasi-Fiscal Activities in Ghana, Mali Chivakul and Robert York, IMF Working Paper, January 2006.

losses. The deregulation of petroleum prices, in February 2005, both eliminated a regressive consumer subsidy and improved TOR's finances. In addition, the MoFEP now organizes an annual elimination of SOE cross debts. It has worked to reduce MDA late payments, and is now enforcing the FAA requirement for SOEs to remit profits and dividends.

2.15 The net effect of these measures has been a substantial positive fiscal adjustment which has reduced contingent liabilities and created additional fiscal space to finance both the renewal of utility assets and the deepening of poverty reducing programs. However, if the restarting of Volta Aluminum Company (VALCO) leads to a resumption of supply of under priced power, the latter should be financed "on-budget" with an explicit subsidy, rather than by weakening VRA's finances or by extracting a cross-subsidy from the electricity's other customers, as was the case in the past. As an example, since VALCO came back into operation in September 2005, the 2005 VRA's preliminary (un-audited) financial statement shows a swing into an operating loss of about ¢300 billion down from an estimated operating profit of about ¢400 billion one year earlier. If the ¢700 billion (equivalent to 0.7 percent of GDP) would have been fully financed by the budget, this would have represented 3.4 percent of the country's domestic primary expenditures. The Government is considering submission to Parliament of a supplement to the 2006 Budget and will earmark funding necessary to compensate VRA for the interim supply of under priced power to VALCO.

2.16 As reported in the PEFA PFM-PR (PI-9), the oversight of aggregate fiscal risk from other public sector entities still poses challenges. With regard to SOEs, most submit reports to the State Enterprise Commission (SEC), but a consolidated report is not prepared. This is a basic requirement for a proper accountability framework within which SOEs should operate. The review encourages Government to seek to enforce this measure while ensuring comprehensive coverage of all these enterprises. In this regard, it is important to broaden enforcement of the requirement that SOEs must submit annual financial and operating plans and quarterly and annual reports.

Government Revenues

2.17 Domestic revenue collection has increased steadily in recent years in terms of GDP (17.9 percent in 2002 to 23.0 percent in 2005) indicating increased compliance, and total revenues have benefited from the buoyant economy. One major tax revenue enhancement measure over this period was the establishment of the Large Tax Payer Unit. The Large Taxpayers' Unit (LTU) has had a significant impact on improving revenue collections, through facilitating assessment arrangements (e.g. the use of self-assessment) and providing value-added services for selected companies in Accra and Tema. The LTU provides a one-stop tax agency (VAT and direct taxes) for the country's 360 largest taxpayers, which were selected on the basis of their compliance record. Direct taxes and VAT (taxes collected by LTU) increased to 12.7 percent of GDP in 2005 from 10.6 percent in 2002. Another major revenue enhancement measure was the introduction of the Ghana Community Network Services (GCNet) IT system into the Customs, Excise and Preventive Services in December 2002. Over the period 2002-2005, indirect and excise taxes collected by CEPS increased by 2.2 percentage points to 9.4 percent of GDP.

2.18 Prudent revenue forecasts have helped to ensure that the overall budget is realistic. Nonetheless, given the large size of the informal sector and the breaches to taxpayer registration and it is probable that further improvements in tax administration could lead to sustain recent robust performance. Tax arrears remain an issue, though there have been improvements in some areas. Arrears owed to the Internal Revenue Service declined

significantly, from 6 percent of the total due in 2003 to 1.6 percent in 2005. Arrears owed to the Customs Excise and Preventive Service (CEPS) as a percentage of total due have averaged about 1 percent. However, VAT and excise owed to the VAT Service Agency but not paid amounted to about 12 percent in 2005 of total tax due, little changed from the previous two years. About 70 percent of this is owed by public utility companies.

2.19 Against this background, the Government is taking steps to further strengthen revenue collection efficiency. The Revenue Agencies Governing Board plans further computerization of both CEPS and IRS in 2006, review of the customs exemptions system, selective income tax self assessment, simplification of VAT for small businesses and other improvements.

C. PLANNING AND BUDGETING

C.1 Ghana Poverty Reduction Strategy, 2003-2005 (GPRS I)

Implementation of GPRS I

2.20 The GPRS I outlined the proportions of the Government's discretionary MDA expenditure and donor project spending that should be allocated to the main sectors over the life of GPRS I. In addition, in the context of the HIPC assistance, the Government identified areas of spending that were considered directly poverty-reducing (e.g. primary health care, basic education, rural development and agriculture). Ideally, for reasons of consistency, GPRS spending would have covered spending financed by all sources of funding, including internally-generated funds (IGFs) and statutory funds (SFs), and poverty-related spending would have been a subset. However, this was not the case. GPRS spending included donor-projects but excluded that financed by IGFs and SFs. As stated in the 2005 ERPFM, poverty-related spending as a proportion of total spending, does not reflect the complete picture as it excludes donor projects but includes expenditures financed by SFs.

Table 2.4: Medium Term Priority Programmes ⁶
(in US\$ million)

	Total	2003	2004-2005	2006 and Beyond ^{1/}
Budgeted	2515	544	1276	695
GOG (Domestic Capital Expenditures, incl. HIPC)	n.a.	154	n.a.	n.a.
Donors	n.a.	400	n.a.	n.a.
Actual	3342	466	1811	1065
GOG (Domestic Capital Expenditures, incl. HIPC)	1140	132	623	385
Cash expenditure	437	49	201	187
HIPC savings	703	83	422	198
Donors	2202	334	1188	680
Grants	960	120	567	273

Source: Volume II, GPRS 2003-05, February 2003

1/ Data on actual refers to Budgeted for 2006, excluding MDRI.

2.21 The total cost of projects and programmes in the GPRS Medium-Term Priority Programmes was estimated at US\$2.5 billion, of which US\$1.8 billion for the period 2003-2005. Table 2.4 above shows that after a slow start in 2003, disbursements in 2004 and 2005 and planned for 2006 are considerably higher than initially expected. Importantly, due to

⁶ GPRS I, Costing and Financing of Programmes and Projects (Volume II), NDPC, February 2003.

HIPC savings and budget support, domestic financing of MTPPs averaged 34 percent of total capital expenditures during 2004-2005, up from 28 and 22 percent in 2003 and 2002, respectively.

Table 2.5: Comparison of 2003-2005 GPRS with Budgets^{1/}
(in percent)

Sector	2002	GPRS 2003 Target	2003 Budget Outturn	GPRS 2004 Target	2004 Budget Outturn	GPRS 2005 Target	2005 Prel. Outturn	Avg. 2003-05 GPRS	Avg. 2003-05 Outturn
Administration	19.8	14.2	14.8	13.3	17.8	13.3	15.2	13.6	15.9
Economic	18.0	9.7	9.1	10.3	9.6	10.3	9.8	10.1	9.5
Infrastructure	17.2	17.2	15.5	19.1	13.5	19.1	17.4	18.5	15.5
Social	34.7	38.1	38.7	34.3	43.2	34.3	43.8	35.6	41.9
Public Safety	9.7	11.1	11.5	9.0	8.9	9.0	8.4	9.7	9.6
Utilities and Rev. Agencies	-	2.8	5.8	3.2	2.8	3.2	2.2	3.1	3.6
Contingency	0.6	6.9	4.6	10.8	4.2	10.8	3.2	9.4	4.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ Data covers GoG discretionary expenditure and donor project assistance.

Source: 2003-2005, GPRS; 2003-2004 Audited CF accounts; 2005 unaudited CAGD accounts. ADMU data for external assistance.

2.22 Previous reviews have noted the broad alignment of the GPRS with annual budgets. This trend continued in 2005. Table 2.5 shows that the average budget outturn over 2003-05 was reasonably close to the GPRS I sectoral composition. The share of the Social Services in the budget outturns appears to be much higher than the GPRS share, but this was largely due to the wage contingency item, representing wage rate increases negotiated after budget approval and staff size adjustments not reflected in the original budget.⁷ Year on year comparisons might not be so meaningful because of: (i) carry over of projects, particularly donor projects from pre-GPRS; and (ii) adjustments in Government allocations due to country specific conditions (e.g. elections, natural disaster, etc). However, comparing to 2002, Government has prioritised social sectors and contained spending in MDAs related to administration and economic sectors.

2.23 Improvements in budget comprehensiveness in 2004 and 2005, both ex-ante and outturn data, allow to compare the structure of public spending considering all sources of funding with the more limited scope reported in Table 2.5. When all sources of funding are considered (Table 2.6 below) no dramatic change in the pattern of spending takes place, probably due to rigidities associated with sizeable statutory payments and subsidies.

⁷ The 2004 and 2005 Budgets include transfers to be made to the National Health Insurance Fund. However, the CAGD outturn for transfer to this fund was zero in both years.

Table 2.6: Broad and Narrow View of the Budget
(in percent)

Sector (in percent)	2004 Budget Statem. All Sources	2004 Budget Outturn All Sources	2004 Budget Statem. Narrow	2004 Budget Outturn Narrow 1/	2005 Budget Statem. All Sources	2005 Budget Outturn All Sources	2005 Budget Statem. Narrow	2005 Budget Outturn Narrow 1/
Administration	13.4	12.3	18.0	17.8	10.2	12.6	13.5	15.2
Economic & Infrastructure.	20.6	22.6	19.7	23.1	25.3	26.5	27.1	27.2
Social	40.9	39.8	38.5	43.2	38.4	39.7	37.2	43.8
Public Safety	8.1	6.2	11.8	8.9	4.8	6.0	7.0	8.4
Util. & Rev. Agenc.	3.6	1.8	5.4	2.8	2.8	1.5	4.4	2.2
Util Price Subsidies	2.0	7.8	0	0	2.4	3.7	0	0
Oth. Transf. (Pension/Grat/ SSec)	5.4	5.3			5.4	6.3		
Other (Outs. Paym./VAT ref.)	1.5	0.9			4.0	1.5		
Contingency	4.5	3.3	6.6	4.2	6.7	2.2	10.8	3.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Discretionary payments	63.5	59.6	80.3	67.8	54.8	57.9	68.3	66.8
of which HIPC debt relief	6.2	7.6	0	0	5.4	7.1	0	0
Stat. Payments (SFs, Transf. HHouseh., ret. IGFs)	23.3	19.9	0	0	25.2	19.5	0	0
Donor Funding	13.2	20.5	19.7	32.2	20.0	22.6	31.7	33.2

1/ Similar to Budget outturns in Table 2.5, above.

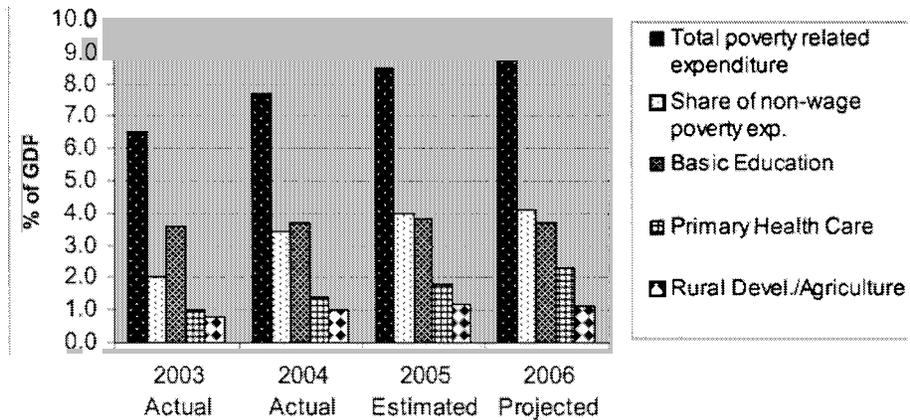
Sources: Budget Statements 2004 and 2005. 2004 CF audited accounts and 2005 unaudited CF accounts. ADMU data for donor assistance.

2.24 During GPRS I, poverty-related spending (PRS) increased in importance rising to 8.5 percent of GDP in 2005 from 4.8 percent in 2002, representing 39 percent of total domestic primary spending in 2005 up from 25 percent in 2002 (Figure 2.1 below). These percentages rose sharply in 2005, mainly due to an increase in basic education and primary health care spending. The pattern of spending changed during 2002-2005, with primary health care taking a higher share of pro-poor spending. The wage component of poverty expenditures in both education and health fell sharply from 85 and 76 percent in 2003 to 79 and 55 percent in 2005, respectively. Moreover, the budget deviation index (weighted by share of each area) of poverty related expenditures fell to 15.4 percent in 2005, compared to 19 percent and 21 percent in 2004 and 2003, respectively (see Statistical Annex, Table 4). In 2006, poverty-related spending is planned to increase to 8.7 percent of GDP. Additional resources released as a result of eligibility to assistance from the Multilateral Debt Relief Initiative will further increase that ratio.

Performance of the Budget in 2005

2.25 Although the overall budget performance in 2005 was satisfactory, both in aggregate fiscal terms and with respect to the GPRS, a number of budget preparation and execution issues, some already noted in previous reviews, invite commentary.

Figure 2.1: Trends in Poverty-Related Expenditures 2003-2006



Source: MoFEP

Budget Variation

2.26 Budgets should be predictable in implementation. If units have little confidence in the amounts provided in the budget reaching them, their work programs will be adversely affected, and the quality of service delivery will most likely suffer.

2.27 A measure that can be applied both to the budget as a whole and to major budget heads of it is the Budget Deviation Index (BDI). Formally, BDIs are incorporated into the first two performance indicators of the PEFA assessment system, over the past three years. Table 3.1 of the PFM PR (Volume II of this report) shows that at the aggregate level, actual primary expenditures differed by less than 10 percent from voted amounts in two (2003 and 2005) out of the last three years. This is a positive trend, and reflects the Government's commitment to fiscal discipline. However, trends are not so encouraging at the level of major budget heads. When the measure is applied to the 20 major budget heads (Table 3.2 of PFM PR), the average BDI leaps to 16 and 26 percent for 2003 and 2004, and to 33 percent in 2005. Further analyses indicate that during 2003-2005, across spending items, average variances were largest for items 2 and 4 (administration and investment) and smallest for personal emoluments (item 1) (see Statistical Annex, Table 1). On the face of it, these high values suggest poor budget predictability.

2.28 How to interpret BDIs in Ghana can be debated. Part of the deviation at the MDA level comes from the manner in which funds are set aside centrally for still to be negotiated annual salaries adjustments, and this has little to do with service delivery. It can also be argued that when cuts have to be made, they are more likely to reduce spending in less essential areas.

2.29 The quality of fiscal reporting also influences the BDIs. An example is the National Health Insurance Fund (NHIF), which is identified in the appropriation acts of 2004 and 2005. While transfers to this fund are known to have taken place, they are not captured in the 2004 audited accounts of the CF or in the 2005 unaudited CAGD accounts submitted to the

Auditor General in late March 2006, which were examined for this report⁸. For 2005, important disconnects in fiscal reporting between MoFEP and CAGD are also apparent in the area of tax revenues, statutory payments, utility price subsidies and non-roads outstanding commitments. During the audit of 2005 CF accounts by the Auditor-General's Office such discrepancies are expected to be clarified.

2.30 While the above mentioned mitigating factors (carry-forward of unpaid commitments is another) might inflate BDIs, nonetheless, the BDIs reflect a gap between the budget *ex ante* and the budget *ex post* which suggests a systemic failure to link planning and budgeting. The review suggests that the matter be studied more closely, and steps taken to improve the link between planning and budgeting and the accuracy of reporting in future years.

The Wage Bill

2.31 In aggregate, the wage bill in 2005 was lower, by about 5 percent, than initially planned for. However, perennial problems persist in the education sector.⁹ The budgeted wage contingency is supposed to provide for this, but was not sufficient in 2004 and may not be enough in 2006. Insufficient budgeting for the wage bill can therefore lead to cutbacks in non-wage spending after the fiscal year has started.

2.32 One reason for under budgeting is that the size of the annual wage increase is not known until after the budget is approved, as this is negotiated with trade unions over a different cycle than the budgeting cycle. The other reason as pointed out in last year's report and above, is that requirements for extra staff are not taken into account when preparing the budget, and the reasons for this are unclear, as the requirements are known with reasonable accuracy during the budget preparation cycle (e.g. education sector). Under a more rigorous budgeting system, manpower requirements for the following year would be fully taken into account during the budget preparation process, as emphasized in last year's report. The wage contingency for the 2006 budget is 0.7 trillion cedis. This could potentially be insufficient to cover the extra wage bill, taking into account both the extra staff to be recruited and pay increases.

Non-Wage Contingency

2.33 The size of this contingency has averaged close to 7 percent of total budgeted non-wage MDA spending in recent years and practically all of it has been spent. The spending of the contingency (both wage and non-wage) is reported but the breakdown by MDA is not available as the Ministry of Finance and Economic Planning does not keep the information in a readily accessible form, though it recognizes that it should do so in the interests of transparency. Furthermore, the question arises why the non-wage contingency should be spent when revenues are short of target. In principle, as well as providing a small margin of flexibility in terms of meeting unexpected calls on the budget, the contingency should also act as a cushion against resource shortfalls, so that budgeted expenditure approved by

⁸ Had the transfers of 984.4 billion cedis understood to have been made by MoFEP to the NHIF in 2005 been captured by CAGD, the aggregate BDI would have dropped from 8 percent to 3.6 percent and PI-1 would have scored better than a B. See Annex D of PFM PR.

⁹ The Ghana Education Service (GES) estimates that it requires a further 0.5 trillion cedis in 2006 on top of the 3.9 trillion cedis already budgeted, on account of additional staff requirements. The capitation grant scheme increased enrolment by 616,000 for the 2005/06 year. At an average PTR of 35:1, this means recruiting 17,600 extra teachers. Eight thousand of these are graduating from college and were already on the payroll register in anticipation of starting work, but their emoluments have not actually been budgeted for.

Parliament is not disrupted, to the potential detriment of service delivery. If, on the other hand, revenues are on target, the contingency can then be spent as long as this is done transparently and reported adequately by MDAs.

2.34 As noted in the 2005 ERPFM, a contingency reserve should be kept mostly for national emergencies, and operated as provided for in the Constitution and in the Financial Administration Act. The Government has indicated that it would establish a Contingency Fund of this type during 2005. Progress on this front, could bolster the transparency of contingency expenditures.

Other Budget Execution Issues

2.35 The fall in the budgeted contingency for 2006 is a welcome development. Contrary to 2005, when short-term issues led contingency to increase to 15 percent of the discretionary MDA budget, this proportion has fallen to below 7 percent in the 2006 budget statement. Bringing contingency allocations below the 5 percent threshold would be a further step in the direction of ensuring budget discipline at the MDAs and item level. As described above, the assessment of the performance of the budget is obscured in part by the lack of adequate reporting of expenditures financed by contingency at the MDA level. In this regard, MoFEP could develop a system for recording separately the use of contingency by MDA. Such information would result in improved reported budget performance, and deviations from the approved budget would most likely be lower.

2.36 The flow of resources to MDAs and service delivery units in 2005 continued to be less than ideal in terms of both quantity and timeliness. Processing of invoices tends to be very time consuming, leading to arrears and higher costs through penalty interest (mainly in the case of roads arrears), as well as cutbacks in planned services the following year as unpaid commitments are carried forward. Steps should be taken to reduce such administrative constraints. In this regard, it is noted that a new Treasury system is being implemented.

2.37 CAGD is piloting a decentralized treasury system this year, and the MoE has been selected as a test case. Initial findings point to a much improved speed of moving funds through the system. Parent ministries are no longer involved in processing applications for release under items 3 and 4. The MOE's response to this development was very positive and MOH also welcomed it (early in March 2006 it had not yet been implemented in MORT). While faster transmission of funds is obviously welcome, it also comes with the risk of mishandling if the funds go straight to agencies in districts, which have not yet developed the capacity to handle them. The experience gained in the piloting stage of this process is critical to implement measures to mitigate risks that will emerge during implementation. Government is aware of the importance to ensure that internal controls will be adequately safeguarded.

C.2 Growth and Poverty Reduction Strategy, 2006-2009 (GPRS II)

GPRS II Framework and Consistency with 2006 Budget

2.38 With effect from January, 2006, Government has been implementing the Growth and Poverty Reduction Strategy (GPRS II), covering 2006-09. In the updated strategy, Government places greater emphasis on growth and a correspondingly more important role for the economic and infrastructure sectors of the budget. GPRS II focuses on three main themes: Priorities for Private Sector Competitiveness (36 percent of resources over the

GRPS2 period), Human Resource Development (54 percent) and Good Governance and Civic Responsibility (10 percent). The total cost is estimated at US\$8.1 billion, covering items 3 and 4 (service and investment expenditure) only, and including all funding sources.

2.39 The strategic thrust of GPRS II is sound. With the attainment of many of the GPRS I goals, the main objective of the GPRS II is geared toward accelerating private sector-led growth to enable Ghana to achieve middle income level by 2015. The strategy aims at halving poverty before 2015, a target that will be carefully assessed building on data of the forthcoming (December 2006) Ghana Living Standards Survey (GLLS 5). It also seeks to achieve targets set out in the New Partnership for Africa's Development (NEPAD) and the Millennium Development Goals (MDGs). Human resource development constitutes the focal point of the GPRS II, as in the near future renewed focus is necessary to ensure attaining several of the MDGs. The latter is important because in some areas, such as maternal and child mortality, Ghana's progress is lagging. As planned, it is critical to strengthen monitoring and evaluation and publish the Annual Progress Reports (APRs) of the GPRS. APRs should report on progress towards the various MDGs.

2.40 However, there seems to be a disconnect between the sector shares indicated by the GPRS and existing budget allocations. If the GPRS 2 resource allocations for 2006 are compared with the 2006 budgetary allocation, significant differences arise. The budget allocations for *Private Sector Competitiveness* and *Good Governance and Civic Responsibility* are much higher than planned for in the GPRS II while for *Human Resource Development* is much lower. Thus the budget appears to contradict the GPRS II idea of placing more focus on expenditures to promote human resource development (Table 2.7, below). In turn, the 2006 budget allocations are broadly in line with sector trends from previous years.

2.41 It is possible that an uneven carry-forward of projects from 2005 to 2006 has shifted the 2006 budget allocation off its GPRS II track, but this hardly explains the magnitude of the discrepancy. Most likely, the sector allocations of GPRS II did not sufficiently take account of the spending dynamics of existing policy, particularly in areas like education, where enrolments in the primary school system are increasing, and, furthermore, now moving through to the secondary level and driving costs upwards, or, for that matter, health. GPRS II rightly reflects the Government's desire to stress the private sector competitiveness and growth dimensions of poverty reduction. But at the same time the Government is not about to reduce emphasis (even if it could) on the social sector leg of the strategy.

Table 2.7: GRPS and 2006 Budgetary Allocation by Thematic Area¹⁰
(in US\$ million)

GPRS Key Policy Focus Area 1/	GRPS II Resource Allocation in 2006		2006 Budget Allocation	
	Value	%	Value	%
Priorities for Private Sector Competitiveness	752	36	809	45
Human Resource Development	1111	54	703	39
Good Governance & Civic Responsibility	203	10	293	16
TOTAL	2066	100	1805	100

Source: National Development Planning Commission, for both numerical columns.

2.42 This suggests not so much a failure of budgeting as one of expenditure planning. Annual budgets must cater for existing policy, and are heavily path dependent. The MTEF, on the other hand, must bring together both the cost of existing programs and new policy initiatives consistent with the Government's overall fiscal strategy. Here, a weakness exists in costing sector strategies and also in investment planning (see PI-12 of PFM PR). This point to the need to make the MTEF a more effective instrument to link policies, plans and budgets. In this way, annual budgets could be more closely linked to the MTEF, and the MTEF would reflect better the cost of existing policy than the GPRS presently seems to. It is expected that ongoing work to bring its classification into line with the standard classification of the budget will contribute to making the MTEF a more relevant instrument and provides an opportunity for improving clarity of the linkages between the annual budget and GPRS II.

2.43 A major advance with the 2006 budget was getting it prepared and approved by the legislature before the start of the new fiscal year. MoFEP was able to do this by starting the preparation process much earlier (late April 2005). This not only strengthens democratic accountability, it also makes for smoother and more predictable budget implementation. MoFEP has already launched (mid-May 2006) the 2007 budget preparation cycle and submission to Parliament is planned for around mid-November 2006.

Sector Perspectives on MTEF

2.44 In recent years, progress has been made in expanding access to education and health services. Gross primary enrolment rates are rising at national levels, reaching 87 percent by mid-2005 from 81 percent two years earlier. Supervised maternal deliveries rose slightly at national level, almost 2 percentage points to about 54 percent from 2002 to 2005. In both gross primary enrolment and supervised maternal deliveries, marked improvements occurred in the three relatively deprived regions (Northern, Upper East and Upper West). The HIV/AIDS prevalence rate among pregnant woman fell slightly to 3.1 percent in 2005 from 3.6 percent in 2003. However, while the gender parity index is narrowing the 2005 MDG of equality does not seem to have been achieved. In addition, key health indicators (e.g. infant and child mortality) have shown little improvement, and seem to pose considerable challenges to meet the MDGs.

2.45 In addition to sharpening sector policies, the government will need to ensure the adequacy of resources for the medium- to long-term objectives for education and health

¹⁰ The proportions are not comparable with those of the previous tables on GPRS I. In tables 2.5 and 2.6, GPRS I is based on items 1-4 (wages, administrative services, discretionary services and investment) and excludes funding from IGFs and SFs. However, GPRS II in table 2.7 is based on items 3 and 4 and includes all sources of funding

services, and to highlight those areas deemed critical for accelerating progress towards the MDGs. In this context, stronger consideration should be given to issues of efficiency and geographic targeting. It is encouraging that government is considering the use of public expenditure tracking surveys to assess resources that are actually delivered to front-line primary services (schools and health units).

2.46 In this section, the ERPFM briefly reviews the need for strengthening the MTEF from the sector perspective, specifically education and health, which are key sectors for the GPRS II, for “scaling up” and meet the MDGs, and of Government policy generally. In different ways, both sectors illustrate the need to better plan the cost of implementing existing policies, and thereby to integrate them better into the overall fiscal strategy.

Education

2.47 Education is a sector where the pressures to increase spending are very strong, and the existence of multiple funding sources, both local and external, complicates expenditure planning, as the table below illustrates. The spending dynamics of the sector are driven by a mixture of policy and demographics, the latter being Ghana’s population growth and the increase in the number of school age children. The abolition of fees and the introduction of a capitation grant for schools has sharply increased the enrolment in primary schools (93 percent in 2004/05), and this in turn has made necessary both hiring a large number of new teachers (particularly for the more deprived regions) and building new schools and classrooms. It is also a target of the GES to increase teaching material availability to a pupil core textbook ratio of 1:1.

Table 2.8: Education Spending 2005 by Item, Funding Source and Level
(in billion cedis)

	PE	%	Admin	%	Service	%	Invest	%	Total	%
GoG	4532	99.6	255	70.8	78	5.8	28	2.5	4895	67
GETF					206	15.4	510	45.7	716	10
DACF					8	0.6	79	7.1	87	1
SIF (Cap grant)					48	3.6			48	0.7
HIPC (inc. capit. grant)					112	8.4	201	18	313	4
IGF	20	0.4	105	29.2	479	35.8	85	7.6	690	9
Donors					406	30.4	212	19	619	8
Total	4552	61.8	360	4.9	1337	18.2	1115	15.1	7364	100
Basic	3238		112		722		347		4419	60
SSS	811		20		139		304		1274	17
TVET					6		33		39	0.5
TED	504				127		24		151	2
Tertiary			227		350		370		1451	20
Management			1		19		36		56	0.8

Source: Ministry of Education

2.48 Basic education spending in real terms increased by about 13 percent in 2005 and is budgeted to rise by about the same amount in 2006, taking into account all funding sources. Other education tiers are set to rise. As the extra primary school entrants graduate into secondary school, funding requirements will rise, since unit costs for the latter are four times higher. The lack of a technical and vocational education and training (TVET) policy has been a gap in the educational policy framework, and a new TVET policy was recently sent to

the Parliament for approval. This will require strengthening TVET institutions and catering for the extra enrolments.

2.49 The issue is not whether these new policies are desirable (they obviously are) but that their incremental costs should be assessed and factored into public expenditure planning. Presently, the MoE's main planning instrument is the Education Sector Plan (ESP), operationalized into a rolling three year rolling plan through the Annual Education Sector Operating Plan (AESOP). While these instruments undoubtedly have great value for the MoE, they do not adequately capture the full costs of both existing and new policy, and thus assess their affordability within the overall fiscal envelope. The mechanism to reconcile this is the MTEF which should reflect the cost of policy, and thereby determine within the overall fiscal framework how much each education level should be receiving consistent with both availabilities and the service levels that they should be providing.

Health

2.50 Overall, the budget of the Ministry of Health has grown beyond the "best case" scenario of the 2002-06 Five Year Programme of Work of the sector. The next five year plan is currently being formulated. While these instruments should provide a good basis for planning public spending in the sector, there are questions whether the existing MTEF framework for the sector adequately captures the spending dynamics therein. A major policy change has occurred in the form of the new National Health Insurance Scheme, under the 2003 National Health Insurance Act. The modalities of this are still being sorted out, but it is clear that the number of users of health services is likely to increase sharply following the abolition of the "cash and carry schemes". Thus, the requirements for inputs (e.g. doctors, nurses, drugs) will increase, and the costs of these need to be reflected in the MTEF.¹¹ The 2006 Annual Program of Work (POW) and the recent Reviews of the POW do not allude to these costs, except for general statements to the effect that the new five year POW currently being drafted and the national health infrastructure policy also being drafted should provide for stronger linkages between planning and budgeting. Nor is it clear that the future recurrent costs associated with the capital investment plan outlined in the annual POWs are taken into account.

3. GHANA'S PUBLIC FINANCIAL MANAGEMENT REFORMS

3.1 As part of the 2006 ERPFA, a Public Expenditure and Financial Accountability (PEFA) assessment was undertaken as a joint exercise together with the Government. The purpose was to assess the current status of Ghana's Public Financial Management (PFM) system based on the PEFA set of high-level performance indicators in order to set a baseline for the continued use and assessment of these indicators. This is timely as the Government has recently adopted its Short and Medium-Term Action Plan (S&MT AP) to strengthen PFM, and the PEFA framework may be used to refine the plan and track progress in its implementation. The PEFA assessment, one of the three pillars of the Strengthened Approach to PFM that guides international support to development, is also expected to help development partners coordinate their support to countries seeking to improve their PFM systems, as envisioned by the 2005 Paris Declaration on Aid Effectiveness and the 2005 World Bank Group Africa Action Plan (AAP) to support policy actions led by African countries to achieve priority goals, such as the MDGs.

¹¹ As discussed in "Strategic Purchasing of Priority Health Services under the New National Health Insurance Scheme in Ghana, World Bank, April 2004.

3.2 Both the PEFA assessment and the accompanying Public Financial Management Performance Report (PFM-PR) followed the PEFA Guidelines.¹² As such, the scope for making recommendations for future actions in the report is limited, since the assessment is intended to focus only on the current (baseline) situation. This chapter therefore aims to build on the analysis and specifically address the question of “what next” by identifying the implications of the assessment for the PFM reform programme. The full results of the PEFA assessment are contained in a separate report “Ghana: Public Financial Management Performance Report and Performance Indicators” (PFM-PR), presented as Volume II of the 2006 ERPFM.

A. OVERVIEW OF PEFA ASSESSMENT RESULTS

3.3 Ghana’s Public Financial Management (PFM) system is based on a solid legal and regulatory framework which sets out appropriate budget and accountability structures. This includes: (i) responsibility and accountability for public funds delegated to individuals through the system; (ii) appropriate oversight by the legislature; (iii) clear statement of the powers and duties for MoFEP, CAGD, and the Auditor-General; and (iv) clear and well-documented roles and responsibilities for all stakeholders. The legal framework for PFM is underpinned by an established set of expenditure control procedures covering wagebill, non-salary, and procurement. Clear rules and procedures are in place, and these tend to be followed.

3.4 Overall, the system is performing at an average standard, and in some areas at an above average level.¹³ Whilst predictability of overall revenues and expenditures has been maintained in aggregate over the last three years, credibility of the budget is undermined by significant in-year variations across budget heads. Nonetheless, there is an increased emphasis on budget transparency and comprehensiveness, particularly in the Budget Statement, and external scrutiny has been strengthened through more timely completion of the Auditor-General’s reports.

3.5 PEFA assessments rate a country’s PFM system against a set of performance indicators, each reflecting a component part of the overall system, and the results are summarized in Table A presented at the end of 2006 ERPFM executive summary. Overall, PEFA assessments seek to evaluate a country’s PFM system against six core objectives, which a well functioning public financial management should manifest: (i) budgets need to be credible if they are to promote good performance by budget units; (ii) they need to be comprehensive and transparent if democratic accountability is to be supported; (iii) at the same time they must be sufficiently flexible to respond to the policy priorities of governments; (iv) PFM systems must contain controls to ensure proper budget implementation; (v) the way that resources are used must be accounted for and reported transparently; and (vi) there must be robust external audit and scrutiny.

3.6 Measured against the six core PFM objectives examined by the assessment, it is clear that there have been significant improvements in recent years, which have served to improve the transparency and comprehensiveness of fiscal management. These findings confirm that Ghana’s public expenditure management has improved since the country became eligible for assistance in the context of the HIPC Initiative; late in 2005, the country was considered to

¹² “Public Financial Management, Performance Measurement Framework”, PEFA Secretariat, June 2005.

¹³ Taking a C as the average level, nearly half of the indicators in Annex A of the Executive Summary are above this level (i.e. C+ or above).

meet 8 out of the 16 HIPC public expenditure management benchmarks, up from 7 benchmarks at the time of the 2004 HIPC AAP assessment, and 1 benchmark in 2001.¹⁴ However, further improvements will be needed to achieve better budget outcomes as follows:

- ***Credibility of the budget.*** In aggregate, expenditure and revenue outturns have broadly matched budget plans over the past three years. However, the credibility of the budget is adversely affected by significant variances in the use of resources across budget heads (both economic and administrative). These variances reflect weaknesses in budget formulation as well as insufficiently disaggregated reporting of contingency amounts;
- ***Comprehensiveness and transparency of the budget.*** The transparency of the budget documentation has improved considerably over the last two years, especially by incorporation in the Budget Statement for 2005 and 2006 of information for MDAs on IGFs, donor disbursements, and HIPC funds, as well as information on incomes and expenditures for the Statutory Funds. Whilst comprehensive information is available on the intended use of public resources, in-year reporting by CAGD on the utilisation of some of those resources (e.g. donor flows and retained internally generated funds) is less comprehensive, hampering the monitoring of budget performance and reducing the efficient management of overall budget operations;
- ***Policy-based budget.*** Whilst the budget is centred on the Medium Term Expenditure Framework, particularly in terms of the macro/fiscal framework, weaknesses in budget planning exist due to limited analytical capacities to cost strategies and the lack of comprehensive information on budget parameters, namely, the lack of effective wage bill planning, during budget formulation. At the same time, the MTEF is difficult to implement as planned, with no clear mechanism to follow the link from detailed activities to actual budget execution. Improvements in the use of forward estimates and the linking of the bottom-up planning and budgeting processes with the top down resource framework will be required in order to make the budget a more effective tool for government policy;
- ***Predictability and control in budget execution.*** Strengthened commitment controls during the past two years have improved aggregate budget discipline. Whilst a reasonably comprehensive set of internal controls are in place and tend to be respected, the Government has recognised weaknesses in management and oversight of control systems, and consequently improvements are under way in internal audit. In particular, capacity constraints can lead to potential compliance issues with internal control rules. At the same time, effective expenditure controls are potentially undermined by data inaccuracies and non-timely information (e.g. with the processing of personnel records, particularly new recruits, leading to delays in integrating them onto the payroll);
- ***Accounting, recording and reporting.*** The paper-based nature of many of the financial management systems leads to delays in the processing of financial information and can affect data accuracy, while analytical capacity constraints undermine the ability of both MoFEP and MDAs to monitor budget performance. In terms of monitoring flows through the system, there is limited information on the extent of resources reaching priority front-line services such as health and education; and

¹⁴ IDA's Implementation of the Multilateral Debt Relief Initiative, World Bank, March 2006.

- **External scrutiny and audit.** External oversight has improved through the more timely preparation and submission of Auditor-General reports to Parliament and the clearance of the backlog of outstanding reports. Reported progress has been facilitated by the timely submission of the Report and Financial Statements of the Consolidated Fund by CAGD. Parliament has taken a more active role in scrutinising the budget, although it is not clear how effectively the Executive takes remedial action.

B. STRENGTHS, WEAKNESSES AND INTERDEPENDENCIES

3.7 Public financial management concerns the efficiency and effectiveness of the use of public resources. The interdependence of the different components of the budget cycle means that weaknesses in one part can adversely affect other parts and can constrain the achievement of better budgetary outcomes. At the same time, improvements in one area, unmatched by corresponding changes in other areas, can undermine the initial reforms.

3.8 The Government's focus on controlling overall expenditure levels, through improved commitment controls, has helped broadly to maintain aggregate fiscal discipline. At the same time, the Government's success in gaining Parliamentary approval for the 2006 Budget before the beginning of the fiscal year has contributed to increased certainty around public expenditure and is reportedly having a positive impact on inflationary expectations. Finally, clearing the backlog of external audits has enabled PAC to have a more active role and thereby has contributed to improved external scrutiny.

3.9 Whilst significant progress has been made, the assessment indicates areas which require continued attention. First, weaknesses in budget planning prevent resources from being effectively utilised to meet Government policy priorities. Incomplete costing of sector strategies makes it difficult to allocate resources across and within sectors appropriately. At the same time, considerable contingency amounts are included during the budget formulation stage, which are subsequently allocated to meet mostly higher salary awards agreed after the completion of the budget; this might require the reallocation of planned resources within MDAs and undermines the *ex ante* budget plans. The resulting large expenditure deviations across budget heads reduce budget credibility and potentially undermine the legitimacy of these original budget plans.

3.10 Second, the use of fragmented data sources to report on the use of resources hampers MoFEP and MDAs in monitoring the achievement of budget policy objectives since it is difficult to have a clear view of comprehensive spending in a given sector. Third, weaknesses in the collection of tax arrears prevent these resources from being available for priority public services. Finally, the current format for presentation of budget information, in terms of excessive detail of the activity-level information and the absence of a clear trend from actual outturns through the current year's revised estimates to the budget proposals, potentially weakens the external oversight role by both Parliament and civil society.

C. PRIORITIZATION AND SEQUENCING OF PFM REFORM PROGRAM

Prioritisation of Reforms

3.11 With its comprehensive coverage, the PEFA assessment can help MoFEP identify key challenges. The main priorities for Government are recommended to be those areas which have mostly scored a D or a C, as these are the areas where the PFM system shows the

greatest room for improvement. The PEFA assessment recognises that, in some cases, raising the score from one level to another requires changes which go beyond the MoFEP's or Government's own mandate (e.g. changes at the Parliamentary level). Nonetheless, these areas would be expected to remain priorities.

3.12 Specifically, taking the lowest scores of the PFM PR as a broad indicator of the most significant challenges, the assessment indicates the following as key priorities:

- Implementing the budget as planned so as to reduce the expenditure variance between planned budget and actual outturns, with accompanying measures to improve budget planning (indicators 2, 12 and 16);
- Improving completeness of budget presentation and quality of in-year fiscal reporting (indicator 6);
- Undertaking a PETS analysis to determine the actual amount of resources reaching front-line services relative to the expected amounts (indicator 23);
- Strengthening fiscal scrutiny by analysing consolidated fiscal information both for the general government sector as a whole (central and local levels together) as well as for SOEs (indicators 8 and 9);
- Continued developing internal audit capacity through implementation of IAA's strategy to develop it as a management tool to strengthen accountability for the use of MDA resources, and thereby move away from internal audit as a tool for pre-audit or ex ante control (indicator 21);
- Strengthening tax administration to ensure more effective taxpayer registration and tax assessments and payments (indicators 14 and 15);
- Continued strengthening of payroll controls (indicator 18);
- Continued strengthening of non-wage expenditure controls (indicator 20);
- Obtaining more timely information on budget execution (accounting and accounts reconciliation, recording and reporting) to assist in budget management and the control of expenditure (indicators 18, 20, and 22);
- Continued strengthening of procurement through implementation of PPB's strategy to improve the transparency of public procurement (indicator 19);
- Continued strengthening of external audit, including the follow-up by the executive, and the oversight of this follow-up by the legislature, to the Auditor-General's recommendations (indicators 26 and 28); and
- Building greater technical and analytical capacities at all levels, particularly to improve quality of in-year and annual fiscal reports through more reliable accounting and budget analysis (indicators 24 and 25).

Sequencing of Reforms

3.13 Whilst the areas listed above could be identified as high priorities, the sequencing of reform measures may differ. It does not necessarily follow that the Government should implement the priority measures in order of greatest weakness – the appropriate sequencing depends on capacity constraints, on prior actions that must be undertaken first (including those dependent on other stakeholders), and on the relevant time and effort required.

3.14 On the basis of these identified challenges, during the 2006 ERPFM discussions took place with the Government about a number of measures that could be undertaken to make relatively rapid progress. In the short term, as the PEFA assessment shows, the Government could build on its successes and improve the operations of its systems in a number of key areas (“*quick wins*”)¹⁵. These include:

- Improving the completeness of budget presentation through including the previous and current year revised estimates for MDAs, alongside the proposed budget figures;
- Including planned disbursements of external resources in the Budget Statement (e.g. data for 2007 should be presented in the Budget Statement of 2007 in a manner similar to that of Appendix Annex X of last year’s Budget Statement – by source of funding, project and type of assistance);
- Increasing the level of detail of outstanding payments in the Budget Statement, including an age profile (e.g. those which are more than 90 days due);
- Improving the comprehensiveness of the Controller’s monthly reports through the inclusion of those remaining expenditures outside of the CAGD system, especially donor project aid and retained internally generated funds;
- Reporting separately on the use of contingency funds by MDA;
- Ensuring greater communication and accessibility of budget information to the public, including by publishing CAGD monthly reports and financial statements in the Ghana Gazette (or posting them on MoFEP’s website) within one month of their completion;
- Carrying out Public Expenditure Tracking Surveys (PETS) to analyse if there are leakages of resources before they reach the service delivery level;
- Reducing the amount of tax arrears and ensuring that data is generated and published periodically;
- Publishing the proposed monthly procurement bulletin and implementing the already developed procurement monitoring tool; and
- Continue to improve coverage of external grants in fiscal reports.

3.15 In the medium term, the assessment identifies the following challenges (“*not-so-quick wins*”)¹⁶:

- Strengthening budget planning (particularly, improving the strategic focus of the MTEF by reducing its detail and providing a greater policy context – this will make the information more relevant and easier to understand);
- Increasing the reliability of budgets by implementing measures to reduce budget virement by MDAs and improving advanced information on availability of funds for commitment. As the difficulties in implementing the budget as planned, shown in the significant differences between budget plans and actual expenditures by budget heads,

¹⁵ The quick wins are actions that the Government could accomplish within twelve months, and, as such, correspond to the time period in its Short-Term Action Plan, contained in the first part of its “3-Year Strategic Plan, Short and Medium Term Action Plan” (S&MT AP), January 2006.

¹⁶ The timing for the not-so-quick wins corresponds to the Medium-Term Action Programme, which comprises the second part of the S&MT AP.

reflect to a large extent weaknesses in budget planning, achieving significant improvements in the overall planning process (including in the links between the forward [MTEF] budget estimates and GPRSII) are likely to take more than one budget cycle, as international experience would suggest;

- Building greater technical and analytical capacities, particularly in accounting/budget analysis and payroll and personnel management;
- Strengthening tax administration, including by broadening the registration of taxpayers and by enforcing compliance with rules and regulations;
- Improving timeliness of reliable information on budget allocations to MMDAs and ensuring consolidation of reported fiscal data into annual reports;
- Deepening oversight of SOEs and consolidating overall fiscal risk into a periodic report;
- Building the capacity and institutionalizing the role of internal and external audit, including in the scrutiny of compliance with procurement rules and regulations;
- Overcoming recruiting and retention problems for core technical and analytical skills; and
- Reducing gradually the use of manual systems and increasing the availability of timely information flows throughout the system. These improvements will take longer to implement but should continue to be programmed into the reform program.

3.16 Externally-funded TA resources are being provided to assist MoFEP to undertake its reforms. These include assistance to improve the MTEF, support with implementing the new commitment control and fiscal reporting system, and improvements to procurement, revenue mobilization and debt management. These inputs have helped MoFEP to make recent demonstrable progress, as highlighted in the PFM-PR.

3.17 Looking ahead, the PFM-PR evaluation identified capacity constraints in a number of areas, including in budget planning, as well as internal and external audit. It will be important that TA inputs are an integral part of, and contribute to, the Government's own reform programme. Thus, it is the Government, and specifically, MoFEP which should ensure that the results of the PFM-PR inform the utilization of TA inputs.

D. OVERVIEW OF THE GOVERNMENT'S PFM REFORM PROGRAM

3.18 The Government has demonstrated its commitment to improving Ghana's public financial management system in recent years through a series of measures aimed at improving the efficiency of resource use. The most recent reforms have built on those introduced under the Public Financial Management Reform Programme (PUFMARP) initiated in the mid-1990s. Under PUFMARP, the Government introduced a medium term expenditure framework (MTEF) intended to improve the links between policy-making, planning and budgeting.

3.19 As the PEFA assessment shows, over the last few years, the Government has accelerated its implementation of PFM reforms through a series of measures aimed at strengthening the legal framework and improving oversight of the use of public sector resources. These include:

- Improving the legislative/regulatory framework, including the adoption of new laws on overall financial management, internal audit, and procurement. In particular, Government has promulgated a new Financial Administration Act (FAA), updated Financial Administration Regulations (FAR), the Internal Audit Agency Act, and the Public Procurement Act;
- More comprehensive information in the Budget Statement on the detailed use of resources, including those not passing through the Consolidated Fund, such as externally-financed project expenditures and retained IGFs
- Improved timing of the approval of the Budget by Parliament;
- Increased availability of information on budget implementation to the public, with more timely gazetting of monthly budget execution reports;
- Stronger commitment controls in line with the availability of cash resources;
- Clearing of the backlog of external audit reports and hence a more active role for the PAC; and
- More transparent procurement procedures.

Planned Reforms – Short Term

3.20 At the beginning of 2006, MoFEP published its three-year strategic plan which details both a short and medium-term action plan (S&MT AP), covering the period 2006-2009.¹⁷ The S&MT AP is structured in two parts. Following a brief overview of achievements made thus far, the first part of the Government's Plan contains the short-term action plan and focuses on the priority measures to be undertaken during 2006. These measures are primarily aimed at improving the efficiency of resource and information flows through the budget system.

3.21 Two reforms currently under way are appropriately intended to boost the accuracy and timeliness of expenditure information from budget plans through the expenditure commitment stage to making and recording payments. These include: (i) the on-going building of an improved computerized and integrated personnel and payroll database system; and (ii) implementing the Government's computerized and integrated financial and accounting management system.

3.22 There has been progress on the implementation of the upgraded payroll and personnel system over the last year. A new computerized Integrated Personnel and Payroll Database (IPPD-2) system is currently being established, allowing MDAs to make changes to personnel and payroll records. This new system is gradually replacing the existing Integrated Payroll and Personnel Database (IPPD-1), providing a more reliable system with upgraded software and supporting hardware. The two systems are currently running in parallel. The government has also taken steps to develop a computerized personnel and payroll database for all subvented agencies, totaling 57,500 thousand employees, with data for the 18 largest subvented agencies having already been uploaded onto IPPD-2. The transition from IPPD-1 to IPPD-2 is providing an opportunity to check personnel records for the around 350,000 public employees on the payroll. There are about 24,000 public employees that have not yet been converted to IPPD-2 mostly because incomplete records. The new system (IPPD-2) is expected to be operating without the IPPD-1 backup later in 2006.

¹⁷ "3-Year Strategic Plan, Short and Medium Term Action Plan", MoFEP, January 2006.

3.23 To date, personnel and payroll reforms have largely focussed on the IT side. However, in order to be effective, attention also needs to be paid to matters wider than the technical roll out of the IT system, such as system reporting and the development of new business systems and controls. Implementing a new Integrated HR Payroll system requires strong co-ordination between the central agencies, strong leadership of the change management process and a good focus on strategic management. Specifically, successful implementation will require:

- Clarity in roles and responsibilities of agencies and effective leadership and management;
- Robust systems of business processes and controls to maintain data quality;
- Central agencies' monitoring and ensuring of compliance;
- Appropriate incentives/sanctions for compliance/non-compliance; and
- Capacity to operate and manage the new system with the new processes.

3.24 With regard to the Government's computerized and integrated financial and accounting system, progress is also being made. The operationalization of the system (BPMS) has been completed at the Ministry of Finance and Economic Planning/Controller and Accountant General Department and the Ministry of Health, with core functionalities (general ledger, purchase order and accounts payable) available for processing and reporting transactions of personnel and administrative expenditures. While the coverage of the system was expected to also encompass the ministries of Education, Road Transport, and Local Government and Rural Development, there were delays in connecting them to the fiber optic network. Nevertheless, since the 2006 budget ceilings for personnel and administrative expenditures have already been uploaded onto the system, these ministries are expected to be processing transactions (warrants, purchasing orders and accounts payable) for personnel and administrative expenditure by mid-2006.

3.25 Given the comprehensiveness of the new computerized and integrated financial and accounting system and the degree of migration required from multiple existing systems, implementation of the new system will need to be managed carefully and focus first on the core functions in order to avoid disrupting the core budgeting and accounting processes. Managers will need to review business systems and processes, streamline and re-engineer existing processes and procedures, and train staff within the context of the transition from the existing to the new system. Experience around the world indicates that this will take considerably longer than the current timetable allows.

3.26 Turning to the third reform element of the STAP, a decentralised payment system is being introduced in a few pilot ministries, including the Ministry of Education. The new system is intended to improve the efficiency of the payment system through opening MDA-specific treasuries (and eventually regional and district treasuries under the control of the relevant regional/district financial officer). Funds are being released to these treasuries and on to the cost centres without recourse back to MoFEP. The early indications from the pilot exercises are positive. The new system has helped MDAs by reducing the time taken to gain access to improved resources as well as the amount of documentation required. Nevertheless, it is not clear what effect the new system will have on overall expenditure control.

3.27 The Government is aware of the importance to ensure that transparent financial accountability systems are in place for the use of funds and, crucially, that the new structure

does not undermine overall control, which up to now has relied on multiple levels of verification. In particular, it will be important that the shift in departmental accounting responsibilities to MDAs does not reduce the Government's ability to conduct efficient treasury management. A critical issue is how the responsibilities of the MDAs' new professional heads will be defined, and what will be provided for in the new CAGD-approved accounting instructions, including the daily reporting of balances as well as the role played by the Central Bank.

3.28 Finally, internal audit and procurement processes are being strengthened through improved governance in terms of the operation of the Internal Audit Agency (IAA) and the Public Procurement Board (PBB), as well as setting out rules-based operational procedures. Continued efforts in implementing the IAA and PPB's strategic plans are to be commended, and if implemented as planned should improve the oversight and transparency of, and accountability for, public expenditures.

Planned Reforms – Medium Term

3.29 In addition to these short-term measures, the second part of the STAP, setting out the Government's medium-term action plan, consists of a matrix of reforms centred on 9 focal areas and linked to Ghana's Poverty Reduction Strategy (GPRS).¹⁸ Within each focal area, output targets are given, the main agency responsible, as well as other agencies involved, are named, activities to be undertaken are detailed, and the risks are identified. There is no time frame detailed beyond the three years of the medium-term action plan. The reforms are comprehensive and cover most areas of the PEFA framework. However, as indicated in the next section, the medium-term measures are not prioritised or sequenced.

E. HOW WELL ALIGNED IS THE S&MT AP FOR PFM WITH PEFA FINDINGS?

3.30 The 2006 ERPFM reviewed in a more detailed manner the degree to which the Government's short and medium-term action plan to improve PFM is consistent with the prioritisation and sequencing emerging from the PEFA assessment.

Short-Term Actions

3.31 Box 3.1 below shows the elements of the S&MT AP with the corresponding PEFA indicator. As shown, in terms of prioritisation, all of the measures refer to areas of challenge (i.e. those with scores of Cs or lower) as measured by the PEFA. However, some of the priorities are not included, such as a Public Expenditure Tracking Survey (PETS), as well as a specific focus on reducing the variance between planned budgets and actual expenditure outturns.

¹⁸ These include: fiscal management/macro stability, strengthening budget formulation/preparation, budget implementation, financial regulatory and management framework, integrated payroll and personnel system, aid and debt management, revenue management, financial sector programme and capacity building.

Box 3.1: Alignment of Short-Term PFM Action Plan with PEFA Assessment

STAP Action	Relevant PEFA indicator	PEFA Score	Comments
Budget formulation – strengthen the MTEF	Indicator 12	C	Improving the links between plans, budgets and outturns will take considerable time. This is considered a not-so-quick win, but initial steps are underway (e.g. coding and improving link 2007 MTEF and Budget to the GPRS II).
BPEMS	Indicators 12, 16, 20, 22-25	C	Appropriate to focus on improving information flows through the system. This is considered a not-so-quick win.
Management of HR and Payroll System (IPPD2)	Indicator 18	C+	Appropriate focus. International experience would suggest that this is not such a quick win.
Cash management – decentralization of treasuries	Indicators 16	C	It is important to ensure that expenditure control procedures are not undermined.
Accounting and reporting	Indicators 22, 24-25	C (22) and C+ (24-25)	The STAP rightly indicates that the introduction of accrual accounting should proceed with (extreme) caution.
Internal audit management	Indicator 21	D+	Appropriate focus. However, ensuring adequate understanding of the role of internal audit as a management tool to strengthen accountability for the use of MDA resources, rather than as a tool for pre-audit or <i>ex ante</i> control, is likely to take significant time.
Public procurement	Indicator 19	Not scored	Appropriate focus for reform.
Harmonisation of the financial management laws and alignment of DPs' processes to the laws	Indicator D-3	D	Whether or not it is a priority will not be solely up to Government. This is considered a not-so-quick win.

3.32 In terms of sequencing, several of the measures are likely to take longer than the time envisaged. This includes: strengthening budget formulation, implementing a computerized integrated financial and accounting system, and introducing a computerized integrated payroll and personnel management system. At the same time, some of the quick wins identified above are not covered, including the undertaking of PETS, improving the presentation of the budget (in order to assist Parliament to scrutinise the budget), collecting tax arrears, and increasing the coverage of CAGD reports. The Government may thus want to revisit the short-term components of the Action Plan at its next revision, and fine tune them in the light of the PEFA assessment.

Medium-Term Reform Measures

3.33 Box 3.2 below analyses the consistency between the measures in the 3-year S&MT AP for PFM and the PEFA assessment. As shown, most of the PFM areas covered by the assessment are included in the Plan (in some cases, across several activities). The only priority areas identified by PEFA (i.e. those with lower than a B score) which are not explicitly included are the two indicators related to the role of Parliament in the budget cycle (PI-27 and PI-28), which the Government would presumably argue is not a role for their action plan. However, the work plan lacks prioritisation, sequencing and costing.

Box 3.2: Alignment of 3-Year Short and Medium Term PFM Action Plan with PEFA Assessment

S&MT AP Focal Areas/Key Objectives	Relevant PEFA indicators (in bold) (related Work Plan activity in brackets)	PEFA Score and Indicator
Fiscal policy management – macro stability - Formulate and implement sound macro-economic policies	PI-14 (linking/integrating revenue systems) PI-16 (improving monitoring of expenditure commitments) PI-8 (consolidating of fiscal data) PI-23 (PETS) PI-2 (more accurate wagebill)	D (23) C (2, 8,14,16)
Strengthen budget formulation/preparation - Allocate and manage financial resources efficiently, effectively and rationally	PI-12 (improving MTEF through capacity development) PI-8 (harmonisation of central/local classification systems) PI-9 (facilitating SOE inputs into the budget) PI-5 (budget classification)	C (8,9,12) B (5)
Strengthen budget implementation - Improve public expenditure management and reporting	PI-24 (budget reporting) PI-16 (cash releases) D-2 (donor harmonisation) PI-3 (variance between planned and actual revenues) PI-15 (inventory control for revenue agencies) PI-22 (bank reconciliation) PI-7 (comprehensiveness of unreported government operations)	C (15,16,22,D2) C+ (24) A (3,7)
Financial regulatory and management framework - Account for all public finances properly - Improve fiscal resource mobilisation	PI-6 (development of asset register) PI-24, PI-25 (production of timely accounts) PI-20 (financial instructions) PI-7 (preparation of statutory accounts) PI-19 (activities for implementing the Public Procurement Act) PI-21 (activities for implementing the Internal Audit Agency Act) PI-26 (improvement of capacity of Audit Service, follow-up)	C (6,20) C+ (24,25,26) A (7) Not scored (19) D+ (21)
Integrated payroll and personnel system - Improve the human resource and institutional management capacity	PI-18 (implement IPPD)	C+ (18)
External resource mobilisation/ aid and debt management - Reduce and restructure domestic debt	D-1, D-2 (improve data on external assistance, reports on use of external assistance) PI-17 (improving quality of external and domestic debt data, including debt reconciliation, contingent liabilities) PI-12 (debt sustainability) PI-7 (fiscal information on external loans)	C (D-2) C+ (D-1) C (12) B (17)
Revenue management - Improve fiscal resource mobilisation	PI-14 (revenue database interface, improved revenue administration) PI-15 (revenue arrears) PI-3 (analysis of revenues against targets)	C (14,15) A (3)
Financial sector programme - Create enabling environment for the private sector	N/A	
Capacity building - Improve the human resource and institutional management capacity	Cuts across all indicators	

3.34 The reform programme contains a large number of activities which would be difficult to implement without prioritisation and sequencing. The linkages between the short and

medium-term actions with a view to reach identified outcomes could be improved. Whilst different parts of the Work Plan are the responsibility of different departments or institutions, the Budget Division and CAGD are key implementing agencies for many of the reform activities; this potentially puts a significant strain on the resources in these departments. Co-ordination of the overall reform programme can be difficult if each institution sees its reform activities in parallel.

3.35 At the same time, it would be difficult and inappropriate to address all PFM measures at the same time, due to: (i) a lack of appropriately skilled cadre (e.g. accounting personnel) to carry out some of the reforms, (ii) constraints on implementation capacity; (iii) the need for prior actions in some PFM areas before reforms can be implemented; (iv) insufficient resources to implement the measures; and (v) the fact that undertaking too many reforms at once can be very disruptive to staff undertaking their day-to-day operational responsibilities. These elements all have implications for the sequencing of reforms.

3.36 There are also measures that are likely to require more time than currently planned for:

- Improving budget formulation and the MTEF, in terms of linking policies to actual (not just planned) resource allocations to meet Government policy objectives;
- Obtaining full functionality from the computerized integrated financial and accounting system;
- Capacity building, in terms of recruiting and retaining qualified personnel;
- Ensuring that internal audit is effectively used as a management tool to increase the accountability of MDA managers for the use of their resources. This will require building the understanding of the management role of internal audit rather than simply as a means for pre-auditing; and
- Implementation of more advanced reforms, such as accrual accounting and performance budgeting.

3.37 The medium-term components of the action plan are an important step in developing a roadmap for PFM reforms. As the Government refines the medium-term components of the action plan to strengthen PFM, it would be important to take account of capacity and resource constraints, and technical issues in reform sequencing and costing. The 2006 ERPFM analysis of the authorities' action plan, building on the PEFA assessment, can assist with addressing the reform programme as a whole, i.e. across all components. It can also assist in guiding the sequencing and further elaboration of such reform measures.

F. INSTITUTIONAL ISSUES FOR PFM REFORM

3.38 The Government has an ambitious agenda in reforming its public sector and encouraging strong private sector growth in order to reach middle-income status by 2015, as stated in the GPRS II. It has recognised that this target will require overcoming a number of potentially significant institutional challenges. In his 2006 Budget Statement, the Minister of Finance and Economic Planning addressed a number of these challenges directly, including: (i) the need for leadership and accountability; (ii) overcoming low implementation capacity; and (iii) co-ordinating the reforms.

3.39 Institutionally, the PFM reforms have been directed and owned by senior management within MoFEP, a strategy which has proved effective, as evidenced by the success of a number of reform measures. As the reforms continue, it will be important for GoG to ensure that sufficient analytical capacities exist to lead and manage the reform process.

Leadership and accountability

3.40 The achievement of a number of recent improvements to the PFM system provides evidence of strong government commitment to the reforms. The authorities recognise that this commitment needs to be backed up by sufficient leadership capacities to carry through the reform measures. The 2006 Budget Statement indicates the need to strengthen such capacities, particularly in districts. At present, leadership for the PFM reforms appears strongest in the MoFEP. The Government is developing plans to introduce results-based agreements between the Head of the Civil Service and Chief Directors of MDAs.

3.41 More accountable institutions improve the incentives for good leadership, and the Government has recognised that this implies changes in work ethics, attitudes and behaviour.¹⁹ In this way, the increased emphasis on participation by the public in the budget process is to be welcomed.

Overcoming low implementation capacity

3.42 The pace of reform is potentially hampered by constraints in implementation capacity, leading to delays in the execution of projects and programmes. MoFEP reports that the achievements of reform programmes are sometimes undermined by weaknesses in the efficient use of resources, with substantial balances often remaining unutilised, and in some cases are cancelled at the close of programmes and projects. This issue is exacerbated by weaknesses in technical capacities, particularly in terms of financial management, as higher salaries in the private sector attract accounting and other professionals with marketable financial skills. The recruitment and retention of qualified accountants will be particularly important to sustain the Treasury decentralisation programme under way. In response, the Government has developed a capacity plan as part of the Public Sector Reform Programme to address these skill shortages.

Co-ordination of reforms

3.43 The Ministry of Finance and Economic Planning, the National Development Planning Commission (NDPC) and the Ministry of Public Sector Reforms are at the heart of the public sector reform programme. As indicated above, whilst the Government's medium-term plans for PFM reforms are set out in the MoFEP's Short-Term Action Plan, this does not appear to be sufficient to act as a road map for reforms since the plans do not contain a sequenced and costed work programme with realistic timelines. The implementation of such a comprehensive programme without appropriate sequencing and costing may distract attention away from focusing efforts on reaching priority objectives. It would be useful for MoFEP to set priorities and expected results, identify timelines for the medium-term, monitor implementation, and ensure good communication and co-ordination between central and line agencies and sub-national administrations.

¹⁹ See 2006 Budget Statement.

3.44 Finally, it will be essential that the PFM reforms be co-ordinated with wider reform of the public service. Co-ordination of these reforms requires that: (i) the reforms be led at a high political level and that decisions on the integrated vision, are made at this level; (ii) a communication strategy is developed and implemented to help build ownership amongst all stakeholders; (iii) good communications and co-ordination between the central and MDAs and sub-national governments are monitored; and (iv) that there is a realistic and well sequenced implementation plan across all components, including setting out benchmarks to be achieved before the next stage of reform is undertaken. Some of these coordinating mechanisms are already in place and the Government can be expected to refine and further develop these arrangements.

Annex A: Statistical Annex

Table 1: Budget Estimates and Outturn by Broad Functional Classification, 2003-2005
(percentage variation between outturn and budget)

	Budget Allocation (billions cedis)			Actual Allocation (billions cedis)			Variance (%)		
	2003V	2004 V	2005V	2003 A	2004A	2005 Prel	2003	2004	2005
Discretionary Domestic. Financed Expenditure	7798.8	10513.1	12693.9	7638.7	10110.2	12456.0	-2%	-4%	-2%
Personnel Emoluments	5450.1	6631.8	8683.3	5490.9	6941.7	8160.8	1%	5%	-6%
Administration	1066.5	1558.6	1613.0	1109.6	1514.2	2395.0	4%	-3%	48%
Services	804.5	1175.7	969.6	745.0	972.9	1022.9	-7%	-17%	5%
Investment	477.7	1147.0	1427.9	293.2	681.4	877.3	-39%	-41%	-39%
<i>Of which</i>									
General Administration	1224.7	1909.7	1818.3	974.7	1713.1	1942.3	-20%	-10%	7%
Personnel Emoluments	709.5	762.1	845.0	517.0	865.0	895.7	-27%	14%	6%
Administration	178.1	317.4	363.9	166.0	333.6	491.1	-7%	5%	35%
Services	258.8	549.9	243.8	244.2	419.1	383.4	-6%	-24%	57%
Investment	78.3	280.3	365.6	47.5	95.4	172.1	-39%	-66%	-53%
Economic Services	433.5	563.0	564.4	351.9	512.3	595.7	-19%	-9%	6%
Personnel Emoluments	295.7	300.8	284.3	245.2	331.3	350.6	-17%	10%	23%
Administration	51.0	68.4	65.5	46.4	73.4	101.4	-9%	7%	55%
Services	57.5	97.2	54.3	37.6	48.9	38.2	-35%	-50%	-30%
Investment	29.3	96.6	160.3	22.7	58.7	105.5	-23%	-39%	-34%
Infrastructure	300.8	472.1	569.8	261.8	402.3	532.2	-13%	-15%	-7%
Personnel Emoluments	78.1	72.8	94.5	70.6	86.5	105.6	-10%	19%	12%
Administration	31.4	38.7	46.6	22.0	33.4	59.0	-30%	-14%	27%
Services	31.2	35.5	16.3	28.7	24.0	12.5	-8%	-32%	-23%
Investment	160.1	325.1	412.4	140.5	258.4	355.1	-12%	-21%	-14%
Social Services	3626.8	4484.8	5635.5	4118.2	5127.3	6798.7	14%	14%	21%
Personnel Emoluments	3212.3	3932.5	5033.1	3778.7	4611.4	6051.8	18%	17%	20%
Administration	188.7	214.2	287.1	125.0	259.0	465.8	-34%	21%	62%
Services	183.8	238.5	179.5	194.7	202.0	199.8	6%	-15%	11%
Investment	42.0	99.5	135.8	19.8	54.9	81.4	-53%	-45%	-40%
Public Safety	1181.0	1506.2	1300.3	1118.4	1325.2	1574.4	-5%	-12%	21%
Personnel Emoluments	871.4	1043.2	738.5	828.8	954.1	719.4	-5%	-9%	-3%
Administration	172.2	237.8	327.4	155.2	203.4	678.1	-10%	-14%	107%
Services	98.3	138.0	66.2	103.8	123.6	94.4	6%	-10%	43%
Investment	39.1	87.2	168.2	30.6	44.1	82.5	-22%	-49%	-51%
Simple average annual deviation by Item (absolute percentage)									
Personnel Emoluments							15%	14%	13%
Administration							18%	12%	57%
Services							12%	26%	33%
Investment							30%	44%	38%
Simple average aggregate deviation (absolute percentage)							19%	24%	35%

Source: Table 2 of the 2006 ERPFM Statistical Annex. It includes utilities and contingencies

Table 2: Voted and Actual Government Discretionary Expenditure by MDA and Item: 2003-2006

(in billion cedis)	2003	2003	2004	2004	2005	2005	2006
	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Prelim.</i>	<i>Voted</i>
Discretionary Domestic Expenditure	7798.6	7638.7	10513.1	10110.2	12693.9	12456.0	14670.2
Personnel Emoluments	5450.1	5490.9	6631.8	6941.7	8683.3	8160.8	9990.0
Administration	1066.6	1109.6	1558.6	1514.2	1613.0	2395.0	2186.7
Services	804.6	745.0	1175.7	972.9	969.6	1022.9	808.8
Investment	477.4	293.2	1147.0	681.4	1427.9	877.3	1684.8
Of which:							
General Administration	1224.8	974.7	1909.6	1713.0	1818.3	1942.3	2043.3
Personnel Emoluments	709.5	517.0	762.1	865.0	845.0	895.7	991.3
Administration	178.1	166.0	317.4	333.6	363.9	491.1	381.3
Services	258.8	244.2	549.9	419.1	243.8	383.4	305.5
Investment	78.3	47.5	280.3	95.4	365.6	172.1	365.1
Of which:							
Min. of Local Government and Rural Devt	127.3	151.1	172.0	176.7	181.3	213.0	199.8
Personnel Emoluments	96.0	124.5	128.4	146.5	137.7	163.6	156.1
Administration	5.7	3.99	6.3	10.2	5.9	10.9	6.0
Services	17.9	17.6	20.5	19.0	13.0	9.7	13.0
Investment	7.7	5.0	16.8	11.1	24.7	28.8	24.7
Discrepancy				-10.1			
Office of Government Machinery	321.5	219.2	526.7	452.3	527.6	489.7	656.7
Personnel Emoluments	160.6	49.4	179.4	153.5	176.7	125.2	284.4
Administration	26.4	20.3	59.1	26.4	74.6	72.2	80.0
Services	122.9	146.0	201.0	224.2	134.0	254.7	150.0
Investment	11.6	3.5	87.2	48.2	142.3	37.6	142.3
Min. of Foreign Affairs	322.0	320.5	474.2	521.2	511.7	592.9	515.5
Personnel Emoluments	227.5	213.7	224.2	315.6	270.0	339.0	270.0
Administration	65.0	87.1	160.0	153.9	143.2	205.7	147.0
Services	13.5	7.2	35.0	18.2	11.8	9.1	11.8
Investment	16.0	12.5	55.0	2.4	86.7	39.1	86.7
Discrepancy				31.1			
Min. of Finance	143.2	75.6	177.3	225.7	232.0	277.5	236.9
Personnel Emoluments	73.2	35.0	83.4	97.4	107.0	112.8	98.7
Administration	27.7	16.3	28.7	88.1	38.0	105.9	40.0
Services	23.9	19.5	38.7	33.7	42.6	34.7	53.8
Investment	18.4	4.8	26.5	6.5	44.4	24.1	44.4

Table 2: Voted and Actual Government Discretionary Expenditure by MDA and Item: 2003-2006 (cont'd)

(in billion cedis)	2003	2003	2004	2004	2005	2005	2006
	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Prelim.</i>	<i>Voted</i>
Min.of Parliamentary Affairs	1.5	1.4	4.2	2.6	7.3	5.8	3.4
Personnel Emoluments	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Administration	0.5	0.5	1.0	0.8	0.8	0.9	0.9
Services	0.6	0.6	0.8	0.4	0.2	0.4	0.2
Investment	0.2	0.2	2.2	1.2	6.0	4.2	2.0
Audit Service	78.4	63.8	79.7	66.7	90.0	80.6	115.1
Personnel Emoluments	40.4	29.8	35.4	41.8	24.6	31.8	48.0
Administration	10.0	8.1	11.3	8.2	41.3	37.4	43.0
Services	19.0	17.4	22.0	15.6	10.1	9.0	10.1
Investment	9.0	8.5	11.0	1.1	14.0	2.4	14.0
Public Services Commission	2.8	4.2	4.6	3.0	3.9	5.1	4.1
Personnel Emoluments	1.2	3.2	1.8	1.2	1.7	3.6	1.7
Administration	0.7	0.2	0.8	0.7	1.2	1.0	1.3
Services	0.4	0.3	0.8	0.4	0.2	0.2	0.3
Investment	0.5	0.5	1.2	0.7	0.8	0.3	0.8
National Electoral Commission	32.8	35.4	206.6	77.8	32.0	35.5	33.5
Personnel Emoluments	16.5	21.4	15.8	21.1	17.2	22.9	18.6
Administration	5.4	5.6	5.9	3.9	5.8	5.3	6.0
Services	9.5	7.5	157.7	51.8	5.3	4.7	5.3
Investment	1.4	0.9	27.2	1.0	3.7	2.5	3.7
Office of Parliament	85.7	64.8	133.7	106.1	119.8	143.5	163.7
Personnel Emoluments	29.7	29.6	37.5	44.8	50.3	45.1	61.8
Administration	25.0	18.2	30.4	30.4	32.1	31.4	33.0
Services	26.0	12.4	35.8	20.9	10.4	36.9	41.9
Investment	5.0	4.6	30.0	10.0	27.0	30.2	27.0
General Government Services							
Personnel Emoluments							0.0
Administration							0.0
Services							0.0
Investment							0.0
District Assembly Common Fund	0.5	0.5	1.3	0.7	0.9	0.8	1.0
Personnel Emoluments	0.3	0.2	0.3	0.3	0.2	0.3	0.3
Administration	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Services	0.0	0.1	0.1	0.0	0.02	0.2	0.0
Investment	0.0		0.7	0.2	0.4		0.4
Planning and Regional Cooperation	21.8	19.7	45.9	39.4	26.4	26.6	35.6
Personnel Emoluments	2.2	5.1	2.7	2.6	2.6	0.6	3.3
Administration	1.5	1.6	2.7	2.8	3.1	4.1	5.8
Services	13.1	7.1	22.5	22.6	11.7	20.7	14.1
Investment	5.0	5.9	18.0	11.4	9.0	1.2	12.5

Table 2: Voted and Actual Government Discretionary Expenditure by MDA and Item: 2003-2006 (cont'd)

(in billion cedis)	2003	2003	2004	2004	2005	2005	2006
	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Prelim.</i>	<i>Voted</i>
Min.of Information and Presidential Affairs	87.2	18.5	83.5	61.8	85.5	71.3	78.0
Personnel Emoluments	61.7	5.0	53.0	40.0	56.8	50.7	48.3
Administration	10.0	3.9	11.0	8.0	17.6	15.9	18.0
Services	12.0	8.5	15.0	12.2	4.5	3.1	5.1
Investment	3.5	1.1	4.5	1.6	6.6	1.7	6.6
Economic Services	433.5	351.9	563.0	512.2	564.4	595.7	693.0
Personnel Emoluments	295.7	245.2	300.8	331.3	284.3	350.6	352.1
Administration	51.0	46.4	68.4	73.3	65.5	101.4	89.8
Services	57.5	37.6	97.2	48.9	54.3	38.2	54.9
Investment	29.3	22.7	96.6	58.7	160.3	105.5	196.2
<i>Of which:</i>							0.0
Min. of Food and Agriculture	136.7	105.7	142.6	131.5	222.3	188.9	256.9
Personnel Emoluments	100.3	84.6	87.9	97.8	100.5	133.7	121.0
Administration	15.0	12.5	16.5	18.6	16.8	18.4	11.5
Services	17.8	8.5	20.0	5.1	7.7	10.3	4.8
Investment	3.6	0.1	18.2	10.0	97.3	26.5	119.6
Min. of Lands and Forest	57.5	55.5	76.3	83.0	80.2	75.6	89.3
Personnel Emoluments	39.6	41.6	41.6	46.2	48.6	56.7	59.1
Administration	9.3	6.8	10.2	7.7	10.7	9.5	9.0
Services	6.5	5.4	16.3	8.3	5.3	7.6	5.5
Investment	2.1	1.7	8.2	20.8	15.6	1.8	15.6
Min.of Energy	28.7	10.8	51.5	40.3	27.4	21.6	30.7
Personnel Emoluments	8.6	1.5	6.5	2.0	4.0	0.8	3.7
Administration	5.3	2.7	5.8	20.9	4.8	3.4	3.3
Services	6.6	2.8	7.2	3.8	1.8	0.7	1.8
Investment	8.2	3.8	32.0	13.6	16.8	16.7	21.9
Min.of Trade and Industry	42.7	32.0	94.4	50.5	71.4	109.0	82.3
Personnel Emoluments	24.4	14.3	29.3	23.2	21.6	28.2	26.9
Administration	4.3	9.6	16.6	8.6	10.5	16.1	16.1
Services	4.1	4.0	24.3	11.6	28.9	10.5	28.9
Investment	9.9	4.1	24.2	7.1	10.4	54.2	10.4
Min of Tourism	13.6	11.0	16.7	12.5	21.5	15.9	27.5
Personnel Emoluments	4.0	2.6	3.9	3.6	4.0	6.7	5.5
Administration	3.0	3.0	3.8	4.5	3.9	4.3	5.2
Services	5.0	3.5	6.0	3.6	2.7	3.6	2.7
Investment	1.6	1.9	3.0	0.8	10.9	1.2	14.1

Table 2: Voted and Actual Government Discretionary Expenditure by MDA and Item: 2003-2006 (cont'd)

	2006	2005	2005	2004	2004	2003	2003
	<i>Voted</i>	<i>Prelim.</i>	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>
Ministry of Environment and Science	180.4	165.4	128.9	175.3	157.8	114.7	132.7
Personnel Emoluments	128.1	115.9	103.6	154.2	127.3	95.1	108.7
Administration	40.5	44.7	13.9	9.1	11.0	9.2	10.0
Services	6.5	4.0	6.1	9.6	15.0	8.8	12.0
Investment	5.3	0.9	5.3	2.4	4.5	1.6	2.0
Ministry of Private Sector Development	10.0	8.8	12.7	6.5	8.3	12.8	6.1
Personnel Emoluments	2.5	1.2	2.0	0.3	0.2	0.2	0.3
Administration	1.7	2.5	4.9	1.2	1.7	1.0	1.6
Services	1.8	1.0	1.8	3.3	3.4	2.6	3.0
Investment	4.0	4.1	4.0	1.7	3.0	9.0	1.2
Ministry of Mines	15.8	0.2	0.0	12.6	15.4	9.4	5.7
Personnel Emoluments	5.2	7.6	4.0	4.0	4.1	5.3	9.8
Administration	2.4	2.5	2.7	2.8	1.6	2.5	2.5
Services	2.9	0.4	3.6	5.0	2.0	2.5	2.5
Investment	5.3	0.2	2.3	3.5	0.5	0.7	0.7
Ministry of Ports, Harbours, headquarters							
Personnel Emoluments	0.5						
Administration	3.8						
Services	1.5						
Investment	4.7						
Infrastructure	782.9	532.2	569.8	402.3	472.1	261.8	300.8
Personnel Emoluments	100.1	105.6	94.5	86.5	72.8	70.6	78.1
Administration	35.0	59.0	46.6	33.4	38.7	22.0	31.4
Services	19.6	12.5	16.3	24.0	35.5	28.7	31.2
Investment	628.2	355.1	412.4	258.4	325.1	140.5	160.1
<i>Of which:</i>							
Min. of Works and Housing	109.2	135.2	92.1	80.8	98.2	61.1	59.7
Personnel Emoluments	36.0	37.0	30.4	27.4	25.7	29.4	23.4
Administration	10.0	13.6	12.8	9.8	11.0	7.5	10.0
Services	5.0	3.4	4.1	6.3	5.7	4.5	5.2
Investment	58.2	81.3	44.8	37.3	55.8	19.7	21.1
Min. of Roads and Transport (excl. R.F.)	620.9	364.8	429.1	294.8	325.5	183.5	200.5
Personnel Emoluments	52.6	54.5	54.1	46.8	38.8	34.1	43.9
Administration	15.8	37.8	23.9	17.1	18.3	11.8	16.6
Services	9.2	5.7	7.1	10.8	18.0	19.7	16.0
Investment	543.2	266.8	344.0	220.1	250.4	117.9	124.0

Table 2: Voted and Actual Government Discretionary Expenditure by MDA and Item: 2003-2006 (cont'd)

(in billion cedis)	2003	2003	2004	2004	2005	2005	2006
	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Prelim.</i>	<i>Voted</i>
Min.of Communication	40.6	17.2	35.2	21.4	26.4	21.6	33.3
Personnel Emoluments	10.8	7.1	7.3	12.0	8.9	13.6	10.5
Administration	4.8	2.7	5.0	4.2	4.3	3.8	6.0
Services	10.0	4.5	8.0	4.8	2.7	1.9	3.2
Investment	15.0	2.9	14.9	0.4	10.5	2.3	13.6
Ministry of Harbors and Railways			13.2	5.3	22.2	10.6	19.4
Personnel Emoluments			1.0	0.3	1.1	0.5	0.9
Administration			4.4	2.3	5.6	3.8	3.2
Services			3.8	2.1	2.4	1.5	2.2
Investment			4.0	0.6	13.1	4.7	13.2
Social Services	3626.8	4118.2	4484.8	5127.3	5635.5	6798.7	7459.3
Personnel Emoluments	3212.3	3778.7	3932.5	4611.4	5033.1	6051.8	6693.3
Administration	188.7	125.0	214.2	259.0	287.1	465.8	437.6
Services	183.8	194.7	238.5	202.0	179.5	199.8	192.6
Investment	42.0	19.8	99.5	54.9	135.8	81.4	135.8
<i>Of which:</i>							0.0
Min.of Education (excl.G.E.T.F.) inc. Y&S	2637.3	3080.9	3331.9	3983.7	3920.2	5115.3	5370.5
Personnel Emoluments	2407.4	2891.6	3024.7	3631.4	3624.8	4554.8	4900.0
Administration	105.5	72.2	117.2	211.6	159.6	367.7	325.0
Services	101.0	103.1	130.0	110.6	91.0	153.7	100.7
Investment	23.4	14.0	60.0	30.1	44.8	39.1	44.8
Min.of Youth and Sports	38.5	27.9					
Personnel Emoluments	7.4	5.6					
Administration	3.5	3.2					
Services	25.0	17.8					
Investment	2.6	1.3					
Min.of Manpower Devel. and Employem.	38.8	32.8	43.1	43.4	71.1	61.0	73.2
Personnel Emoluments	29.9	26.7	31.6	34.0	44.8	41.8	54.5
Administration	4.0	2.8	5.0	4.9	8.9	7.1	4.4
Services	4.1	2.8	5.0	3.5	6.3	4.8	5.6
Investment	0.8	0.5	1.5	1.0	11.1	7.3	8.9
National Comm.for Civic Education	26.2	21.7	41.1	36.1	30.8	32.7	29.0
Personnel Emoluments	21.8	17.7	21.8	21.2	16.8	20.1	16.8
Administration	2.0	1.6	4.1	2.7	9.7	9.5	7.9
Services	2.0	2.0	8.3	6.0	2.1	2.1	2.1
Investment	0.4	0.4	6.9	6.2	2.2	1.0	2.2

Table 2: Voted and Actual Government Discretionary Expenditure by MDA and Item: 2003-2006 (cont'd)

(in billion cedis)	2003	2003	2004	2004	2005	2005	2006
	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Prelim.</i>	<i>Voted</i>
National Comm.for Culture	20.2	14.7	20.9	20.8	43.7	27.3	42.3
Personnel Emoluments	14.3	9.9	14.0	16.8	15.4	16.6	15.0
Administration	3.4	2.9	3.7	2.4	6.3	6.8	5.3
Services	2.0	1.7	2.2	1.4	2.7	1.1	2.7
Investment	0.5	0.2	1.0	0.2	19.3	2.8	19.3
Min of Health (excl. N.H.I.F.)	893.4	957.2	1027.5	1020.7	1552.0	1546.4	1920.1
Personnel Emoluments	735.7	832.3	839.0	907.2	1329.0	1417.6	1702.9
Administration	70.6	41.8	78.4	30.9	95.7	68.6	90.0
Services	70.5	81.3	85.6	74.8	73.7	32.5	73.7
Investment	16.6	1.8	24.5	7.8	53.6	27.8	53.6
National Media Comm.	1.2	6.0	1.7	1.3	1.5	1.7	1.1
Personnel Emoluments	0.3	0.3	0.3	0.3	0.2	0.5	0.3
Administration	0.7	2.1	0.8	0.6	1.1	0.9	0.6
Services	0.2	1.3	0.2	0.2	0.1	0.2	0.1
Investment	0.0	2.3	0.3	0.2	0.1	0.1	0.1
Min of Women Affairs	9.7	4.9	18.6	21.3	16.2	14.4	17.4
Personnel Emoluments	2.9	0.2	1.1	0.5	2.1	0.5	2.2
Administration	2.5	1.6	5.0	5.9	5.8	5.2	3.8
Services	4.0	2.5	7.2	5.5	3.6	5.5	6.6
Investment	0.3	0.6	5.3	9.4	4.7	3.3	4.7
National Labor commission							5.7
Personnel Emoluments							1.7
Administration							0.6
Services							1.2
Investment							2.2
Public Safety	1181.0	1118.4	1506.2	1325.2	1300.3	1574.4	1760.9
Personnel Emoluments	871.4	828.8	1043.2	954.1	738.5	719.4	731.2
Administration	172.2	155.2	237.8	203.4	327.4	678.1	770.6
Services	98.3	103.8	138.0	123.6	66.2	94.4	97.4
Investment	39.1	30.6	87.2	44.1	168.2	82.5	161.6
<i>Of which:</i>							0.0
Ministry of Justice	28.8	22.7	39.2	33.6	85.2	43.9	87.1
Personnel Emoluments	14.2	11.7	15.3	16.9	17.8	17.4	18.3
Administration	8.0	6.7	11.0	9.5	11.7	12.9	13.0
Services	4.0	2.5	7.5	4.8	4.8	4.3	4.8
Investment	2.6	1.8	5.4	2.4	50.9	9.3	51.0

Table 2: Voted and Actual Government Discretionary Expenditure by MDA and Item: 2003-2006 (cont'd)

(in billion cedis)	2003	2003	2004	2004	2005	2005	2006
	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Actual</i>	<i>Voted</i>	<i>Prelim.</i>	<i>Voted</i>
Ministry of Defence	439.2	461.5	636.1	506.9	408.2	581.8	671.1
Personnel Emoluments	337.0	363.7	492.5	386.1	284.9	222.6	282.7
Administration	44.9	33.0	50.8	29.8	53.5	288.2	300.0
Services	45.0	52.5	62.8	62.9	30.7	32.9	37.5
Investment	12.3	12.3	30.0	28.1	39.1	38.2	50.9
CHRAJ	25.0	18.8	26.0	20.7	25.2	25.1	29.0
Personnel Emoluments	16.6	12.4	16.7	14.0	16.0	17.3	19.5
Administration	4.7	2.9	5.2	3.9	7.1	7.0	7.1
Services	2.1	1.8	2.3	1.8	0.9	0.8	1.1
Investment	1.6	1.7	1.8	1.0	1.2	0.0	1.2
Judicial Services	95.9	67.1	130.4	86.8	157.3	134.6	147.3
Personnel Emoluments	68.2	52.6	81.0	63.9	63.4	67.3	70.0
Administration	12.0	9.6	24.0	16.8	46.1	43.7	50.0
Services	4.0	3.6	5.4	2.7	7.2	6.7	7.9
Investment	11.7	1.3	20.0	3.4	40.6	17.0	19.4
Min.of Interior	592.1	548.3	674.5	677.2	624.4	788.9	826.4
Personnel Emoluments	435.4	388.4	437.7	473.2	356.4	394.9	340.7
Administration	102.6	103.0	146.8	143.4	209.0	326.4	400.5
Services	43.2	43.4	60.0	51.4	22.6	49.6	46.1
Investment	10.9	13.5	30.0	9.2	36.4	18.1	39.1
							0.0
Utility	290.0	212.2	319.0	76.3	320.0	0.0	300.0
Personnel Emoluments							
Administration	290.0	212.2	319.0	76.3	320.0		300.0
Services							
Investment							
Revenue Agencies	331.8	310.5	387.6	347.0	497.9	412.5	594.6
Personnel Emoluments	205.1	41.8	209.2	43.4	250.0	12.4	372.6
Administration	50.8	268.7	75.0	269.9	104.2	394.3	75.0
Services	24.5	0.0	28.1	7.5	39.0	5.8	42.3
Investment	51.4	0.0	75.3	26.2	104.7	0.0	104.7
Discrepancy							
Contingency	410.0	288.2	870.8	611.2	1988.6	598.9	986.2
Personnel Emoluments	78.0	10.4	311.0	49.2	1438.0	25.0	749.4
Administration	104.3	112.6	287.8	265.8	98.2	204.9	47.3
Services	150.3	124.6	88.7	153.1	370.5	288.2	96.3
Investment	77.4	40.6	183.2	143.1	81.9	80.8	93.3

Source: Appropriation Acts of 2003, 2004, 2005 and 2006; Audited Accounts of Consolidated Fund 2003 and 2004; Unaudited Accounts of Consolidated Fund 2005

Table 3: Total Expenditures by Broad Functional Classification and All Source of Funds

(in billion cedis)	2004 Budget	2004 Actual	2005 Budget	2005 Prel.	2004 Budget	2004 Actual	2005 Budget	2005 Prel.
General Administration	2623.0	2877.1	2996	3438	13.4 %	12.3 %	10.2 %	12.6 %
CF	1910.0	1713.0	1818	1942	9.8 %	7.3 %	6.2 %	7.1 %
HIPC	71.9	71.9	286	473	0.4 %	0.3 %	1.0 %	1.7 %
IGF	79.0	39.8	41	33	0.4 %	0.2 %	0.1 %	0.1 %
DACF 1/	118.1	112.4	157	105	0.6 %	0.5 %	0.5 %	0.4 %
Donors	444.0	940.0	694	885	2.3 %	4.0 %	2.4 %	3.2 %
Economic Services (incl. Infrastructure)	4018.7	5278.0	7452	7245	20.6 %	22.6 %	25.3 %	26.5 %
CF	1035.0	914.5	1134	1128	5.3 %	3.9 %	3.8 %	4.1 %
HIPC	403.6	693.8	921	881	2.1 %	3.0 %	3.1 %	3.2 %
IGF	87.5	151.9	163	91	0.4 %	0.6 %	0.6 %	0.3 %
DACF 1/	262.9	267.3	364	239	1.3 %	1.1 %	1.2 %	0.9 %
Road Fund	607.7	640.0	883	927	3.1 %	2.7 %	3.0 %	3.4 %
Petroleum Fund	75.0	70.5	81	41	0.4 %	0.3 %	0.3 %	0.2 %
Donors	1547.0	2540.0	3906	3938	7.9 %	10.9 %	13.2 %	14.4 %
Social Services	7996	9296	11325	10861	40.9 %	39.8 %	38.4 %	39.7 %
CF	4485	5127	5635	6799	23.0 %	21.9 %	19.1 %	24.9 %
HIPC	730	753	306	551	3.7 %	3.2 %	1.0 %	2.0 %
IGF	586	853	1116	1100	3.0 %	3.6 %	3.8 %	4.0 %
DACF 1/	406	369	527	358	2.1 %	1.6 %	1.8 %	1.3 %
GETF	811	872	1124	691	4.1 %	3.7 %	3.8 %	2.5 %
Donors	558	1322	1278	1363	2.9 %	5.7 %	4.3 %	5.0 %
Nat. Health Fund	420	0	1339	0	2.2 %	0.0 %	4.5 %	0.0 %
Public Safety	1582	1455	1409	1645	8.1 %	6.2 %	4.8 %	6.0 %
CF	1506	1321	1300	1574	7.7 %	5.7 %	4.4 %	5.8 %
HIPC	0	111	40	40	0.0 %	0.5 %	0.1 %	0.1 %
IGF	38	21	62	28	0.2 %	0.1 %	0.2 %	0.1 %
DACF	0	0	0	0	0.0 %	0.0 %	0.0 %	0.0 %
Donors	38	2	7	3	0.2 %	0.0 %	0.0 %	0.0 %
Other	3317	4472	6313	4167	17.0 %	19.1 %	21.4 %	15.2 %
Utilities + Rev. Agencies- CF	707	423	818	413	3.6 %	1.8 %	2.8 %	1.5 %
Contingency – CF	871	611	1989	599	4.5 %	2.6 %	6.7 %	2.2 %
HIPC	0	158	41	0	0.0 %	0.7 %	0.1 %	0.0 %
Transfer to Households	1055	1246	1589	1725	5.4 %	5.3 %	5.4 %	6.3 %
Outstanding commitments (Roads and Non-Utility Subsidies and other transfers	166	160	1117	297	0.9 %	0.7 %	3.8 %	1.1 %
VAT refunds	126	55	60	117	0.6 %	0.2 %	0.2 %	0.4 %
TOTAL	19537	23378	29494	27354	100.0 %	100.0 %	100.0 %	100.0 %
CF - Discret. Spending by MDAs, inc.	10514	10110	12694	12455	53.8 %	43.2 %	43.0 %	45.5 %
CF - HIPC	1206	1787	1594	1944	6.2 %	7.6 %	5.4 %	7.1 %
CF- Outstanding commitments (Roads and	166	160	1117	297	0.9 %	0.7 %	3.8 %	1.1 %
CF - Utility Subsidies and other transfers	392	1819	700	1016	2.0 %	7.8 %	2.4 %	3.7 %
CF - Transfer to Households	1055	1246	1589	1725	5.4 %	5.3 %	5.4 %	6.3 %
CF - VAT Refunds	126	55	60	117	0.6 %	0.2 %	0.2 %	0.4 %
IGF - retained by MDAs	790	1066	1381	1251	4.0 %	4.6 %	4.7 %	4.6 %
DACF	787	749	1048	702	4.0 %	3.2 %	3.6 %	2.6 %
GETF	811	872	1124	691	4.1 %	3.7 %	3.8 %	2.5 %
Road Fund	608	640	883	927	3.1 %	2.7 %	3.0 %	3.4 %
Petroleum Fund	75	71	81	41	0.4 %	0.3 %	0.3 %	0.2 %
Nat. Health Fund	420	0	1339	0	2.2 %	0.0 %	4.5 %	0.0 %
Donors	2587	4804	5885	6188	13.2 %	20.5 %	20.0 %	22.6 %

Source: 2004 audited Public Accounts of Ghana, 2005 CAGD unaudited accounts, 2004 and 2005 Budget Statement, Table 9 of 2006 ERP/PM Statistical Annex, and MoFEP.

1/ Following DACF allocation guidelines, and recent budgets and performance, 15 percent of DACF is allocated to General Administration with the remainder split 60:40 between Social Services and Economic Services.

Table 4: Poverty Related Expenditure by Area, 2003-2006
(In billions of cedis, unless specified otherwise)

	2003	2003	Var.	2004	2004	2004	2005	2005	2005	2006
	Budget 4/	Actual		Planned	Actual	Var.	Planned	Prel	Var.	Planned 5/
	1	2	3=2/1	1	2	3=2/1	1	2	3=2/1	
Total Poverty Related Expenditure	4058	4279	5%	5456	6122	12%	8014	8256	3.0%	9881
<i>Of which Non-Wage Poverty Related Exp</i>		1313		2465	2719	10%	3958	3863	-2.4%	4620
Basic Education	1911	2357	23%	2605	2970	14%	3030	3686	22%	4160
Primary Health Care	826	634	-23%	1205	1088	-10%	1989	1700	-15%	2573
Agriculture	141	110	-22%	133	145	9%	205	176	-14%	242
Rural Water	109	41	-62%	141	112	-21%	160	200	24%	83
Feeder Roads	228	306	34%	297	338	14%	396	411	4%	453
Rural Electrification	92	58	-37%	156	187	20%	545	382	-30%	514
Public Safety				269	356	33%	341	478		
Memo Items										
BDI aggregate level			5%			12%			3.0%	
Deviation weighted by budget share of each main area (absolute percentage)			21%			19%			15.4%	

Source: MoFEP

Table 5: Poverty Related Expenditure
(in % of GDP, unless otherwise specified)

	2003	2004	2005	2005	2006
	Actual	Actual	Proj	Prel.	Proj
Total poverty related expenditure, of which:	6.5	7.7	8.3	8.5	8.7
Share of non-wage poverty exp. (% of total poverty exp)	30.7	44.4	49.4	46.8	46.8
Basic Education	3.6	3.7	3.1	3.8	3.7
Primary Health Care	1.0	1.4	2.0	1.8	2.3
Agriculture	0.2	0.2	0.2	0.2	0.2
Rural Water	0.1	0.1	0.2	0.2	0.1
Feeder Roads	0.5	0.4	0.4	0.4	0.4
Rural Electricity	0.1	0.2	0.6	0.4	0.5

Source: MoFEP

Table 6: Projected Poverty Related Expenditure, 2005
(in billion of cedis)

Area	P.E.	Tot 2-4 a/	GoG	HIPC b/	GETF b/	DACF b/	RD FUND b/	NHF	ECCLINE	S. NET	TOTAL
Basic Education	2511.3	91.4	2602.8	132.5	107.2	139.5	0.0			47.80	3029.8
Primary Health Care	1041.87	123.53	1165.40	169.40	0.00	125.02	0.0	528.98			1988.8
Agriculture	90.6	114.7	205.3	0.0	0.0	0.0	0.0				205.3
Rural water	9.3	7.2	16.5	126.0	0.0	17.8	0.0				160.3
Feeder Roads	8.7	34.7	43.4	80.0	0.0	32.4	239.8				395.6
Rural Electrification	0.0	16.3	16.3	451.0	0.0	52.1	0.0		100.0	25.0	644.3
Other	394.3	223.2	617.5	634.8	0.0	160.2	0.0			177.8	1590.3
Total	4056.09	610.99	4667.08	1593.76	107.23	526.90	239.80	528.98	100.00	250.60	8014

Source: MoFEP

a/ Expenditures in Administration, Services and Investment, known as items 2, 3 and 4

b/ According to MoFEP, funding from HIPC, GETF, DACF and RD Fund finances expenditures in items 2 to 4

Table 7: Actual Poverty Related Expenditure, 2005 Preliminary Outturn
(in billion of cedis)

Area	P.E.	Tot 2-4 a/	GoG	HIPC b/	GETF b/	DACF b/	RD FUND b/	NHF	ECCLINE	S. NET	TOTAL
Basic Education	2915.4	152.9	3068.3	324.2	127.4	118.3	0.0			47.50	3685.7
Primary Health Care	937.80	38.80	976.60	221.60	0.00	112.66	0.0	388.87			1699.7
Agriculture	117.8	41.9	159.7	16.2	0.0	0.0	0.0				175.9
Rural water	12.2	7.0	19.2	172.8	0.0	7.5	0.0				199.5
Feeder Roads	8.7	0.4	9.1	191.1	0.0	22.5	168.1			20.0	410.9
Rural Electrification	0.0	17.5	17.5	280.8	0.0	37.6	0.0			46.0	381.9
Other	401.2	282.0	683.2	736.9	0.0	123.0	0.0			159.2	1702.3
Total	4393.14	540.50	4933.64	1943.56	127.41	421.54	168.12	388.87	0.00	272.75	8255.9

Source: MoFEP

a/ Expenditures in Administration, Services and Investment, known as items 2, 3 and 4

b/ According to MoFEP, funding from HIPC, GETF, DACF and RD Fund finances expenditures in items 2 to 4

Table 8: Projected Poverty Related Expenditure, 2006
(in billion of cedis)

Area	P.E.	Tot 2-4 a/	GoG	HIPC b/	GETF b/	DACF b/	RD FUND b/	NHF	ECCLINE	S. NET	TOTAL
Basic Education	3339.9	158.7	3498.6	371.3	138.6	151.7	0.0				4160.2
Primary Health Care	1361.6	146.5	1508.1	322.5	0.0	144.5	0.0	597.9			2573.1
Agriculture	114.0	128.0	242.0	0.0	0.0	0.0	0.0				242.0
Rural water	12.1	9.8	21.8	51.3	0.0	9.6	0.0				82.7
Feeder Roads	8.5	43.5	52.0	60.0	0.0	28.9	312.2				453.1
Rural Electrification	0.0	20.9	20.9	245.0	0.0	48.2	0.0		100.0	100.0	514.0
Other	424.9	351.4	776.3	772.2	0.0	157.8	0.0			150.0	1856.3
Total	5261.0	858.7	6119.7	1822.2	138.6	540.7	312.2	597.9	100.0	250.0	9881.4

Source: MoFEP

a/ Expenditures in Administration, Services and Investment, known as items 2, 3 and 4

b/ According to MoFEP, funding from HIPC, GETF, DACF and RD Fund finances expenditures in items 2 to 4

Table 9: Collection and Retention of Internally Generated Funds
(in billions of cedis)

SECTOR/MDA	2004 BUDGETED			2004 ACTUAL			2005 BUDGETED			2005 PRELIMINARY		
	COL.	RET.	LODG.	COL.	RET.	LODG.	COL.	RET.	LODG.	COL.	RET.	LODG.
Local Govt. & Rural Dev.	6.4		6.4	4.6	0.0	4.6	5.2	0.0	5.2	5.8		5.8
Foreign Affairs	115.3		115.3	179.1	0.0	179.1	197.2	0.0	197.2	68.9		68.9
Government Machinery										0.7	0.5	0.1
Finance	16.6	15.1	1.5	726.1	2.6	723.5	842.5	2.4	840.1	1539.6	4.2	1535.5
Parliamentary										0.3		0.3
Office of the President										5.1	4.3	0.8
Information	63.5	62.9	0.6	35.1	34.8	0.3	41.0	38.2	2.7	24.3	23.7	0.6
Total Administration Sector	201.8	78.0	123.8	945.0	37.4	907.6	1085.8	40.6	1045.2	1644.7	32.7	1612.0
Works and Housing	6.2	3.6	2.6	4.6	1.9	2.6	15.9	7.5	8.4	7.3	1.4	5.9
Roads and Transport	68.4	0.6	67.8	28.2	1.5	26.7	42.5	3.6	38.9	25.1	0.5	24.6
Ports, Harbours & Railways	1.6		1.6	0.6	0.0	0.6	1.0	0.0	1.0	0.6		0.6
Communications and Technology			0	1.3	0.0	1.3	2.0	0.4	1.6	2.6	0.2	2.4
Total Infrastructure Sector	76.2	4.2	72	34.7	3.4	31.3	61.4	11.6	49.8	35.6	2.1	33.5
Food and Agriculture	25.6	9	16.6	29.6	7.7	21.9	37.5	22.8	14.7	17.1	2.4	14.7
Fisheries										0.6		0.6
Lands and Forestry	288.1	60.7	227.4	150.3	107.2	43.1	177.5	95.5	82.0	113.4	65.8	47.6
Energy										0.0		0.0
Trade and Industry	26.5		26.5	25.8	14.2	11.6	46.9	25.6	21.3	25.6	10.4	15.3
Tourism	1.6	1.2	0.4	1.9	1.6	0.2	5.3	2.5	2.8	3.0	2.3	0.8
Environment & Science	14.7	11.4	3.3	5.8	5.8	0.0	11.2	11.2	0.0	8.1	8.1	
Mines			0	11.3	9.5	1.8	13.7	11.1	2.6	0.0		0.0
Total Economic Services Sector	356.5	82.3	274.2	224.7	146.1	78.6	292.1	168.6	123.4	167.9	89.0	78.9
Education	273.7	273.7	0	524.7	524.7	0.0	677.9	677.9	0.0	645.6	645.6	
Manpower Devel. and	3.8	3.4	0.4	7.5	7.0	0.4	10.9	10.1	0.8	9.0	9.0	
Ministry of Youth and Sports	4.4	4.4	0	2.9	2.9	0.0	4.6	4.6	0.0	3.3	2.2	1.1
National Commission on Culture	2.9		2.9	2.3	2.0	0.2	4.7	4.6	0.1	0.0		0.0
Health	308.4	303.4	5	314.0	314.0	0.0	417.7	417.7	0.0	442.8	442.7	0.1
Womens' and Childrens' Affairs			0	0.0	0.0	0.0	0.0	0.0	0.0	0.2		0.2
Total Social Services Sector	593.2	584.9	8.3	851.4	850.7	0.7	1115.8	1114.9	0.9	1100.9	1099.5	1.4
Justice	32.8	0.4	32.4	36.6	0.2	36.4	50.0	0.4	49.6	38.9	0.4	38.5
Defence	25.2	25.2	0	11.6	11.6	0.0	20.0	20.0	0.0	18.0	18.0	
Judicial Service	33.1	5	28.1	28.4	3.5	24.9	48.8	7.3	41.5	32.6	4.1	28.4
Interior	58.1	5.9	52.2	55.2	3.3	51.8	64.4	6.1	58.3	68.4	5.3	63.2
Total Public Safety Sector	149.2	36.5	112.7	131.8	18.6	113.1	183.2	33.9	149.3	157.9	27.8	130.1
Others	174.7	4	170.7	18.3	9.7	8.6	19.6	11.7	7.9	0.0		0.0
GRAND TOTAL	1551.6	789.9	761.7	2205.8	1065.9	1139.9	2757.8	1381.2	1376.6	3107.0	1251.2	1855.8

Source: Budget Statements and MoFEP. Note: Col – Collection; Ret. – Retained; Lodg. - Lodgement

Table 10: Sectoral Composition of the MTEF - Discretionary Expenditure

	Voted			Preliminary			Voted			Actual		
	2005	2005	2005	2005	2005	2005	2004	2004	2004	2004	2004	2004
	GoG	Donor	Total									
Administration	1,818	694	2,512	1,942	885	2,827	1,910	444	2,354	1713	940	2,653
Economic	564	1,368	1,932	596	1,232	1,828	563	605	1,168	512.2	922	1,434
Infrastructure	570	2,538	3,108	532	2,706	3,239	472	942	1,414	402.3	1,618	2,020
Social	5,635	1,278	6,913	6,799	1,363	8,161	4,485	558	5,043	5127.3	1,322	6,449
Public Safety	1,300	7	1,308	1,574	-	1,574	1,506	38	1,544	1321.2	2	1,324
Utilities	320	-	320	-	-	-	319	-	319	76.3	-	76
Revenue Agencies	498	-	498	413	-	413	388	-	388	347	-	347
Contingency	1,989	-	1,989	599	-	599	871	-	871	611.2	-	611
Total	12,695	5,885	18,580	12,455	6,186	18,641	10,513	2,587	13,100	10,111	4,804	14,915

Source: 2004 and 2005 Budget Statement, 2004 Audited CF Accounts and 2005 Unaudited CF Accounts, data on external assistance from ADMU.

