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**Budgetary Expenditure Guidelines for Economic Growth in the
context of the Ghana Poverty Reduction Strategy**

September 2001



Sigma One Corporation

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in the context of the Ghana Poverty Reduction Strategy**

Submitted to:

**U.S. Agency for International Development
Mission to Ghana**

for:

**Trade and Investment Reform Program (TIRP)
Improved Policy Reform and Financial Intermediation
USAID Contract Number: 641-C-00-98-00229**

by:

Sigma One Corporation

In fulfillment of the following milestones:

2.14 (Y2) Document for monitoring expenditure control

September 2001

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2002 BUDGET POLICY STATEMENT AND DIRECTIVES

1. PURPOSE OF THE PAPER

This paper is for use by MDAs, as a statement of Government's overall socio-economic development policy, and the principles and directives that should guide budget formulation, expenditure management and programme evaluation.

2. GOVERNMENT'S POLICY GOAL

The overall goal of Government's policy is to achieve *equitable economic growth and accelerated poverty reduction within a sustained economy.*

3. POLICY PRINCIPLES

Sound management of the Budget allows resources to be freed for increased investment, which is the fundamental precondition for growth.

For any given level of resources available to the public sector, an impact can be made on poverty through informed choices of targets, as defined by geography, occupation and gender, and the prioritisation of expenditure programmes both within and between sectors.

To ensure consistency, MDAs' expenditure programmes over the 3-year MTEF period, chosen according to the criteria indicated above, will be constrained by the resource ceilings to be communicated by the Ministry of Finance.

MDAs are expected to re-examine existing programmes to ensure that they reflect growth enhancement and/or poverty reduction.

New programmes will only be considered for funding if they show significant measurable contributions to growth, poverty reduction, or both.

MDAs must demonstrate that they either have the capacity to manage their overall spending programmes, or that they can build that capacity within the plan period.

MDAs will have primary responsibility for proposing evaluation mechanisms for their expenditure programmes, which must incorporate the views of users. Ministry of Finance will provide a standardised reporting and monitoring system, to facilitate comparability across sectors and to ensure fiscal discipline.

4. SCHEDULE OF BUDGET PROCESS

The sequence for the Budget is

- 1) Ministry of Finance hereby directs MDAs that expenditure programme projections should be based on ACTUAL expenditures (including commitments) for FY 2000 and the first half of 2001. Totals should be broken down by contributions respectively from the Consolidated Fund and from external sources.
- 2) Preparation of proposed spending programmes by MDAs using the MTEF.
- 3) Review by Ministry of Finance/Economic Management Sub-Committee of Cabinet.
- 4) Presentation to Cabinet, and subsequently to Parliament.

However there is an immediate need to identify and formulate priority programmes for poverty reduction as required for HIPC, with a deadline of end September 2001.

Minister of Finance
3rd September 2001

GHANA POVERTY REDUCTION STRATEGY: PROPOSAL FOR GROWTH AND POVERTY PRIORITY PROGRAMS FOR THE 2002 BUDGET

1st Draft, 30th August 2001

POLICY BACKGROUND

Together with the entire United Nations membership, the World Bank, and the International Monetary Fund, Ghana has participated over the past ten years or so, in defining a set of International Development Targets, which are reproduced below. These targets are global in scope, and not all of them can be achieved by all developing countries by the target dates. However, they represent the long-term goals that Ghana has committed itself to achieve, in order to transform the lives of the poor, and to make the country a better place for the future generations.

International Development Targets
<p>Economic well-being</p> <ul style="list-style-type: none"> ▪ A reduction by one-half in the proportion of people living in extreme poverty by 2015.
<p>Social and human development</p> <ul style="list-style-type: none"> ▪ Universal primary education in all countries by 2015; ▪ Demonstrated progress towards gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005; ▪ A reduction by two-thirds in the mortality rates for infants and children under age 5 by 2015; ▪ A reduction by three-fourths in maternal mortality by 2015; ▪ Access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than the year 2015.
<p>Environmental sustainability and regeneration</p> <ul style="list-style-type: none"> ▪ The implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.
<p>While not amenable to quantification, there is a range of qualitative elements of development that are essential to the attainment of the quantitative goals. These include democratic accountability, the protection of human rights and the rule of law.</p>

The policy of the new Government of Ghana was outlined by the President in his 2001 State of the Nation address to Parliament, and has been elaborated in more detail in the July 2001 Poverty Reduction Policy Framework, which forms the first component of the Ghana Poverty Reduction Strategy Paper (GPRSP). The overall goal of the policy is to achieve *equitable economic growth and accelerated poverty reduction within a sustained economy*.

The budget policy of Government for the 2002-2004 period has the objective of achieving a shift in public expenditure, in favour of community and social services

such as health and education, over the three-year period in support of this overall poverty reduction and economic growth goal.

ECONOMIC BACKGROUND

Upon assumption of office in January 2001, the new Government of Ghana initiated a review of the state of the nation's finances, which revealed a destabilised economy, as evidenced by inflation of over 40 percent, a 50 percent depreciation of the Cedi, a dramatic upsurge in domestic government debt stock, and official reserves estimated at only 3 weeks of imports. The breakdown in expenditure management and control systems had also led to a build-up in new domestic arrears, and a serious deterioration in the financial status of several key parastatals, especially in the energy sector.

All these had resulted in wide disparities between the targets set out in the Ghana Vision 2020: The First Step (1996-2000) and actual budgetary outcomes: overall GDP growth had averaged only 4.3 percent annually, far below the Plan target of 7.8 percent, and money stock had expanded by an annual average of over 29 percent, as against a Plan target of 19.5 percent.

The government immediately initiated a set of actions to put the economy on a sound footing. These actions were defined by a number of immediate priorities, including:

- Fiscal discipline;
- Debt management;
- Access to capital for the private sector; and
- Agriculture, particularly food production.

Each of these immediate priorities is in itself important to ensure development of the national economy – but more than that, they are also closely linked and interdependent. Fiscal discipline will allow public debt to be controlled and managed in a more sustainable manner than has been the case in recent times; and improved management of public debt will release funds for the development of the private sector, including agricultural production both for consumption, for processing, and for export.

Indicative data for the 2001 mid-year outturn show that the government's actions have already yielded some positive results. Having achieved some measure of stability in the economy, the government's priority is now to put in place a new development strategy and related budgetary framework with a clear poverty reduction focus.

DIMENSIONS OF POVERTY IN GHANA

The salient characteristics of poverty in Ghana are that it is defined by:

- **Geography** – the worst affected are the Upper East, Upper West, Northern and Central Regions, with poverty rates ranging from 88 percent of the population in the Upper East, to 48 percent in the Central Region, as against a national average of 39.5 percent.
- **Occupation** – poverty is highest among food crop farmers, with export farmers, informal sector employees and the non-farm self-employed also recording high poverty levels.
- **Gender** – an unacceptably high national maternal mortality rate; significantly higher dropout rates for girls at Primary and Junior Secondary School levels; and the phenomenon of street children, *kayayei* and harmful social practices, all suggest that poverty has a strong gender bias.
- **Age** – high infant and under five mortality rates, as well as the incidence of malnutrition among children under five, especially in the three northern regions, indicate that poverty impacts especially on the very young in our society.

Most threatening of all, the incidence of **HIV/AIDS**, which is particularly prevalent among the poor in our society, is close to the pandemic threshold, with an infection rate of 4.6 percent and an estimated additional 200 new infections each day.

The instabilities and imbalances that were so evident in Ghana's economy in the 1990s resulted in fairly stagnant rates of both growth and incomes, and seriously restricted the country's efforts to reduce poverty. Levels of social sector spending are low, with spending on health and education at only 2.0 and 2.8 percent of GDP respectively, and a disproportionate amount of even these limited resources used for salaries (at least 90 percent of public expenditure in basic education goes on salaries, for example). The remaining social sectors (rural water, manpower development and employment, youth, environment, civic education, housing and social welfare) each receive small shares of total expenditures, and in all social sectors there have been very low levels of spending on infrastructure, both for new investments and for maintenance of existing facilities.

Poor governance and management have contributed to the current impoverished status of many of Ghana's people. In the eyes of the poor, agricultural and poverty reduction programmes have tended to be badly managed, with a high possibility that officials divert public funds for private benefit. Relations between government and civil society generally have been marred by endemic corruption and society's perception of corruption, as indicated in the recent Ghana Governance and Corruption Survey.

CRITERIA FOR PROGRAM PRIORITISATION

The criteria by which proposed programs will be assessed for inclusion in the list of 'Growth and Poverty Priority Programs', are

- 1) The contribution they make to achieving the policy goals set out in Ghana's Poverty Reduction Policy Framework and the International Development Targets, summarised as:
 - Sustained and equitable economic growth;
 - Accelerated poverty reduction;
 - Social and human development;
 - Environmental sustainability and regeneration; and
 - Democratic accountability, protection of human rights and the rule of law.
- 2) The extent to which they focus on meeting the needs of the sections of the population most affected by poverty, as defined by geography, occupation, gender and age.
- 3) The capacity of the implementing Ministry, Department or Agency to develop mechanisms and indicators to enable it to control, report, monitor and evaluate its activities and expenditures in respect of the proposed programs, within the framework of the Economic Policy Coordinating Committee's oversight responsibilities.

A review has been undertaken of the priorities identified in the Poverty Reduction Policy Framework, together with various initiatives launched so far this year by President J.A. Kufuor, and ongoing sectoral programs which are assessed as contributing significantly to growth and poverty reduction.

The table below summarises the assessment of the priority programs that have emerged from this review process, against the criteria defined earlier:

Table 1: Assessment of Identified Priority Programs

Sector/Program	Sustained and Equitable Economic Growth	Accelerated Poverty Reduction	Social and Human Development	Environmental Sustainability and Regeneration	Democratic Accountability, Human Rights and Rule of Law	Poverty Focus	Implementation Capacity
EDUCATION							
Free Compulsory and Universal Basic Education Program		√	√		√	Geo A Gen	
Upgrading of 110 Senior Secondary Schools			√			Geo A Gen	
Ghana Education Trust Fund			√			Geo A Gen	
Adult Literacy Program (NFED)		√	√		√		
HEALTH							
Exemptions Policy			√			Geo O A Gen	
National Health Insurance Scheme		√	√			Geo O A Gen	
Reproductive Health Program			√			Geo Gen	
Maternal + Child Health Program		√	√			Geo A Gen	
WATER & SANITATION							
Extension of peri-urban supplies	√	√	√			O Gen	
Rural water supply and sanitation	√	√	√	√		Geo O Gen	

Sector/Program	Sustained and Equitable Economic Growth	Accelerated Poverty Reduction	Social and Human Development	Environmental Sustainability and Regeneration	Democratic Accountability, Human Rights and Rule of Law	Poverty Focus	Implementation Capacity
SOCIAL SAFETY NETS							
Emergency Social Relief Program	√	√		√		Geo O	
RURAL DEVELOPMENT							
Agribusiness Initiative	√	√		√		Geo O	
Forest Plantation Development Program	√	√		√		Geo O	
ENERGY							
West Africa Gas Pipeline Project	√			√			
Rural Electrification	√	√				Geo O	
Bui Dam Project	√	√		√		Geo O	
HIV/AIDS							
Voluntary Counselling and Testing			√				
Treatment Services			√				
Promotion and Research			√				
HUMAN RIGHTS and GOOD GOVERNANCE							
Local Government Elections					√		
Monitoring and Evaluation					√		

Sector/Program	Sustained and Equitable Economic Growth	Accelerated Poverty Reduction	Social and Human Development	Environmental Sustainability and Regeneration	Democratic Accountability, Human Rights and Rule of Law	Poverty Focus	Implementation Capacity
HOUSING							
Rural Housing Assistance Fund		√	√			Geo O	
EXPORT PRODUCTION							
Export Development and Investment Fund	√	√				Geo O	
Ghana Investment Fund	√	√				Geo O	
Garments and Textiles Initiative	√	√				Gen	

KEY: Geo Geography
 O. Occupation
 A Age
 Gen Gender

**PROPOSAL FOR BUDGETARY EXPENDITURES FINANCED BY
RESOURCES FROM ENHANCED HIPC INITIATIVE**

As indicated in the Table below, indicative allocations have been made for the 2002 budget year for each selected priority program, as follows:

In Billions of Cedis

Poverty Priority Programmes	2000 Actual	2002 Budget Without HIPC	2002 Budget With HIPC Savings			2002 Total Budget
			Scaling Up Ongoing Programs	New Programs	Total HIPC 2002 Budget	
Education						
Health						
Water and Sanitation						
Social Safety Nets						
Rural Development						
Energy						
HIV/AIDS						
Human Rights and Good Governance						
Housing						
Export Production						
GRAND TOTAL						

REQUEST FOR TECHNICAL ASSISTANCE

TO: Dr. Fenton Sands, COTR, USAID/Accra **DATE:** August 14, 2001

FROM: Mr. Abrar Sattar, Acting Chief Of Party, Sigma One Corporation, Accra, Ghana

NAME OF ACTIVITY: Assist Ministry Of Finance to develop a budget policy statement that establishes expenditure priorities taking into consideration the government's policy priorities.

PURPOSE OF ACTIVITY: The purpose of the activity is to assist the Ministry of finance develop a mechanism to prioritize proposed expenditures to fulfill government objectives, given the budgetary constraints faced by the government and the state of the economy.

Experience and Qualifications Needed: The implementation of this activity requires a senior analyst with in-depth, international experience in evaluation of national budgets and knowledge of World Bank country programs in expenditure monitoring. The senior international expert will be assisted with the services of an junior analyst knowledgeable in fiscal management issues as they relate to Ghana and is well versed with the state of Ghanian economy and has a deep understanding of the structure and role of the Ghanian government agencies and MDA's.

Summary of Scope of Work and Expected Results: The Ministry of Finance has embarked on a three phase activity to develop an expenditure program that incorporates input from all Ghanian government entities, including the office of the President. The first phase will produce a budget policy statement and an evaluation of MDAs strategies and programs. The second phase, subject to phase one completion and evaluation of achievements, will draft budget implementation and expenditure monitoring guidelines. The third phase, subject to successful completion of previous phases will finalize guidelines developed for expenditure monitoring and management. It is intended that the three phase work will facilitate the process of budget development within the guidelines of the Medium Term Expenditure Framework, the poverty reduction strategy guidelines as governed by the criteria related to HIPC initiative. This request for technical assistance is limited to the facilitation of Phase I. Facilitation of Phase II or III will be a function of performance in phase I and the desire of the government to continue with Phase II or III.

Contributing to CLIN#: This activity, along with previous work on expenditure monitoring already undertaken, will fully satisfy MS 2.14: Document for monitoring expenditure control.

Period/Location of Performance: August - September 2001 in Accra only.

Resources Required: 15 working days each for the senior and junior analyst for phase I only. No travel or per diem requested as proposed experts are resident in Accra.

Trade And Investment Reform Program
Improved Policy Reform and Financial Intermediation
Sigma One Corporation Contract # 641-C-00-98-00229

Proposed Candidates: We propose Mr. Albert Osei to be the senior analyst. Mr. A. Osei has completed over 20 years of World Bank service including being the Country Representative in Burkina Faso and the Regional Representative in Guinea. Mr. Osei, a Ghanaian, has a Master's in International Business and Finance from Harvard University and was a Fulbright Scholar. Mr. A. Osei's vast experience with the World Bank has included close examination of expenditure management programs in the African context. We propose Mr. Papa-Kwaw Mensah as the junior analyst. Mr. P.K. Mensah is a public sector management and governance expert. His most recent experience in Fiscal management issues at the national level is his assignment as the Facilitator for the Fiscal Decentralization Project. Mr. Mensah has a Bachelors from the London School Of Economics. He is a Ghanaian resident in Accra with British nationality.

Approvals

Chief of Party/Sigma One Corporation:

AL
Signature

8/14/02
Date

USAID COTR [Signature]
Signature

8/14/01
Date

USAID Contracting Officer [Signature]
Signature

Aug 16, 2001
Date