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Joint Evaluation of Budget Support to Ghana (2005-2015)

High-level summary

June 2017

Independent evaluation jointly managed by the European Commission (DG DEVCO's Evaluation Unit), the World Bank's Independent Evaluation Group, the Government of Ghana, Denmark, France and Germany.

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Introduction and context

Scope of the evaluation and joint nature of the exercise The evaluation **covers all budget support operations** with disbursements in the period 2005-2015 and follows the OECD methodology for the evaluation of budget support¹. The study examines the effects of budget support on public financial management (PFM), macro-fiscal management, decentralisation, private sector development, various cross cutting issues such as gender, as well as on development outcomes in the sectors targeted by budget support. In-depth analyses have been carried out in Health, Environment and Natural Resources, and Agriculture. The study was carried out by a **joint team** composed of experts from the Independent Evaluation Group (World Bank) and independent experts contracted by the Evaluation Unit of Directorate General for International Co-operation and Development (European Union).

The national context Since **multi-party democracy** was restored in Ghana in 1990, seven consecutive competitive general elections have successfully been held, resulting in three transfers of power between the two main political parties. In the last two decades, the level of **poverty** has decreased by half, though important geographical disparities persist. The country experienced stable economic **growth**, which was accompanied by a structural shift away from agriculture and by an increase in tax revenues. This robust growth, together with important international debt relief, significantly improved the country's fiscal space in the early 2000s, bringing a generally positive economic outlook. In addition, offshore oil in commercial quantities was discovered in 2007. However, persisting structural problems left the economy exposed to policy risks and supply and demand shocks. Following a serious deterioration of the **macroeconomic situation**, an International Monetary Fund (IMF) stabilisation programme was initiated in early 2015.

Overview of Budget Support to Ghana A **Multi-Donor Budget Support** (MDBS) framework supported by 11 Development Partners (DPs) was established in 2003. Since 2005, DPs have provided about USD 4.4 billion in budget support – including USD 3.4 billion in General Budget Support (GBS) and USD 1 billion in Sector Budget Support (SBS). **The partnership around the MDBS broke down** in 2013-2014, after several DPs decided to suspend budget support following the deteriorating macroeconomic situation and serious concerns regarding PFM. Most suspended budget support tranches were released in 2015, but only a few DPs decided to continue providing budget support to Ghana.

Results achieved by budget support

Important direct effects on the aid architecture The MDBS framework played a key role in enhancing **sector dialogue**, strengthening the **national aid architecture**, and consolidating the link between the Ministry of Finance and sector stakeholders. Policy monitoring, which was an integral part of budget support, also helped partners (Government of Ghana – GoG, and DPs) to maintain some attention on priority spending actions.

Strong induced effects on policy processes The country's **legal and policy framework** continuously improved during the evaluation period, although some weaknesses related to prioritisation in reform strategies persisted. Policy processes also became more inclusive. While budget support was not, in most instances, the main driver of reforms, it provided important opportunities which helped GoG accelerate the **national reform agenda**, while strengthening its ownership over it. Policy dialogue, substantial technical support and extensive analytical work which accompanied budget support fostered intra-sector collaboration (e.g. in the area of Decentralisation and the Environment sector), consolidated capacity development efforts of key public entities and generated a wealth of knowledge (in almost all policy areas reviewed) which contributed to enhancing policy formulation.

Some positive impact on Overall, budget support has played a **moderate but not negligible role** in the country's considerable achievements in reducing both monetary and non-monetary poverty. The

¹ The so-called '3 Step approach' consists in examining separately: i) budget support contributions to policy changes (Step 1); ii) development outcomes and their main policy determinants (Step 2). A final methodological step makes the link between the two analyses allowing the identification of budget support contributions to the observed outcomes.

growth & poverty reduction, especially in early years...

budget support mix of inputs has contributed to substantially increasing **access to basic services**, to ensuring the successful implementation of some public policies, such as in health, and to improving several related outcome indicators. The mix of inputs has also helped maintaining, to some extent, a focus on pro-poor interventions, especially during the first half of the evaluation period. Budget support dialogue and the considerable accompanying technical support have helped to consolidate the country's **transition process towards a middle-income oil-producing economy**. Budget support, coupled with debt relief initiatives at the beginning of the evaluation period and the IMF-led stabilisation programme in 2009-2012, contributed to improving the country's macroeconomic situation, which had **indirect positive effects on growth**. Budget support dialogue did not prevent a serious deterioration of the macroeconomic situation in the second half of the period, but it did contribute – through the suspension of budget support in 2013-2014 and subsequent intense dialogue – to GoG's return to the path of stabilisation.

... but limited structural changes in most targeted areas

While budget support has made some notable contributions to important policy achievements, the **major bottlenecks** that have hindered public action in Ghana for decades continued to persist throughout the evaluation period and, even in some rather successful sectors, such as in health, there have been missed opportunities in terms of using budget support (especially SBS) more strategically.

In general, the policy dialogue on **PFM** failed to ensure the effective implementation of important reforms. The fragmented nature of the budget has continued to inhibit effective policy-based allocations and decision making, the introduction of programme-based budgets has been largely ineffective and considerable inefficiencies in terms of cash management are persisting. While budget support DPs have provided substantial support for the implementation of an Integrated Financial Management Information System, this investment has not been fully utilized as only a fraction of the budget is routed through it.

Progress in **sector outcomes** has slowed down in many areas in recent years. The strong growth observed during most of the evaluation period was mostly as a result of a favourable external environment (high prices for gold and cocoa) and oil production, rather than improvements in the business environment or strong increase in agriculture productivity as initially envisaged in the national policy framework. The country's forest resource base has dwindled, and increasing illegal artisanal small-scale mining has transformed into a highly-mechanised activity with considerable negative social and environmental impact.

Serious barriers posed by adverse contextual factors and a weakening partnership

Overall, important constraining factors have worked against the full use of the opportunities created by budget support. First, a set of **political economy factors**, the influence of which has been underestimated during budget support design, have seriously hampered policy implementation and reform processes in all key policy areas. These factors include complex dynamics around the public wage bill, a political settlement influenced by a high level of competition between the two main political parties and the short electoral cycle, and resilient clientelist and political patronage systems at national and local levels. Second, GoG's and DPs' engagement in the **partnership around budget support** has considerably decreased over the evaluation period. This evolution has been governed only to a very small extent by aid effectiveness considerations. On the DPs' side, increased differentiation in global aid allocation mechanisms, coupled with the disenchantment of some bilateral donors with budget support and an increased pressure from their taxpayers on accountability issues, led to a reduction of the critical mass of DPs supportive of budget support. On the GoG side, an increasing assertiveness of the successive governments and the country's elite led to a decreasing attention to the partnership around budget support, development co-operation and some of the commitments made in the medium-term development policies, a trend further strengthened by the prospects of oil revenues after 2007, the access to new sources of finance (including issuance of Eurobonds and concessional and non-concessional lending from new partners such as China) and the country's access to middle-income country status in 2010. In this context, the tools – including the **space for policy dialogue** – offered by the partnership built around budget support were increasingly inadequate to allow for open discussion on the pressing structural challenges the country was facing.

Moreover, GoG and DPs **excessive optimism** regarding the country's development path and economic outlook in the first part of the evaluation period – which was partially related to the country's impressive past achievements and the recent oil discovery –

contributed to a non-prudent fiscal stance. The resulting deteriorating fiscal situation removed a substantial part of the budget resources planned to consolidate and expand social and economic interventions. When DPs adjusted their position around 2012, the basis of the partnership had already substantially weakened and did not allow for an earnest dialogue on some hard remedial measures that were required.

Main recommendations

Recent evolutions

The collapse of the MDBS precipitated the decline in development co-ordination and donor harmonisation efforts. However, after a period characterised by tense GoG-DPs relations and by an overall deterioration in policy dialogue, **new opportunities are arising**. GoG eventually recognised the need for an IMF-supported stabilisation programme and is now firmly engaged in a vigorous reform agenda in PFM and macroeconomic management. In addition, a new group of political leaders is steering the country since the December 2016 elections, offering the possibility for GoG to renew relations with its international partners.

The need for a new partnership better using available co-operation modalities and tools

As underlined in major national policy documents elaborated in recent years, Ghana needs to gradually **move away from traditional aid**. At the same time, in the medium term, Ghana can still benefit substantially from the support of the international partners that assisted the country's development for decades. Given the important changes that recently took place in the context surrounding development co-operation in Ghana, **this could be the right time to relaunch a comprehensive partnership** to support some of the country's major policy reforms and move resolutely away from piecemeal approaches.

Assuming that GoG and DPs manage to genuinely share a common vision of the future role of development co-operation – including its added value and main limitations – in the country, they should relaunch a comprehensive development partnership, recognising the unique mix of financial, political and technical leverage that budget support and similar forms of co-operation can offer. The future co-operation framework should entail **two key dimensions**:

- **Core component on economic governance**, including accountability and transparency: this component could be supported by a joint budget support programme firmly focused on PFM reform and macroeconomic stabilisation, with the view to strengthen the strategic prospects of the ongoing GoG-IMF agreement;
- **Strong sector partnerships** aiming at developing coherent strategic frameworks: these partnerships should be based on strategic dialogue and adequate sets of coherent and well-co-ordinated actions, through SBS or similar modalities, depending on the degree of political commitment and the policy and institutional environment; they should also integrate new challenges that Ghana is facing as a middle-income country (including policy issues related to trade, climate change, science and technology and social protection).

It is suggested that an increasing attention is put on **local governance** and, at sector level, on **policy innovation and risk-taking initiatives**, with the view to promoting solutions emerging from domestic processes and strengthening the contributions from national research bodies.

Finally, **DPs should deploy the necessary resources** to firmly engage on issues of strategic planning and **to better understand the sectors' reality**.

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