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PFM CAPABILITIES ASSESSMENT REPORT SERIES NO. 5

Institutional and personnel capabilities for budget credibility: A political economy analysis of public financial management in Ghana

Contents

Acknowledgements ... *2*
Tables and figures ... *3*
Acronyms and abbreviations ... *4*
Executive summary ... *5*
1 Introduction ... 7
2 Ghana: Socio-economic and political context ... 8
3 Public financial management reforms in Ghana ... 11
4 Organisational capabilities ... 13
4.1 Strategic budgeting ... 13
4.2 Expenditure planning ... 14
4.3 Budget execution and capabilities for commitment and expenditure control ... 14
4.4 Monitoring and evaluation ... 16
4.5 Auditing and accountability ... 16
5 Personnel capabilities ... 19
6 Reform ecosystem ... 31
7 Discussion of findings and conclusions ... 35
References ... *37*
Appendix A: Methodology ... *40*

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Tables and figures

Table 2.1: Extent of expenditure deviation from annual budget, 2014–2016 9
Table 2.2: Ghana's PEFA scores on selected budget credibility indicators....10
Table 5.1: Dimensions of personnel capabilities 22

Figure 2.1: Budget deficit (% of GDP), 2000–2018 9
Figure 5.1: Name of institutions....19
Figure 5.2: Name of division/department/unit 20
Figure 5.3: Current position of the respondent 20
Figure 5.4: Highest level of education completed 21
Figure 5.5: Fields of study with the highest educational qualification obtained 21
Figure 5.6: How motivated do you think staff in your unit feel in carrying out their responsibilities? 22
Figure 5.7: What do you think is the main reason for the lack of motivation in your unit? 23
Figure 5.8: What was the main reason you joined the public sector? 24
Figure 5.9: What was the main reason you joined this particular organisation?....24
Figure 5.10: Is your salary and fringe benefits sufficient to meet basic expenses? 25
Figure 5.11: What kind of recognition do you usually receive for good performance?....25
Figure 5.12: How would you compare your base salary to those of private sector employees with roughly comparable experience, training and responsibilities? 26
Figure 5.13: How satisfied are you with your current salary and fringe benefits compared to earnings of other public officials performing similar tasks in other public sector agencies?....26
Figure 5.14: How long would you wish to stay in the current position with the current organisation?....27
Figure 5.15: If you were to leave your current organisation, what would be your three top reasons for doing so? 27
Figure 5.16: To what extent do you think has your unit's performance been hampered by not having the right people in the right positions?....28
Figure 5.17: What do you think is the weakest aspect of capacity among civil servants in your area of work? 28
Figure 5.18: In your area of work, what is the most effective mode of capacity building? 29
Figure 5.19: Did you have a senior colleague who mentored you professionally when you got into your current position for the first time?....30
Figure 6.1: How are new ideas and practices usually introduced in your work environment?....31
Figure 6.2: What is the most common process through which ineffective systems and practices are reformed or changed in your unit? 32
Figure 6.3: What do you think usually motivates your managers to initiate or try a new idea or practice? 32
Figure 6.4: What are the most common reasons in your unit for failing to try new ideas that may eventually improve performance?....33
Figure 6.5: What are the most common modalities for your organisation to engage with development partners? 34
Figure 6.6: What is the extent of knowledge and skills transfer from external consultants and seconded personnel to internal staff in your area of work? 34

Acronyms and abbreviations

ARIC	Audit Report Implementation Committee
BPEMS	Budget and Public Expenditure Monitoring System
CAGD	Controller and Accountant General Department
CAPEX	capital expenditure
GHS	Ghanaian cedi
GIFMIS	Ghana Integrated Financial Management Information System
GRA	Ghana Revenue Authority
IAA	Internal Audit Agency
ICT	information and communications technology
IGF	internally generated funds
MDAs	ministries, departments and agencies
MoFEP	Ministry of Finance and Economic Planning
NDC	National Democratic Congress
NPP	New Patriotic Party
PEFA	Public Expenditure and Financial Accountability
PER	public expenditure review
PFM	public financial management
PUFMARP	Public Financial Management Reform Program
USD	United States dollar

Executive summary

Since the country's return to democratic rule in 1993, Ghana has made significant strides in improving governance and public financial management (PFM) systems, particularly in achieving macro-fiscal stability, strengthening the legislative frameworks for the management of public resources and in improving external oversight. However, some challenges remain. There is often a disconnect between budget planning and execution, and expenditure deviations from approved budgets are quite common. This is despite significant reforms in recent years, including the introduction of the Ghana Integrated Financial Management Information System (GIFMIS), the Public Financial Management Act and the Fiscal Responsibility Act.

In this context, this review set out to investigate the organisational and personnel capabilities for budget credibility in Ghana. The study focused on some key PFM areas including revenue forecasting, expenditure planning and execution, accountability and on the human resource capabilities surrounding these systems, namely personnel availability, skills and motivation.

The findings show that Ghana has elaborate budget systems for revenue and expenditure planning, which operate both from a top-down and bottom-up approach. At the macro level, led by the Economic Strategy and Research Division of the Ministry of Finance and Economic Planning (MoFEP), data is sourced from relevant stakeholders such as the Ghana Revenue Authority, Ghana Statistical Services and Bank of Ghana to prepare government's revenue and expenditure projections. Following the preparation of a medium-term fiscal framework, which specifies allocations for goods and services, capital expenditure and compensation, the Budget Development Unit of the MoFEP determines the ceilings for the ministries, departments and agencies (MDAs)/covered entities. The bottom-up approach involving the interaction between the Budget Development Unit and MDAs, and the analysis of data generated from this interface, often results in projections that are somewhat different from the allocations resulting from the top-down process. However, the final ceilings communicated to MDAs are based on a reconciliation between the top-down and bottom-down approaches. A significant constraint is that the forecasting and allocative process are characterised by various rigidities, such as the earmarking of about 15% of government revenues, with 72% of domestic revenues going into employee compensation and interest payments (IMF, 2019).

Regarding the accuracy of projections, the evidence points to persistent disparities in projected revenue and expenditure. This is due to several reasons including the overemphasis on expenditure compared to revenue generation and commitments outside budgeted items. Although recent reforms including introduction of the GIFMIS and the passage of the Public Financial Management Act have been useful in addressing some of these issues, much remains to be done. Closely related to these is the issue of personnel capability and motivation. Whilst the MoFEP is an outlier when it comes to capacity and staff availability, the ministry encounters weakness in some of its technical units, particularly in the areas of forecasting, due to difficulties in attracting and retaining highly qualified personnel in the civil service. Evidence from the personnel survey further shows that personnel capabilities remain an issue across almost all units or departments with some MDAs lacking the full complement of budgeting staff to oversee the budget process.

On the expenditure planning side, various systems and processes exist to guarantee predictability in the budgeting process. However, whilst there are elements of a participatory budgeting process, especially as it relates to the organisation of stakeholders' forums, including budget hearings for MDAs, actual participation that influences decision-making may be lacking. Key among the findings is the fact that budget ceilings allocated to MDAs are often unrealistic, with limited opportunity for MDAs to make a case for upward adjustments where necessary. Indeed, the MoFEP is constrained by limited resources and the need to meet some statutory requirements in resource allocation, thereby leaving less than sufficient funds to be distributed among the covered entities. However, a more participatory and transparent approach which recognises these constraints and provides some basis for the ceilings and allocations could improve the expenditure planning process.

Aside from the difficulties with the determination of budget ceilings, the review also finds a disconnect between allocations, appropriations and releases (as well as actual receipts). There are often delays in release of funds or, in some cases, fourth quarter allocations and funds to cover capital expenditure are not released at all. MDAs also circumvent the GIFMIS by committing expenditure outside the system, only to report these in subsequent budget years. This situation is compounded by the fact that internal auditors are constrained from effectively executing their accountability functions because they have become de facto members of the management of the MDA, not least because they remain staff of the civil service and are resourced by the MDAs they are supposed to audit.

It is noteworthy that although these technical constraints are important, we find that one of the most overwhelming issues affecting budget credibility in Ghana is the political context within which MDAs operate. The country's competitive political system makes incumbent governments vulnerable to losing power to the opposition, resulting in budgeting and financial management decisions that at times deviate from the technical and legal processes. For example, revenue and expenditure projections may not fully be the result of technical analysis per se and expenditure commitments outside approved budgets are also common during election years. Further, political considerations are perceived to influence recruitment and selection processes, appointments to high-level technocratic positions (including Chief Directors), and the deployment of human resource management processes in key directorates.

> ***One of the most overwhelming issues affecting budget credibility in Ghana is the political context within which MDAs operate.***

1 Introduction

Budget credibility is an important cornerstone of good financial governance, which is essentially defined as the ability of government to uphold its commitments and consistently meet its revenue and expenditure targets. The capabilities required to develop and implement budgets credibly depend on a variety of functions across the entire budget cycle: from the strategic planning and expenditure planning phase – where macroeconomic projections are undertaken, together with an assessment of ongoing and new spending commitments – to the execution phase, where departments implement active programmes as per the approved budget and within specific resource flow constraints. Further, monitoring and evaluation functions are critical to identifying challenges and deviations during budget implementation and measures of redress, whilst also providing important feedback loops to effective planning processes.

This report presents an assessment of the organisational and personnel capabilities for budget credibility in Ghana across these various functions. The overall aim is to, among others, provide insights into the strengths and weaknesses of the system, with particular focus on the ministries, departments and agencies (MDAs), in order to provide a basis for country-relevant reforms to build capabilities.

The scope and definition of capability as employed in this project is broad enough to encompass both the narrow notion of capacity (i.e. volume of inputs such as human resources and information and communications technology systems) and the more intangible conceptualisation of capability (i.e. the efficiency and effectiveness of organisations in using these inputs to achieve their objectives). Further to the basic conceptualisation of capabilities, the report is informed by the functional classification of state capability provided in Lodge and Wegrich (2014) as delivery capability, coordinative capability, regulatory capability and analytical capability.

The assessment began with a scoping exercise with key representatives from various MDAs involved in various dimensions of public financial management (PFM) in Ghana. The purpose of this exercise was to identify important bottlenecks requiring closer examination and to solicit inputs necessary for revising the draft instruments. The scoping exercise highlighted key areas which the Ministry of Finance and Economic Planning (MoFEP) wanted to focus on, and these were mainly around budget credibility. The preliminary analysis for this report drew largely from documentary sources including published reports such as the Public Expenditure and Financial Accountability (PEFA) reports. Data collection involved an initial questionnaire administration focusing on personnel capabilities. In total, 245 respondents were sampled from MDAs for the survey aspect of the study. The distribution of respondents across the various organisations and their respective departments or areas of operation are presented in Figures 5.1 and 5.2 respectively. Next, key informant interviews with 27 key PFM units were conducted. Interviews focused mainly on institutional capabilities for planning and budgeting, management of resource flows and institutional accountability. Where necessary, some quotations from the interview transcripts[1] are provided in support of the analysis. A more detailed explanation of the methodology can be found in Appendix A.

The report is structured as follows: first, an initial documentary assessment and overview of Ghana's budget credibility and auditing capabilities and challenges is provided. Next, a brief history of PFM reform in Ghana is presented. This is followed by an analysis of the primary data from the qualitative interviews and the quantitative surveys. A discussion of findings before concluding are then presented in the final sections.

1 Some interview quotes are edited for clarity.

2 Ghana: Socio-economic and political context

Ghana is commonly praised as a success story in sub-Saharan Africa in terms of its economic growth performance, significant poverty reduction and stable democratic policies. Ghana's economic growth stabilised in the early 1990s and induced a development momentum that allowed the country to achieve lower middle-income status in 2011. The economy grew at an average of 1.9% between 1993 and 2005, and 4.5% per year after 2005, considerably above the averages for non-high-income sub-Saharan African countries (2%) and for low-income countries (2.6%), and slightly above lower-middle-income countries at 4.4% (World Bank, 2018). This acceleration was in part due to higher prices for Ghana's main commodity exports, notably gold and cocoa, and the start of commercial oil production in 2011. After a peak of 11.3% in 2011, growth declined steadily to 1.6% in 2015 (World Bank, 2011, 2018). This growth momentum helped place Ghana at the forefront of poverty reduction in Africa. The country achieved the first Millennium Development Goal (MDG) of reducing the national poverty rate by more than half, from 52.7% in 1991 to 24.2% in 2012 and further to 23.4% in 2017 (Ghana Statistical Services, 2018).

Located in a sub-region that in the past has been plagued by civil wars and political instability, Ghana has also been justifiably hailed as an oasis of peace and a democratic success story in Africa. Despite a history of military coups, Ghana's democratic foundations have grown for over two decades as the country experienced eight consecutive peaceful elections. Since 2001, there have been three peaceful transfers of power between the country's two dominant political parties, the current ruling New Patriotic Party (NPP) and the National Democratic Congress (NDC) – the main opposition party.

However, a number of critical developmental challenges persist. For instance, in spite of the increasing progress in economic growth in the last two decades, Ghana has seen little structural transformation in its economy, while the reduction in headcount poverty at the national level has been accompanied by growing inequalities, with clear disparities not only between the richest and the poorest, but also across different geographical areas and in terms of gender (see Ghana Statistical Services, 2018). More importantly, there are concerns that most state institutions remain ineffective in delivering their mandated functions (Abdulai 2021a; see also IMANI Center for Policy and Education, 2018; Resnick, 2016). In a recent survey that sought to assess the effectiveness of public-sector organisations in Ghana, the majority of respondents reported that ***only a few*** government MDAs perform effectively. The World Bank has recently bemoaned 'low capacity of public institutions' in Ghana (World Bank, 2018), while the United Nations Development Programme (UNDP, 2018, p. 2) recently identified '***weak institutional capacities'*** as one of the most 'common root causes' of Ghana's key development challenges.

One of the most glaring areas of weak institutional capacity relates to revenue mobilisation. As a result of weaknesses in both tax policy (widespread exemptions) and revenue administration (tax evasion), Ghana's tax-to-GDP ratio is low, especially when assessed by regional standards (IMF, 2017, p. 11). In 2018, Ghana recorded a tax-to-GDP ratio of 12.9%, which was below the average of 18–20% of its middle-income country peers (MoFEP, 2019). With insufficient increases in tax revenues to balance the budget, Ghana has experienced significant fiscal imbalances during much of its political history (see Abdulai and Mohan, 2019).

Observers have increasingly attributed these problems to the nature of Ghanaian politics and particularly to the nature of the country's political settlement dynamics (Osei et al., 2018; Whitfield, 2018). Despite sustained democratic elections, many scholars have characterised Ghana's political environment as one of 'competitive clientelism', in which two dominant parties compete in the use of elections as a mechanism for the distribution of patronage and state resources with the primary motive of winning and maintaining political power (Abdulai 2020; Abdulai and Hickey, 2016). This political environment means that ruling elites are perennially vulnerable to being removed from power, incentivising those to prioritise their short-term political survival (see Whitfield et al., 2015; Whitfield, 2018). Thus, and irrespective of which of the two dominant parties is in power (the NDC and NPP), there is often a premium on visible, quick-fix actions, as opposed to investing in the long-term task of building bureaucratic capability (Abdulai, 2021a).

Perhaps nowhere is this more strongly illustrated than in the area of budget credibility. The imperative of winning highly competitive elections undermines efforts in maintaining public spending within budget ceilings, with evidence of 'regularly large deviations between budget estimates and actual spending' (Killick, 2005, p. 1) in most government MDAs. Evidence from the most recent PEFA report shows that aggregate expenditure outturn exceeded the original approved budget in all the three years covered by the report, with the deviations reaching 28.9% in 2016. Such deviations were recorded across all MDAs but were especially substantial for the Ministries of Roads and Highways; Local Government and Rural Development; and Works and Housing.

In 2016, the Ministry of Roads and Highways exceeded its originally-approved budget by an extraordinary 2,167% (Table 2.1).[2]

Figure 2.1: Budget deficit (% of GDP), 2000–2018

Source: Abdulai and Mohan (2019)

Table 2.1: Extent of expenditure deviation from annual budget, 2014–2016

MDA	Deviation (%)		
	2014	2015	2016
Local Government and Rural Development	322%	643%	463%
Roads and Highways	146%	976%	2,167%
Works and Housing	137.6%	632%	

Source: Government of Ghana (2018)

2 Note that 2016 was an election year in Ghana.

This trend has been a long-term trajectory, as evidence by Ghana's PEFA scores on aggregate expenditure outturn vis-à-vis the approved budget. As Table 2.2 shows, this indicator deteriorated from a score of a 'C' in both the 2009 and 2012 assessments, to a 'D' in the most recent assessment that covered the period from 2014–2016.

Weaknesses in fiscal discipline have had significant adverse implications for both the strategic allocation of resources and on the efficiency of service delivery. For example: 'The unpredictability of the budget disrupts expenditure execution and delays payments to contractors and suppliers, with negative consequences for program implementation and public service delivery' (World Bank, 2017, p. 39). Moreover, as the most recent PEFA report notes, while Ghana has well established procedures for budget preparation, mechanisms for ensuring the cost effectiveness of proposed spending are absent, nor are there established mechanisms (e.g. via spending reviews outside the budget preparation cycle) for identifying and weeding out inefficient public expenditures. The result is that: 'Ineffective and inefficient spending may be carried forward for year after year' (Government of Ghana, 2018, p. 8; see also World Bank, 2017, p. 92).

The problem of inefficiencies in government expenditures is compounded by the regular abandonment of projects and programmes during political transitions. One adverse effect of competitive clientelism in Ghana is that '[o]pposing parties rarely complete projects initiated under other administrations' (Mills, 2018). As a result of excessive partisanship, each ruling party tends to govern mainly on the basis of its election campaign promises, rather than on the basis of a broad national development agenda. The result has been 'a perpetual discontinuity in plans, policy direction, and projects following party turnovers in government' (Gyimah-Boadi and Prempeh, 2012, p. 102; see also Mills, 2018). Not surprisingly, citizens' satisfaction with service delivery is generally low. Evidence from recent Afrobarometer surveys (see Armah-Attoh, 2015, p. 4) show that for most Ghanaians, central government is performing either 'badly' or 'very badly' when it comes to providing reliable electricity (75% of respondents), maintaining roads and bridges (68%), delivering water and sanitation services (66%), addressing educational needs (63%) and improving basic health services (61%).

Table 2.2: Ghana's PEFA scores on selected budget credibility indicators

		2006	2009	2012	2018
P1-1:	**Aggregate expenditure outturn compared to original budget**	B	C	C	D
P1-2:	**Expenditure composition outturn compared to original budget**	B	C		C+
P1-3:	**Aggregate revenue outturn compared to original approved budget**	A	B		D+

Source: Government of Ghana (2018)

3 Public financial management reforms in Ghana

Ghana has a long history of public financial management (PFM) reforms, dating back to the 1990s. Between 1985 and 1990, a series of public expenditure reviews (PERs) conducted by the World Bank revealed several problems in public financial management, ranging from a poor budgeting system to lack of expenditure reporting and low skill levels of professional accounting personnel (Killick et al., 2003).

Several reform programmes were then initiated to address these gaps. Ghana's first comprehensive PFM reform was the Public Financial Management Reform Program (PUFMARP) – a six-year multi-component programme implemented during 1997–2003 (see Abdulai, 2020; Betley, Bird and Ghartey, 2012).[3] Aimed primarily at providing an integrated approach for dealing with the problems of public finance management, the PUFMARP had eight key components:

- Budget preparation – mainly through the introduction of a medium-term fiscal framework;
- Budget and Public Expenditure Monitoring System (BPEMS), an integrated financial management information system;
- Cash management – introduction of a modern cash management system;
- Aid and debt management – improving data on aid and debt management and the links with the Controller and Accountant General Department (CAGD) and the Bank of Ghana;
- Revenue management – introduction of VAT, unique Taxpayer Identification Number, IT system for tax assessment, collection and reporting, and strategy for managing customs data;
- Procurement – formulation of national procurement code and development of mechanisms for compliance with code;
- Auditing – development of national audit standards, specification of audit reports and introduction of value-for-money audits;
- Legal framework – review of the legislative framework and development of revised financial rules and regulations for parliamentary approval (Betley et al., 2012, p. 26).

In their comprehensive evaluation of Ghana's PFM reforms during 2001–2010, Betley et al. (2012, p. 10) conclude that 'relative to the significant funds expended on Public Finance Management reforms, success has been largely disappointing'. Specifically in relation to the MTEF, a key component of the PUFMARP, one joint evaluation report concluded that 'measured against the requirement to establish a more realistic and strategic, medium term budgeting process, the targeted outcomes are a long way from having been achieved' (Lawson, 2012, p. 55).

However, two areas of relative success were identified in relation to the broader PUFMARP. The first related to strengthening the legislative base of PFM, even if implementation of the various new PFM laws remained generally weak. The second area of relative success related to revenue management reforms which led to a significant increase in revenues as a share of GDP. Beyond these, however, the effectiveness of the broader PUFMARP was assessed to be 'low' (Azeem et al., 2006, p. 15), evident in the deterioration of PFM outcomes in several key areas, including budget credibility, the build-up of expenditure arrears and compliance with expenditure controls (Betley et al., 2012, p. 11).

By 2003, the lack of progress in the development and roll-out of an integrated financial management information system led to the withdrawal of external funding. Although government took over funding at this stage, the underlying factors that undermined effective implementation were never satisfactorily resolved. The result was that by 2010, the system was not operational in any of the eight pilot MDAs despite an investment outlay in excess of USD 20 million (Lawson, 2012, p. 54).

Betley et al. (2012, p. 55) suggests that given the significant number of resources that were committed to the MTEF and BPEMS components of the PUFMARP, the Government of Ghana found it difficult to halt these reforms 'even when it was clear that these reforms had failed or were not meeting their objectives'. Senior ministry management was unwilling to take decisions that would have reflected the failure of a reform. It took a change of government for the decision to be taken to abandon the BPEMS and to undertake the assessment of requirements for updating financial management systems that led to the new Ghana Integrated Financial Management

3 The programme was supported mainly by funding from the International Development Association (World Bank), with co-financing provided by the Department for International development (UK), Canadian International Development Agency and the European Union.

Information System (GIFMIS) reform from 2009 onwards as the main public expenditure management reform (Adzroe, 2015; EU Development and Cooperation, 2017; Lawson, 2012). Following the power alternation that accompanied the 2008 elections, a full review of the project was undertaken in collaboration with the World Bank, and a new USD 55 million project to install a new financial management system (the GIFMIS) was agreed in 2011 and is being implemented to date with a modest degree of success.

Four main factors are noted to have undermined the effective implementation and impact of PUFMARP. First, there is broad consensus that PUFMARP was 'donor driven' (Killick, et al., 2003, p. 43) with its implementation led by donor-sponsored consultants. Although many of these consultants were former staff of the Ministry of Finance and Economic Planning (MoFEP), they were paid significantly higher salaries than the staff of the ministries they were supposed to work with. This contributed to undermining morale, commitment and ownership, and thereby led to an 'outright resistance against collaboration'. Indeed, many of the potential users of the systems that were being delivered were 'not participating effectively in the process' (Killick et al., 2003, p. 44). For example, Betley et al. (2012, p. 55) draw attention to how '[i] mplementation of internal audit reform was hampered by the failure to secure the effective support of senior management in many MDAs'.

Second, there was limited capacity for effective reform implementation. Although the PUFMARP was under the MoFEP, its implementation required cooperation of all the MDAs while its success depended on broader organisational reforms in the public sector. With a generally weak civil service, consultants were entrusted to lead the implementation of reforms, but this only led to a further alienation of civil servants and thereby undermining the very capacity building that was the whole objective of the exercise (Killick et al., 2003).

Third, Betley et al. (2012, p. 52) highlighted the degree of political commitment and leadership as 'the main binding constraint to the relative success of PFM reform' during this period. They observed that commitment was often strong at the beginning of reforms, which enabled legislation to be enacted and reform programmes to be initiated. However, such commitment tended to weaken over time as other political priorities took precedence. For example, the political cycle often led to a recurring pattern of rapid fiscal expansion, followed by fiscal consolidation and the imposition of stronger expenditure controls. Killick et al. (2003, p. 44) suggest that in the Ghanaian context where patronage and clientelist politics remain 'an important element of the political culture', it would be naïve to expect high levels of commitment to public financial management reforms among politicians and senior bureaucrats, not least as such reforms aimed at limiting the scope of discretionary decisions and discretionary expenditures that enable ruling coalitions to sustain their hold onto power. In this context, the impetus for PFM reforms is often stronger from donors than from domestic stakeholders.

Fourth, reform success was undermined by disruptions to the continuity of senior management personnel following electoral change. For instance, following the power alternation that accompanied the December 2000 elections, the incoming NPP government introduced new staff throughout the hierarchy of the MoFEP, which brought major disruptions and undermined implementation of important PFM reforms.

"Reform success was undermined by disruptions to the continuity of senior management personnel following electoral change."

4 Organisational capabilities

This study set out to review the public financial management capabilities of key ministries, departments and agencies (MDAs) in Ghana. Particular attention was paid to the budget planning and execution processes, resource flow and usage, and institutional accountability. This section presents an analysis of the findings from key informant interviews conducted with stakeholders in public financial management (PFM) in Ghana. These include senior level officials from key sectoral ministries such as finance, education, trade and industry, health, food and agriculture, lands and natural resources, and roads and highways. Representatives of civil society organisations such as the Institute of Fiscal Studies were also interviewed. The themes in this section are organised along the key findings that emerged from the analysis.

4.1 Strategic budgeting

Ghana has a revenue forecasting and revenue mobilisation system with responsibilities spread across various organisations and units. The Ghana Revenue Authority (GRA) is the main state institution responsible for revenue. The first level of projection is led by the Economic Research and Forecasting Division, which is in charge of developing a medium-term fiscal framework. Working with other stakeholders such as the GRA, Bank of Ghana and the Ghana Statistical Services, the division makes both revenue and expenditure projections at the macro level. This involves an analysis of the total revenue projections and expenses, including high-level government expenditure, and allocations made in compliance with the legal requirements (e.g. earmarked funds).[4] Following this, a medium-term fiscal framework and expenditure projections are prepared in relation to goods and services, capital expenditure and compensation, by the Economic Research and Forecasting Division. At the micro level, which is the second level of projection, the Budget Development Unit determines the ceilings for the MDAs or covered entities. One notable point here is that although through its bottom-up approach involving interactions with the MDAs, including their spending patterns, the Budget Development Unit may have some projections as to how much the covered entities may require in the fiscal year to fund their programmes and projects, this has to be reconciled with the top-down projections and allocations from the Economic Research and Forecasting Division. Also, these processes are governed by law, including the Fiscal Responsibility Act, which stipulates that government must maintain a positive primary balance in every fiscal year and the debt-to-GDP ratio should not exceed 5%.

In terms of the accuracy of projections, key informants were unanimous that there have been significant variances between actuals and outturns over the years, although there are some disagreements as to how such variances are calculated.[5]

An explanation for the observed inaccuracy of projections relates to the question of personnel capacity. One civil society representative highlighted the inability of the Ministry of Finance and Economic Planning (MoFEP) to attract and retain people with expertise in forecasting and attributed this problem to low salaries and the generally poor conditions of service in the civil service. However, beyond these technical reasons, we find that the political economy context of budgeting in Ghana significantly influences the forecasting regime in ways that make projections unrealistic. Here, the bias to project higher revenues is premised on the fact that incumbent governments want to seem credible by reporting revenues that match their ambitious spending plans. This point is captured by one civil society observer as follows:

> *Budget forecasting in relation to revenue is influenced by politics. Since 2012, forecast revenue was higher than actual to artificially lower budget deficits.*

As Table 2.1 demonstrated, this seems to be more common during election years, where there is more pressure on politicians to deliver on electoral promises in a quest to win power. This shows that the challenge of ensuring accurate projections is not merely a technocratic issue but one which requires important changes within the political environment.

4 Ghana currently has seven earmarked funds including the Ghana Education Trust Fund, National Health Insurance Levy, District Assemblies Common Fund, Road Fund and the Energy Fund Levy. Earmarked funds account for 15% of total government revenue.

5 For example, some MoFEP officials disagree with the PEFA formula, which looks at budgeted estimates at the end of the budget year even though this may not capture the full story at the time of preparing new budgets in November. For them, a better period for comparison is during the mid-year budgets when a proper accounting would have been done to cover all revenues and expenditure in the previous year.

4.2 Expenditure planning

Upon receipt of the budget guidelines around June, MDAs hold budget[6] committee meetings comprising of the principal spending officer and heads of budget management centres or cost centres[7] to allocate ceilings to various units. The units prepare their budgets, which are approved by the budget committee and collated into a composite budget of the main organisation. MDAs subsequently attend a technical hearing organised by the MoFEP, for which the inputs are then incorporated into the proposed budget and forwarded to the MoFEP for parliamentary approval.

Whilst the budget process set out above appears well established and guarantees some predictability in the budgeting process, many PFM stakeholders see the process as insufficiently participatory both at the level of the sectoral ministries and the MoFEP. At the level of the sectoral ministries, key informants reported that strategic decisions about budget preparation are often pre-determined by top management working in concert with a single unit such as Policy Planning, Monitoring and Evaluation (PPME)[8] with the various cost centres only invited to implement these decisions rather than involving them from the beginning. One key area of concern here relates to the modalities for determining allocations for the various units. In effect, what is often regarded as a budget committee meeting is often perceived as gathering to announce predetermined allocations. For others, budget committees were either absent or largely dysfunctional. One head of the Internal Audit Agency reported the absence of a budget committee over a reasonable period in his ministry, raising the question as to the participatory nature and quality of the budget process in that ministry. He contends that:

> *From my experience, every budget process starts with defining your activity, costing that activity and going to the budget committee to justify why you should be given funding to undertake these activities. But here, the process is that the officer will come to you [saying] this is your allocation and then ask you to give him a cash plan.*

The other major challenge confronting the budgeting process is what one key informant describes as 'one-sided decisions' from the MoFEP. PFM institutions have medium-term plans prepared in line with the MoFEP's medium-term fiscal framework, which are further divided into annual plans. This means that for every budget year, there is some indication as to the allocations that those organisations expect to receive to fulfil their mandates. Annual budget ceilings from the MoFEP are supposed to reflect the medium-term plans and indicative budgets of MDAs. In practice, however, the MoFEP communicates budget ceilings that are far lower than the plans of the MDAs, and MDAs are often required to reconfigure their plans to accommodate the shortfalls. Several key informants directly involved in the budgeting processes described the MoFEP's budget ceilings as 'unrealistic' and the entire budget process as 'unscientific'.

However, it is worth noting that the MoFEP must operate with limited resources, and comply with some limitations imposed by law, including the provisions of the Fiscal Responsibility Act. A key official in the national budget preparation process cites a key concern, which has less to do with the participatory nature of the budget process (and for which there is evidence of upward adjustments of ceilings allocated to some MDAs), but the rather over-ambitious plans set out by MDAs.

In conclusion, the challenge seems to be that MDAs do not feel represented in the budgeting processes, particularly those leading to the determination of budget ceilings. There is little opportunity for upward review of funds in view of the importance of their 'actual spending plans' despite the fact that budget hearings are organised after the preparation of the sector plans.[9] This challenge further cascades down to the units within the ministries once sector ministries receive the ceilings from the MoFEP.

4.3 Budget execution and capabilities for commitment and expenditure control

Although recent reforms[10] have streamlined expenditure planning and commitment processes, the links between budget planning and execution remain weak. In particular, this is due to the disconnect between appropriation, releases and actual receipts, as well as political interferences. These observations are analysed in detail in this section.

4.3.1 Delays in the release of funds

One of the key challenges affecting budget execution are the delays in releasing funds from the MoFEP once the commitment plans of the MDAs have been approved. Across most ministries surveyed, there is general agreement that appropriations are often not released on time. The MDAs commit expenditures for payment up to three months ahead, but the number and value of invoices is often more than the cash available, leading to delayed payment of invoices and increasing the chances of unpaid bills at the end of the year. Such delays and non-releases mean that MDAs are compelled to roll over projects/costs to the new budget year and incur payment arrears for projects to which they have committed. Related to this, delays in payments also affect the value of contract amounts, given high inflation levels, resulting in

6 Regulation 26 of the Public Financial Management Regulations, L.I. 2378, requires entities to establish budget committees which, among others, allocate resources for budget and sub-budget programmes, coordinate and consolidate budgets and ensure monitoring and evaluation.
7 Some cost centres have personnel capability shortfalls in budget preparation as subsequent sections will demonstrate.
8 The budget units are normally under the policy planning and monitoring & evaluation units.
9 In effect, budget hearings are mainly to discuss how MDAs will utilise their ceilings, but the process is less amenable to upward review of ceilings based on need.
10 The introduction of the GIFMIS and the passage of the PFM Act, Act 921 of 2016.

MDAs incurring additional costs above what was initially projected and allocated. This point is clearly captured by one key informant at the Ministry of Roads and Highways:

> *Everybody complains about the cost of building roads increasing. It increases because contractors know that it is going to take them three or four years to get paid for the work done. The [MoFEP] will allocate GHS 2 billion this year but only release GHS 1 billion, which doesn't cover the full amount for the work that needs to be done. The road network is dilapidated because we can't ask contractors fix it since they have not been paid for work done two years ago.*

Apart from leading to substantial arrears owed to service providers, the delays and non-payment of allocations often lead MDAs to frontload their budgetary estimates in the first three quarters. However, this does not address the fallouts from payment delays and non-releases because new budgeted estimates must factor in previous commitments and increases in contract costs. One key informant noted:

> *Our commitments are usually much higher than the allocated budget … We have projects we committed to do in 2020 but have just executed 20% to 30%. When we enter 2021, we expect that commitments to those projects should be captured in addition to any new project we have. But there is always a big gap in the budget allocated to the ministry.*[11]

Of particular concern in the non-release of appropriations to capital expenditure (CAPEX). Some MDAs reported that even after having their CAPEX approved during the 2017–2020 budget period, no actual funds were disbursed by the MoFEP despite their having prepared cash plans and procurement plans.

On explanation for late release of funds is that the MoFEP is not able to effectively prioritise releases, given the culture of frontloading of cash requirements by most MDAs. It is easy to see how this becomes a vicious cycle whereby MDAs front load their cash requirements in anticipation for late releases, which then leads to the MoFEP resorting to cash rationing. Another explanation is that the implementation of flagship programmes (notably the One District One Factory (1D1F) and Free Senior High School programmes) which have more political appeal are often prioritised.

The shortfall between appropriations and actual releases requires MDAs to adopt various strategies to remain operational, including the use of virements. Viewed from this perspective, it is not surprising that virements have become the norm in all sector ministries surveyed for this study, without which some MDAs may not be able to operate. However, MDAs also tend to overuse the options for vying, as one internal auditor stated:

> *Most of the time, there is no justification for ministries vying and it is being picked up by external auditors. People don't want to follow procedures.*

Viewed from this angle, it is not surprising that in the face of limited revenue generation, the prioritisation of flagship programmes, wages and salaries, together with the requirements of earmarked funds as well as unrealistic cash plans, have occasioned heavy fiscal burdens that make it difficult to release appropriations to MDAs at the right times and in the right amounts.

4.3.2 Commitments and expenditure controls

There was near unanimity among respondents that the introduction of the GIFMIS has made it more difficult for MDAs to make commitments outside their budgets. This is further aided by the provisions in the Public Financial Management Act, including section 98(1)(b) relating to the possible prosecution of spending officers who commit or spend outside their approved budgets.

However, evidence also suggests that there are still expenditure commitments made outside approved budgets, especially during election years. These costs are often paid directly by the MoFEP, sometimes categorised as 'emergencies'. In some cases, the respective ministries withhold reporting on such commitments until it is possible to capture them in supplementary budgets or the following year's budget estimates. One key informant at the Ministry of Roads and Highways notes the persistence and significance of this challenge and its implications in that ministry:

> *During the election years, there is no way to deny certain requests. Politicians have promised that they would build a road , so the minister has to ensure that the promise is fulfilled.*

Analysis of key informant interviews found the issue of political influence occasioning various out-of-budget expenditures and having an impact on budget credibility in the MDAs under study. For many civil servants, instructions from their political heads often hold sway over long-held best practices. The situation is further complicated by the fact that although the position of the spending officer, that is the Chief Director, in the ministries is a technocratic one, appointments in recent years have become more politicised. The result is that positions are seldom occupied by civil servants who have security of tenure and are, arguably, more familiar with the rules and operations of the MDAs and less actuated by political incentives.

Over the last decade, the MoFEP took steps to prevent the continuous accumulation of arrears by shifting its focus of control from the cash stage to the commitment stage. Since 2013, government has been implementing the GIFMIS, which was implemented in MDAs and is in the process of being deployed to sub-national entities. The GIFMIS, which

11 This problem is also the result of commitments outside approved budgets as we shall see subsequently.

provides the government with an ICT financial platform, an innovation introduced to aid public financial management to enable more effective controls and more transparent recording of financial transactions.

However, challenges in the implementation of the GIFMIS for expenditure controls remain. First, the GIFMIS allows for the use of the same codes for similar items in the chart of accounts, making it possible to commit spending beyond the allocated budget (e.g. undertaking the construction of five 6-unit classroom blocks instead of three approved in the budget). There are inconsistencies in the scope and coverage of the funds on which the system's budget preparation and execution functions are based. Budget preparation is more comprehensive and covers the majority of funds; however, the expenditure side of the GIFMIS is more limited and excludes a larger number of funds. For instance, transfers from statutory funds are not under the MoFEP's discretion and are not recorded through the GIFMIS expenditure module, which makes them difficult to monitor. Moreover, donor funds are not recorded in the GIFMIS expenditure module. To date, budget lines for the internally generated funds (IGF) of many MDAs surveyed are not captured in the GIFMIS, meaning that spending officers can make expenditure commitments outside their approved budgets. This situation is further compounded in cases where MDAs collect revenues that are not captured in the Fees and Charges (Miscellaneous Provisions) Act (No. 1080 of 2022). One ministry official noted as follows:

> *Currently, the GIFMIS has not been 100% deployed. At the ministry we only use it to process GoG funding but donor funds and IGF are not processed through GIFMIS. Those are some of the reasons why we have deviations.*[12]

The 2016 Auditor General Report on the Consolidated Fund noted that the MoFEP transferred GHS 56.36 million to the Electoral Commission and the Ministry of Youth and Sports outside of the GIFMIS, a practice which has been consistently raised by the Auditor General.

Aside from the GIFMIS, another significant innovation introduced to ensure prudent public financial management, including to address out-of-budget expenditure, is the promulgation of the Public financial Management Act (No. 921 of 2016). Section 98(1)(b) of the PFM Act makes an offence punishable by law for any spending officer in the public service to commit and pay for expenditures outside of the GIFMIS. Despite this, there is little evidence of prosecutions related to out-of-budget expenditure despite the fact that such expenditures have persisted since the passage of the law. Some key informants attribute the non-enforcement of the sanctioning regime to the weak prosecuting power of audit committees.

This section has demonstrated that despite some significant reforms in the last 15 years, the budget execution process, and in particular expenditure and control measures, are fraught with a number of systemic challenges. In terms of budget execution, there is a disconnect between budget plans and projected cash flows, mainly due to delays in or the non-transfer of appropriations. This results in a significant accumulation of arrears and virements across MDAs. At the same time, there are highly visible expenditure deviations both in terms of out-of-budget commitments and deviations from budget allocations. One significant finding here relates to the political nature of the budget process, which may at times overpower technical considerations.

4.4 Monitoring and evaluation

Since its introduction, the GIFMIS has contributed to addressing the challenges in monitoring and evaluating financial management activities of the MDAs by the MoFEP. However, gaps remain in that the MoFEP does not regularly engage in monitoring exercises that provide an opportunity to interface with MDAs to have a better appreciation of the situation on the ground for future planning purposes. Some key informants note that the MoFEP mostly draws on monitoring information from the GIFMIS/Hyperion without necessarily using this as the basis for discussions that can improve the budgeting process. The fact that most MDAs have often found the MoFEP's budget ceilings unrealistic suggests that engaging the former beyond the quantitative data captured in the GIFMIS/Hyperion may be more useful in shaping future policy around budgeting and expenditure.

Indeed, as some respondents noted, this situation is very much unlike the modus operandi of donors like the World Bank, which often engages in joint monitoring exercises with implementing agencies in ways that lead to more informed decision-making around current projects and for future planning purposes. A similar challenge is also noted between the sectoral ministries and their agencies.

4.5 Auditing and accountability

In 2003, Parliament passed the Internal Audit Agency Act (No. 658), which mandates public agencies to create internal audit units for the purposes of internal auditing. The Act also created a central agency, the Internal Audit Agency (IAA), to coordinate, facilitate, monitor and supervise internal auditing activities within public agencies to secure quality assurance.

12 These challenges with the GIFMIS are sometimes compounded by the limited IT infrastructure and internet connectivity in some MDAs; although officials of the MoFEP have indicated that arrangements are being made by the National Information Technology Agency to address this.

Per the MoFEP budget implementation instructions, all budget expenditure in the PFM institutions must be reviewed and certified by internal auditors[13] before payments are made. Where anomalies are detected, internal auditors raise queries for corrections to be made. MDAs have established audit committees[14] in line with section 86 of the Public Financial Management Act of 2016. The functions of the audit committees include ensuring that the heads of covered entities lead the implementation of audit recommendations and the preparation of statements on the status of implementation. The replacement of the audit report implementation committees (ARIC) with the audit committees has improved the accountability processes at the MDAs, in particular management responsiveness in implementing audit findings. In one of the ministries surveyed, the audit committee reportedly insisted on the implementation of observations and recommendations made by the internal audit unit despite some resistance from management. This is a positive departure from the past norm when the ARIC had little independence, presumably because its membership was dominated by management members of the audited entities (see Appiah and Abdulai, 2017).

Challenges, however, remain. Whilst the experiences differ across ministries, we find that in some cases internal audit units[15] are far from getting the requisite support to ensure optimum level of accountability within the MDAs. Complaints about the lack of funds to implement audit plans were rife during interviews, and there are indications that this situation is likely to persist unless some deliberate steps are taken to forestall it. Indeed, it seems that the audit units are often judged by their 'policing' role instead of their preventative mandate. For this reason, some management staff within ministries did not see the auditors as partners whose collaboration was critical to ensuring sound management practices within those organisations. In some instances, the audit units were reportedly sidelined and barely received the necessary logistics for their work. For example, one head of an audit unit in a ministry reported using his personal laptop for official assignments, raising questions about the level of support for that unit to be able to work effectively.

In terms of the core mandate of the audit units, there is still a disproportionate focus on financial compliance, but limited evidence of assessment of value for money and the effectiveness and efficiency of internal control systems. This observation is confirmed by one very experienced internal auditor, who notes that the civil service has, over the years, operated under the misconception that the work of the internal audit is the preserve of finance and accounts personnel.

In part, the challenge above may be explained by the general lack of requisite staff. For example, whilst auditing requires professionals from across various disciplines, including engineering, the focus of recruiting authorities has usually been on those with finance and accounting backgrounds. There is a disconnect between the Office of the Head of Civil Service and the MDAs in terms of recruitment and posting of staff, which partly accounts for the mismatch in skills required and understaffing in some units.

There are also questions about the independence of the internal audit units, in part because these units do not have a central service with a dedicated budget. The implication is that the audit units must rely on the very organisations they audit for budgetary support. This has led to a situation where internal auditors are short of the required resources to perform their responsibilities, whilst in some cases they are unable to draw the line between ensuring management compliance and accountability. This is not to suggest that audit personnel should stay aloof from the work of their respective MDA in ways that position them to only provide corrective measures ex-post. In fact, our survey found evidence that where internal auditors had good relations with management and were more proactive in providing preventive advice, potential budget or spending infractions were avoided. What is worth emphasising, however, is that the lines of accountability are often blurred because internal auditors are constrained from asserting their independence. Whilst the Internal Audit Agency has been useful over the years, it only plays a regulatory role, hence it hardly provides the leadership and financial or logistical support required for the internal audit units to work independently.

To highlight this point, one key informant notes that since internal auditors are currently employees of the Ghana Civil Service, they are stopped from asserting their authority because:

> *You are the employee of the person you are to audit. The Chief Director and Minister are the heads of the Ministry and they are indirectly our employers. They are involved in our appraisal and also providing the tools for us to work and you are expected to audit them as well.*

For some, the recent advocacy for and plans to establish the Internal Audit Agency may provide a partial solution to the limited independence and inadequate resources that have hindered the operations of the internal audit units.

13 Created by the Internal Audit Agency Act, Act 658 of 2003, internal audit agency units are one of the key players of institutional accountability in the MDAs.

14 The audit committees, which replaced the audit report implementation committees (ARICs), were inaugurated between May and November 2017. Unlike the ARICs, the majority of members of the audit committees are independent, that is, from outside of the PFM audited organisations.

15 Whilst specificity may be useful here, we decided against mentioning names of MDAs in order to protect the identities of key informants.

Another finding from the qualitative interviews is that whilst processes related to budgeting and expenditure are interlinked, with the GIFMIS being integral to commitment and control processes, the GIFMIS does not make allowances for internal audit functions. Put differently, internal auditors cannot audit through the GIFMIS, meaning that they can only view some transactions during the post-audit in order to address possible anomalies which could have been corrected ahead of time. In fact, internal auditors have yet to receive training on the GIFMIS. One head of internal audit notes as follows:

> *When GIFMIS was introduced, accountants were trained on how to capture data on GIFMIS. But we were not given any training on how to audit through the system. We audit outside the system and often times, when asking for printouts of GIFMIS transactions, there is a lot of disparity with the manual documentation.*

The analysis in this section has shown that internal audit units remain important players in ensuring accountability and strengthening budget management capabilities in the MDAs. However, much remains to be done in terms of resourcing these units and capacitating them to assert their independence.

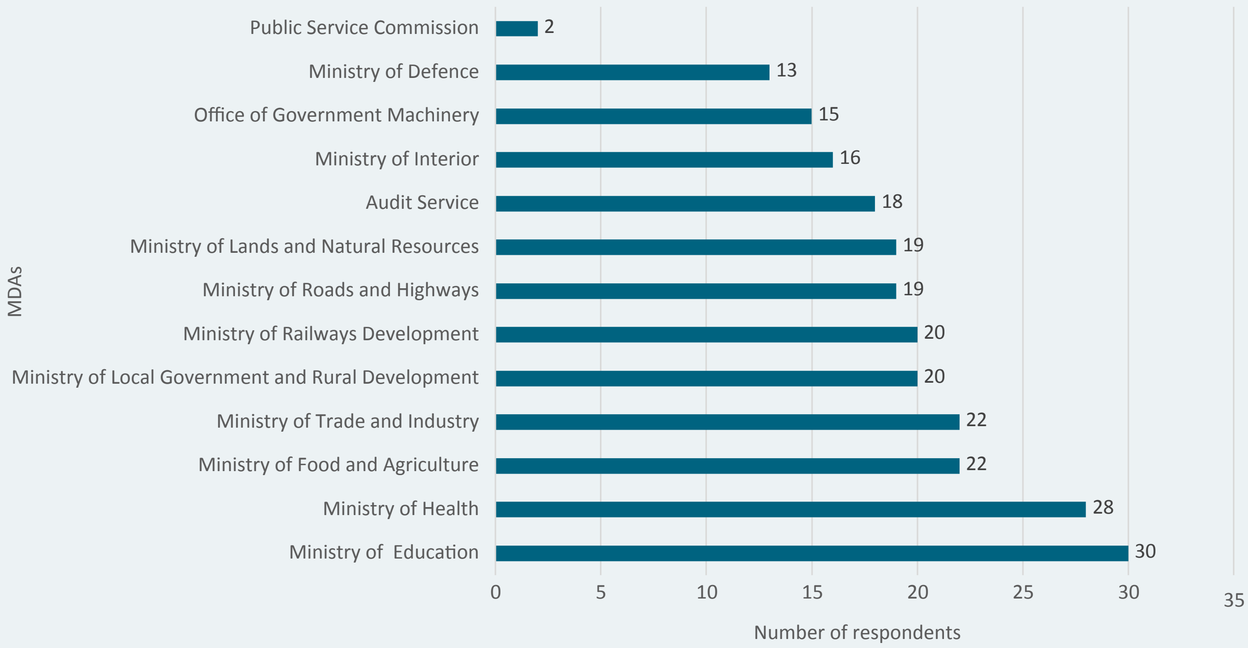
"Whilst the Internal Audit Agency has been useful over the years, it only plays a regulatory role, hence it hardly provides the leadership and financial or logistical support required for the internal audit units to work independently."

5 Personnel capabilities

This section presents an analysis of the survey data collected from officials in key PFM institutions including various ministries, the Office of Government Machinery, the Public Services Commission and the Ghana Audit Service, focusing specifically on personnel capabilities. The purpose of the section is to understand whether public sector organisations in Ghana have the requisite personnel capabilities to fulfil their budgeting, planning and financial management functions.

The analysis provides a basis for appreciating the findings from the qualitative key informant interviews which assessed the organisational capabilities across various areas, including budgeting, monitoring and evaluation, auditing and accountability. A total of 245 respondents were sampled for the survey. The distribution of respondents across the various organisations and their respective departments or areas of operation are presented in Figures 5.1 and 5.2 respectively.

Figure 5.1: Name of institutions



In terms of gender distribution, the majority of respondents were male, representing 60%, whereas their female counterparts were 40%. This sample is reflective of the relative underrepresentation of women in formal sector jobs in Ghana.

Many of the survey respondents occupied middle- to upper-level positions and were therefore experienced enough to provide informed responses relevant to the study (see Figure 5.3).

Figure 5.2: Name of division/department/unit

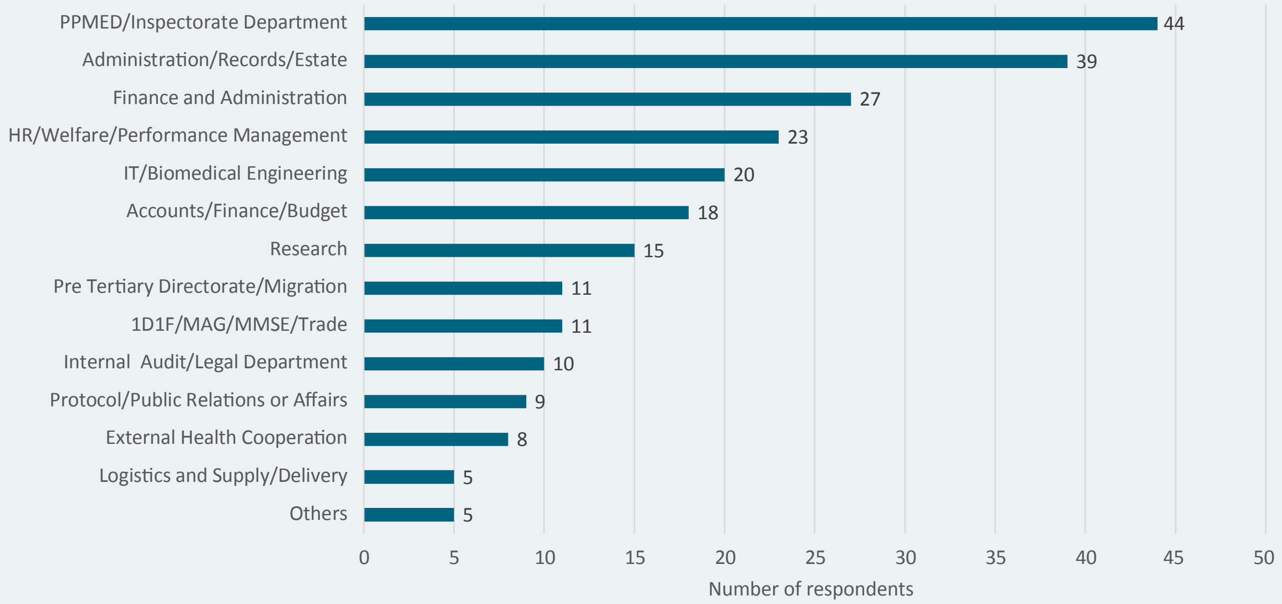


Figure 5.3: Current position of the respondent

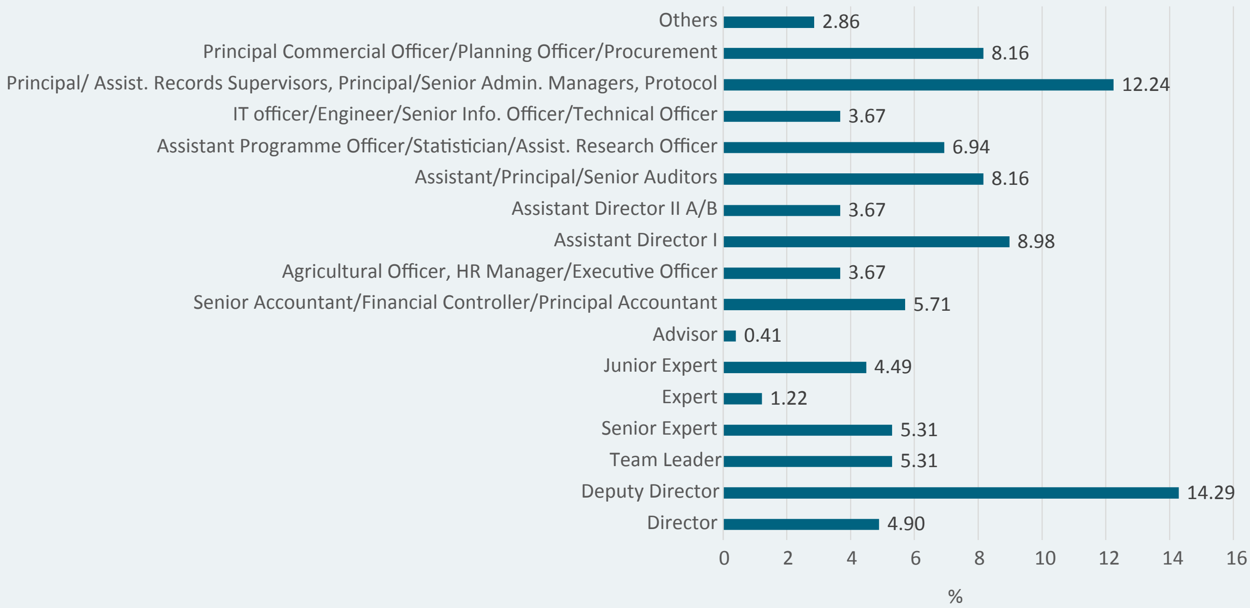


Figure 5.4: Highest level of education completed

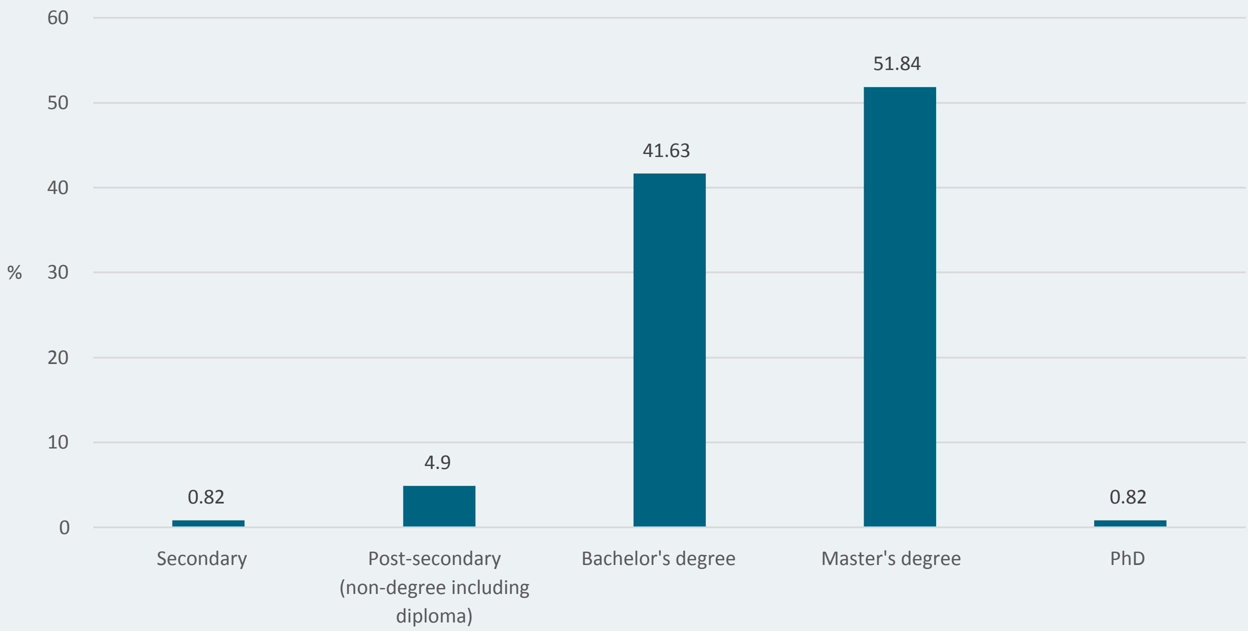
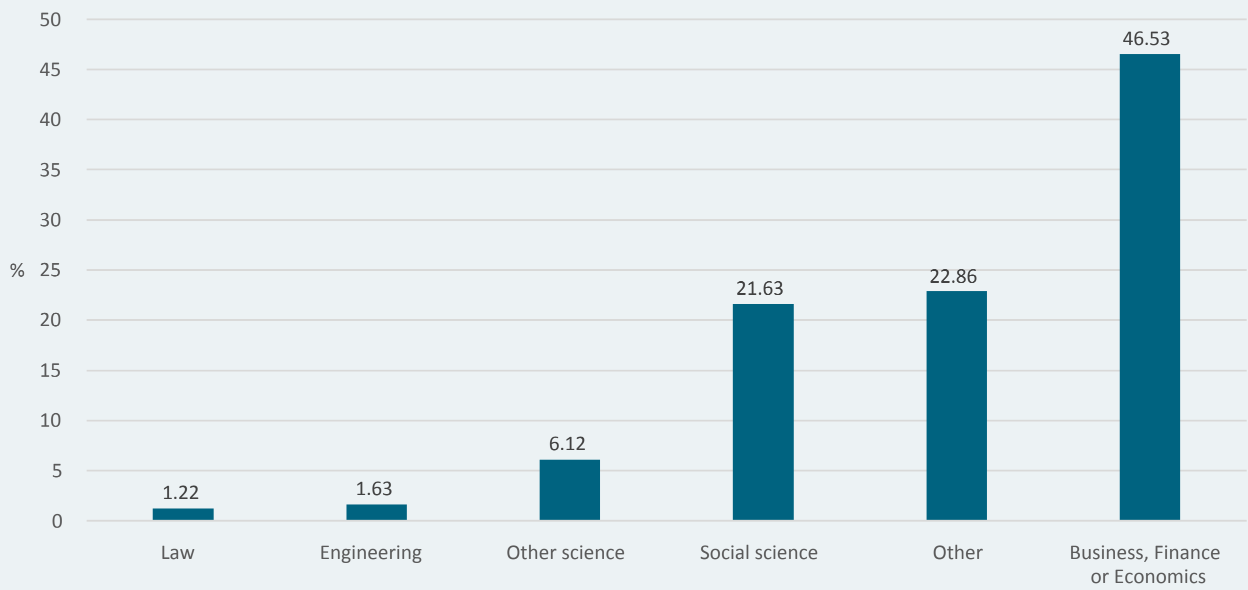


Figure 5.5: Fields of study with the highest educational qualification obtained



> ***This sample is reflective of the relative underrepresentation of women in formal sector jobs in Ghana.***

Relating to education qualifications, more than half of respondents had postgraduate training ranging from master's degree (51.84%) to PhD (0.82%). About 42% had at least a bachelor's degree. The fact that close to 50% of respondents has formal training in business, finance and economics gives some indication that there is a reasonable understanding of key public financial management concepts, although as we shall see later in the report, academic qualifications do not always guarantee that personnel have the necessary competencies for their role.

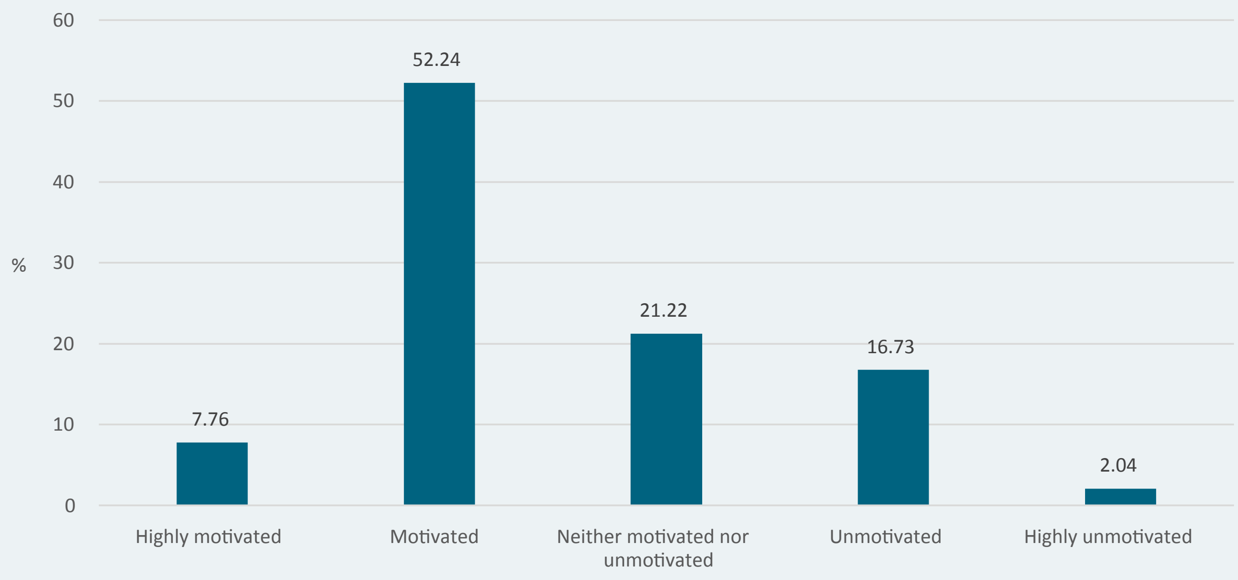
To analyse personnel capabilities, we distinguish between three main elements namely motivation, competencies, and resources. Table 5.1 shows the dimensions used in measuring personnel capabilities during the questionnaire administration.

Motivation is an important facilitator of employee performance. To gauge whether respondents felt motivated in the performance of their functions, they were asked to assess whether staff within their organisations were motivated. The strategy was to 'distance' respondents from assessing their own motivation in order to provide some semblance of objectivity in their reporting. A little over 60% reported that their colleagues were either 'motivated' or 'highly motivated' in the performance of their responsibilities. The majority of those who believed that officials in their organisations were 'unmotivated' or 'highly unmotivated' cited 'low pay' or 'poor working conditions' as key factors. Respondents in both the survey and qualitative interviews were quite unanimous that the lack of adequate salary commensurate with the responsibilities associated with their work was a significant determinant of employee motivation.

Table 5.1: Dimensions of personnel capabilities

Dimension	Indicator used in report
Motivation	Perception of level of motivation of colleagues
	Main reason for joining public service
	Reward and growth opportunities
	Staff turnover
Competencies	Skills mismatch in unit
Resources	Mentoring
	On-the-job training opportunities

Figure 5.6: How motivated do you think staff in your unit feel in carrying out their responsibilities?



To deepen understanding whether employees in the PFM institutions felt incentivised to carry out their responsibilities effectively, the survey enquired about their main motivation for joining their respective organisations. The majority representing 30% of respondents cited 'postings' whereas 18.78% reported that 'it was the only job available'. Only about a fifth of respondents were mainly motivated by an 'interest in [the] organisation's work'. The relevance of these findings is further amplified when one looks beyond the current organisations of respondents and considers the initial motivation for joining the public service (or civil service) as a whole. Here, close to 50% admitted that the public sector was either the only means of employment available to them or it offered better job security. Less than 20% cited better remuneration, training opportunities or career advancement prospects as the basis for joining the public sector.

Viewed closely, these responses reveal an interesting finding that has implications for the extent to which respondents are motivated to fulfil their responsibilities in these organisations. For example, the reference to postings indicates that once respondents were recruited into the civil service, they were assigned to their organisations by the appointing authority, that is, they were in those organisations by default, not by choice. As we have noted in the qualitative aspect of the report, some of the key informants have questioned such postings from the Office of the Head of Civil Service, which, they argue, do not have recourse to the specific human resource needs of those organisations. This point is further appreciated when viewed against the backdrop that recruitment into the civil service is a largely centralised exercise, meaning that many organisations, including those sampled for this study, have very limited control over who gets posted to those organisations, as the quotation below from one key informant shows:

> *The civil service recruits and assigns a post to you. You have to work with them … Some will progress in their careers quickly, others will not because they are stuck within their area of expertise and it is difficult to shift roles to areas they want to work in.*

Aside from ascertaining the motivation of respondents for joining their respective public sector organisations, the survey also incorporated questions that sought to find out whether they were incentivised on the job. Respondents were first asked whether they received some form of recognition for good performance, and if so, what was the nature of this recognition. About 60% responded that they received verbal recognition from their superiors whilst 20% noted that recognition was hardly a norm in their organisations. The proportion of respondents who received upward adjustments in remuneration or promotions was insignificant, hovering around 4% and 1% respectively. Promotions are one of the most desired forms of reward or motivation in both public and private sector organisations not least because it leads to some adjustment in benefits (including salaries) and enhancement of employee status. Despite this, nearly 70% of respondents reported that the surest route to promotion is not high performance per se but rather longevity/years of experience.

Figure 5.7: What do you think is the main reason for the lack of motivation in your unit?

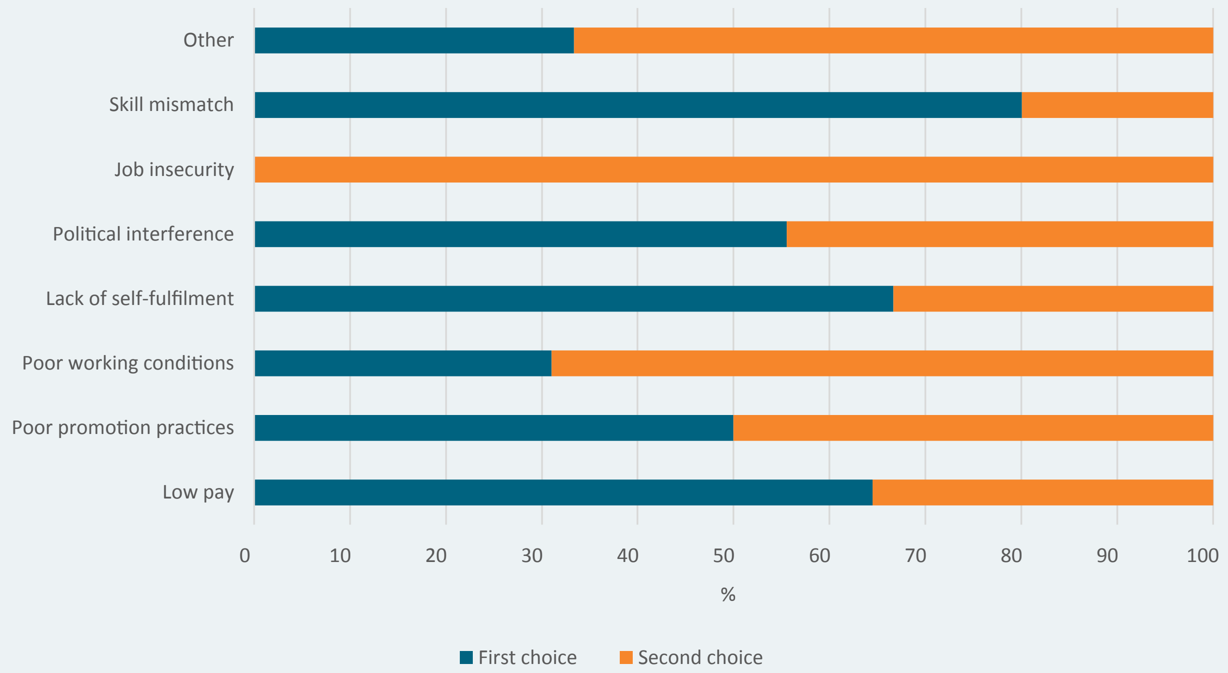


Figure 5.8: What was the main reason you joined the public sector?

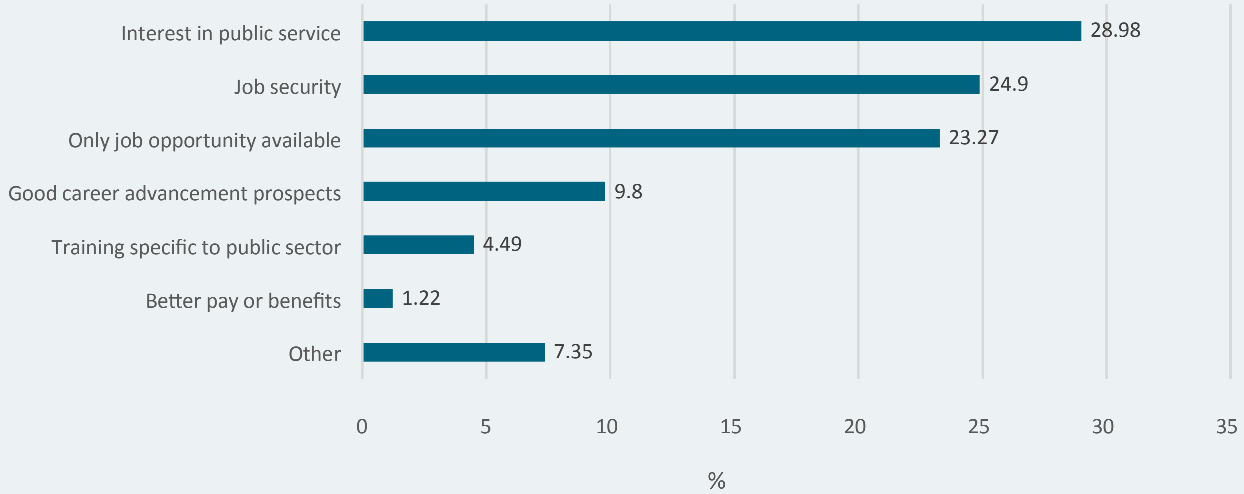


Figure 5.9: What was the main reason you joined this particular organisation?

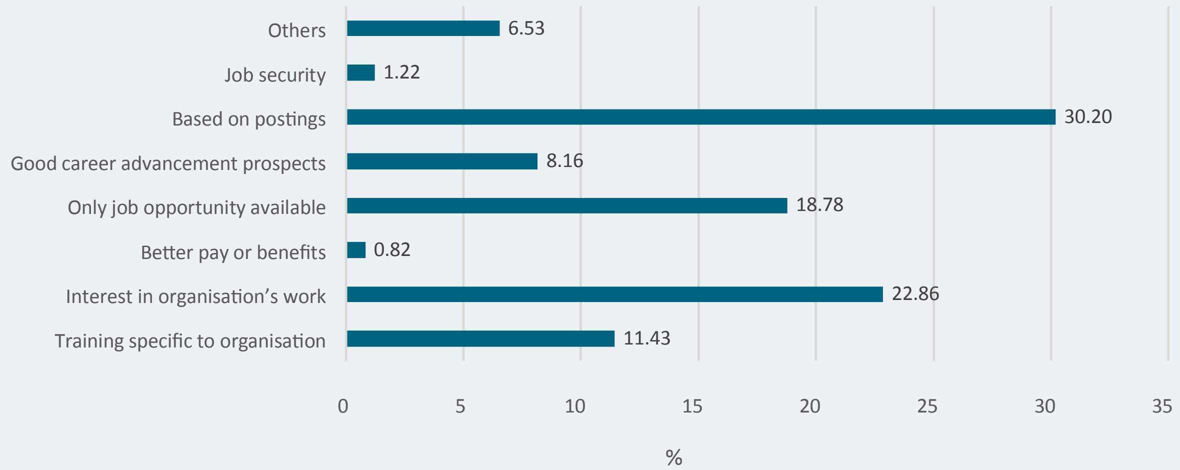


Figure 5.10: Is your salary and fringe benefits sufficient to meet basic expenses?

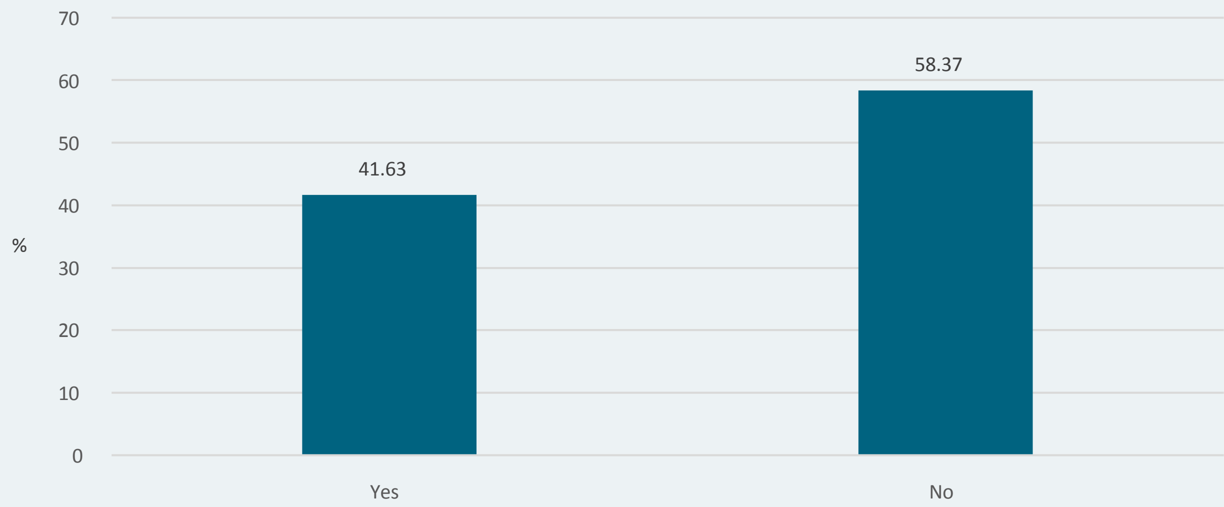
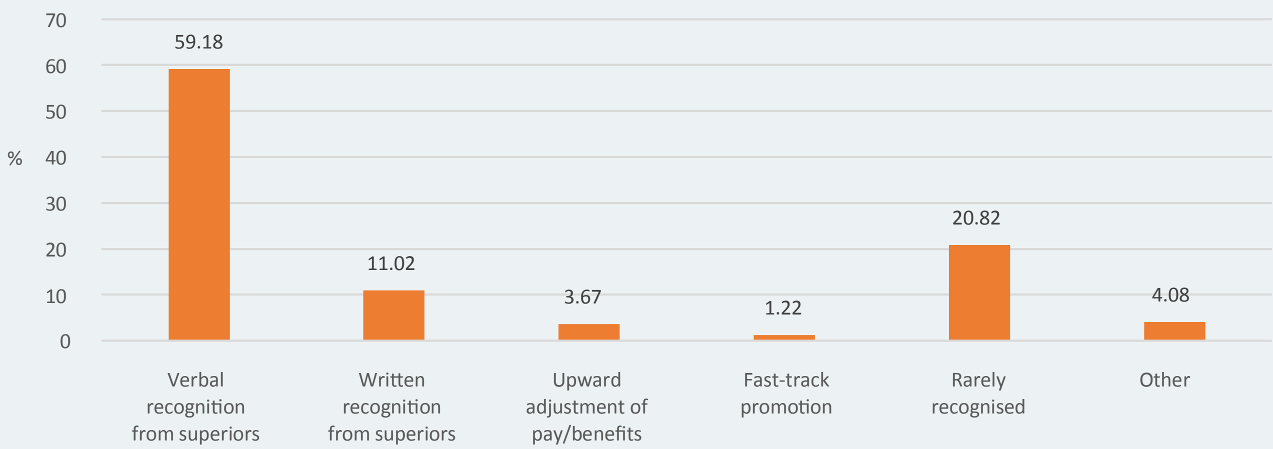


Figure 5.11: What kind of recognition do you usually receive for good performance?



> *Nearly 70% of respondents reported that the surest route to promotion is not high performance per se but rather longevity/years of experience.*

Meanwhile, over 70% of respondents believed that their base salary was lower or much lower than their counterparts with comparable experience and skills in the private sector. Quite notably, the disparity in salary earnings and the attendant dissatisfaction was not only characteristic of the public versus private sector divide, but also a public sector phenomenon. Indeed, more than half of respondents felt that their salaries compared less favourably with the earnings of other public officials performing similar roles as theirs. Almost 60% did not consider their salary and fringe benefits sufficient to meet their basic expenses. For this reason, the most qualified staff in most public sector organisations are always on the lookout for better opportunities elsewhere whilst MDAs are hardly able to attract and retain the best personnel to complement their strengths. One senior official noted:

> *Across the public sector, we have the numbers but we don't have the skills required to do our job effectively. The issue is that the most qualified personnel don't normally stay due to poor remuneration of the public sector.*

Figure 5.12: How would you compare your base salary to those of private sector employees with roughly comparable experience, training and responsibilities?

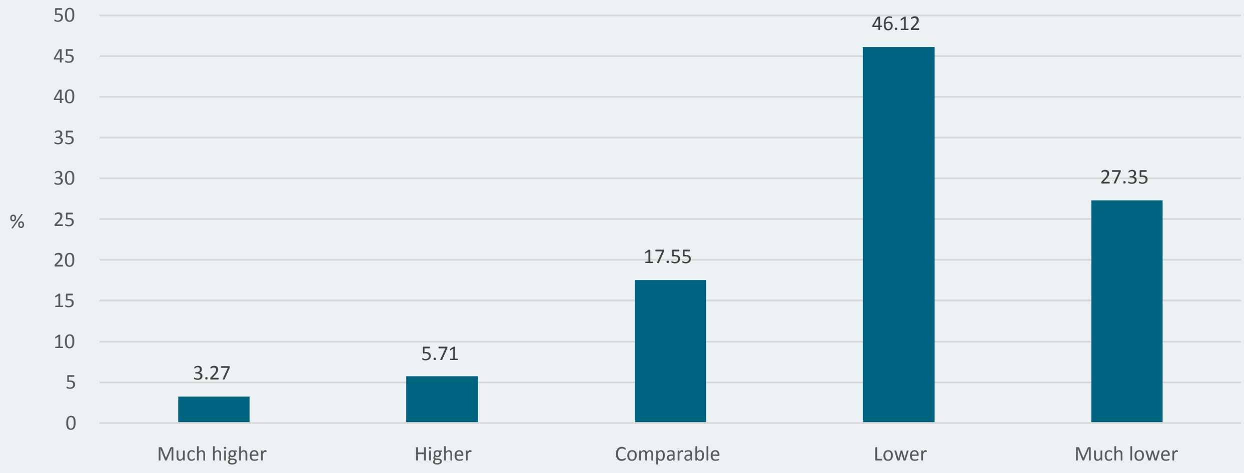
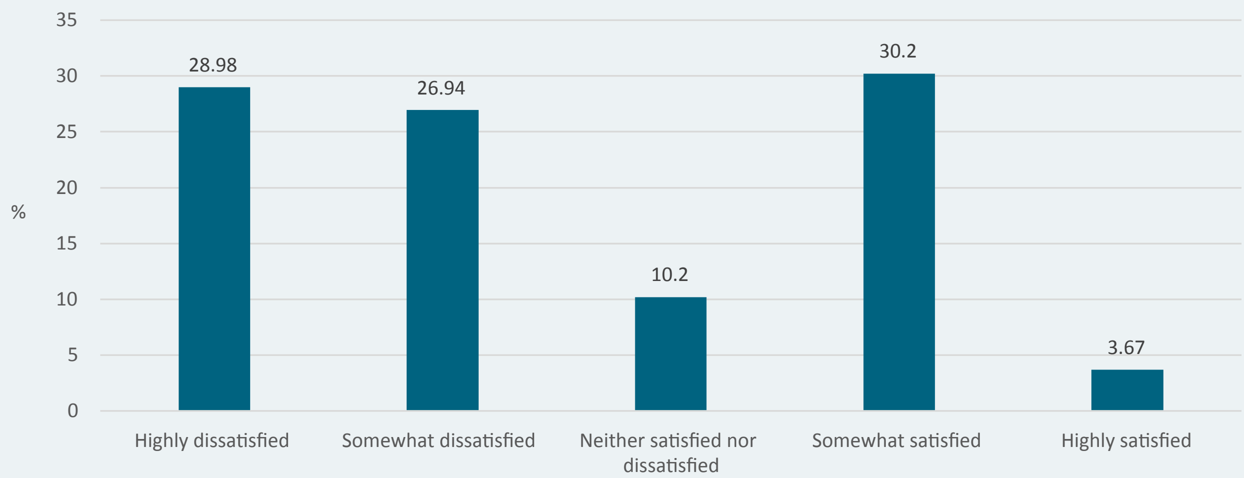


Figure 5.13: How satisfied are you with your current salary and fringe benefits compared to earnings of other public officials performing similar tasks in other public sector agencies?



Given these findings, it seems somewhat paradoxical that 43.67% of respondents believed that there was high potential for professional growth within their organisations whilst 61.22% and 19.18% said that overall they were 'somewhat satisfied' and 'highly satisfied' with their jobs respectively. Yet, these responses appear to pale into insignificance when viewed against the evidence that given the chance many respondents would exit the public service in general and their organisation in particular for better opportunities. Whilst 11.43% had plans of leaving their organisation in less than a year's time, more than 50% were not receptive to the idea of staying in those organisations beyond three years. Specifically on their exit plan alternatives or preferences, only 13.47% hoped to join a different public sector organisation, with the majority looking to start their own business (42.04%),[16] work in the NGO sector or international development organisations (21.22%) or find jobs in the private sector (8.57%). Among others, low pay, poor working conditions, lack of self-fulfilment and political interference[17] were the major reasons cited by respondents for wanting to leave their organisations. These findings do not bode well for staff retention, with the result that organisations may be denied the requisite competence, experience and institutional memory to carry out their mandates. More specifically for our purposes here, high rates of employee turnover resulting from limited or lack of motivation have adverse implications for public financial management capabilities within the organisations sampled for this study and the Ghana public service in general.

Figure 5.14: How long would you wish to stay in the current position with the current organisation?

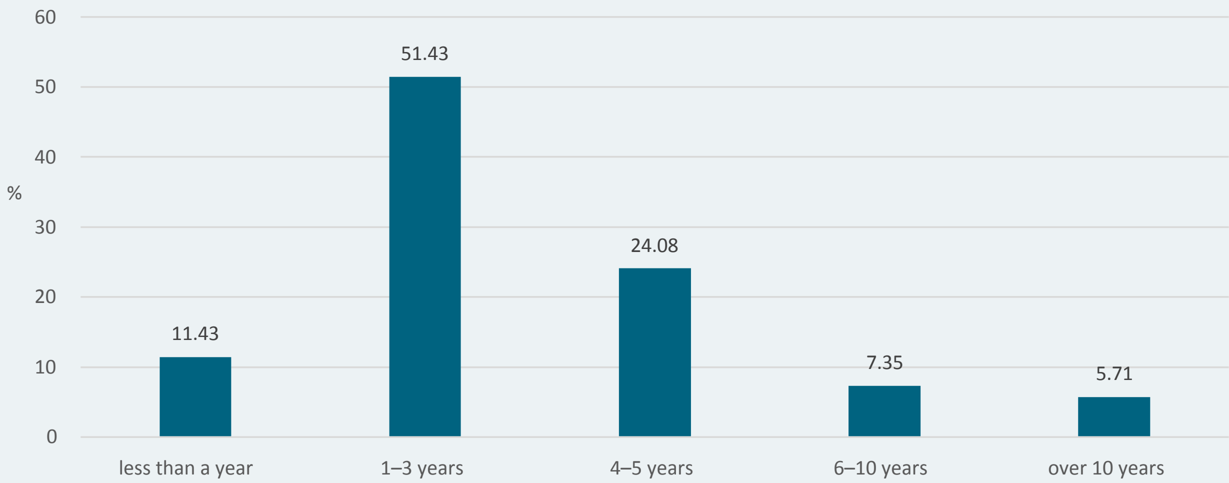
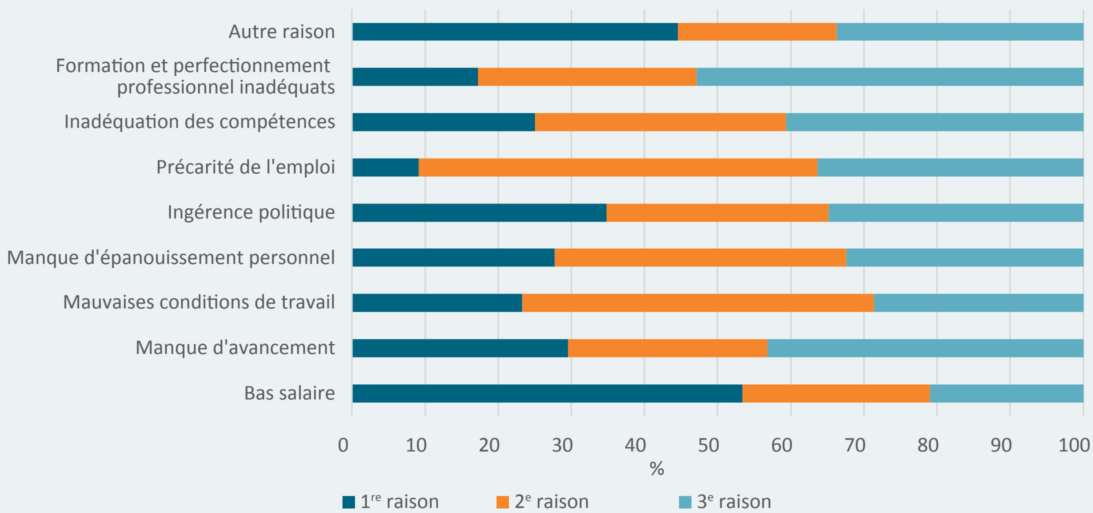


Figure 5.15: If you were to leave your current organisation, what would be your three top reasons for doing so?



16 This response seems reasonable given that most of the respondents recognised that there were limited opportunities outside the public service, an indication that they entered the service out of need or as a last resort.

17 The key informant interviews revealed that political interference plays a crucial, if not the most significant, factor in determining or moderating institutional capabilities for public financial management and the performance of the public sector more broadly.

Most of the responsibilities that have implications for the quality of public financial management require special competencies and skills. This means that the personnel occupying positions within ministries, departments and units tasked with the responsibility of performing these roles must have the requisite academic and professional training, as well as on-the-job experience in order to be effective and efficient. Respondents seemed divided, even if not equally, about the extent to which the performance of their organisations may have been adversely affected by having the wrong people at post. Whilst approximately 47% were convinced that the performance of their organisations had suffered from a mismatch of personnel and roles, about 53% thought otherwise. As we have noted earlier, the fact that many public sector organisations have limited or no control over who gets recruited or posted to those organisations means that they sometimes must make do with less qualified staff who have to spend more time to learn on the job.

It is important to note, however, that whilst the findings above point to the need to streamline the recruitment and posting process for better personnel and institutional capability, there is evidence that some of the organisations, including the MoFEP, have highly competent staff. The challenge to performance therefore, in many cases, has little to do with having less qualified personnel but rather other factors such as resource constraints and political interference as depicted below.

Figure 5.16: To what extent do you think has your unit's performance been hampered by not having the right people in the right positions?

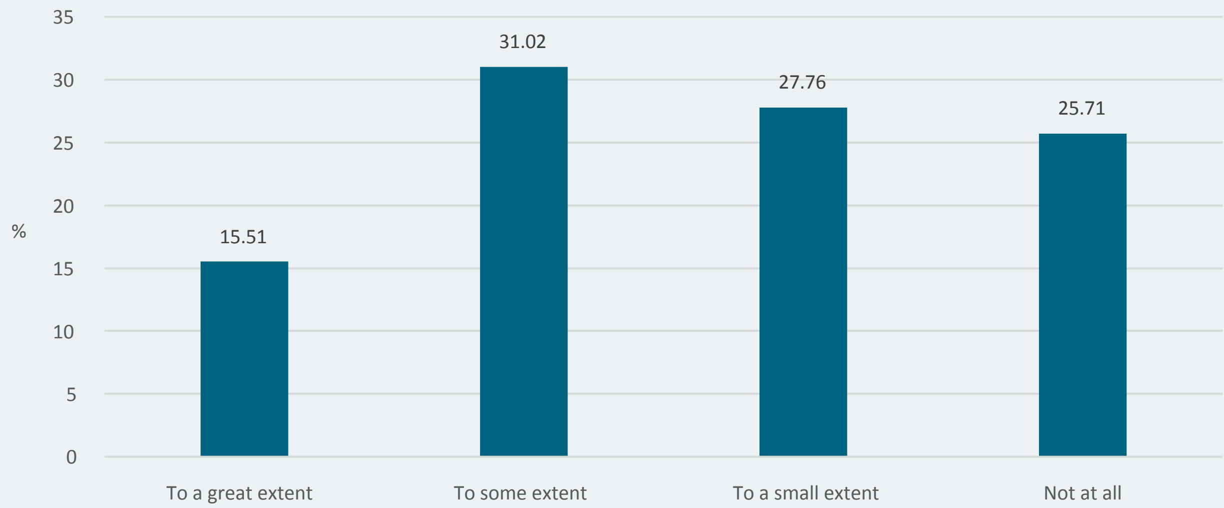
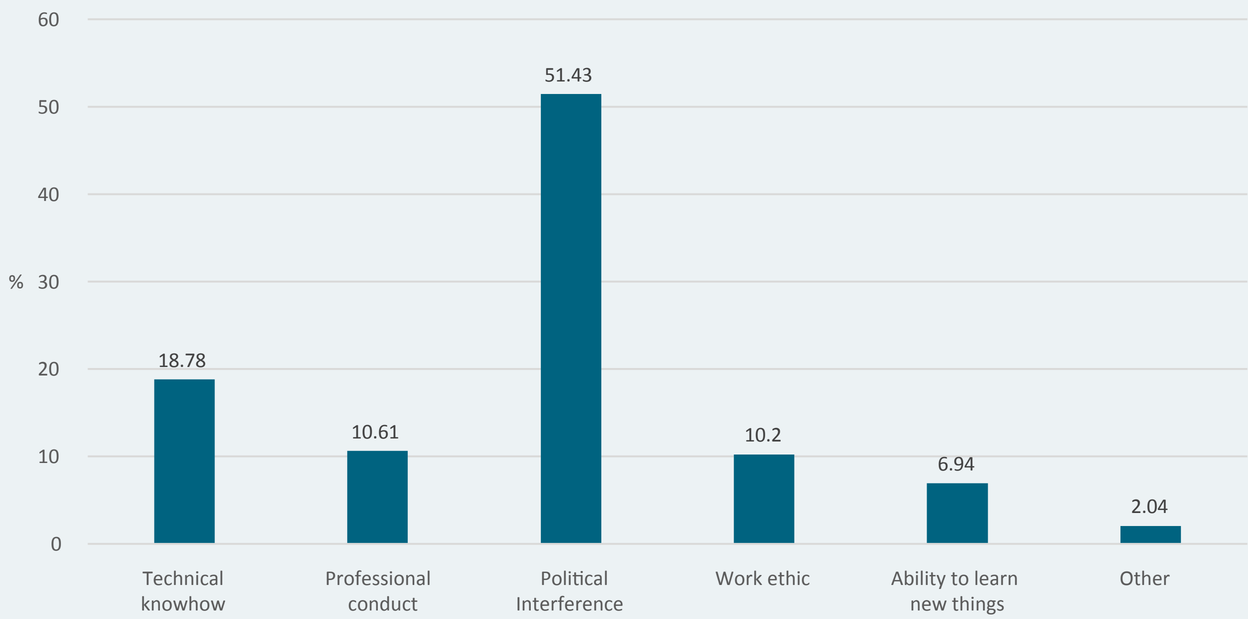
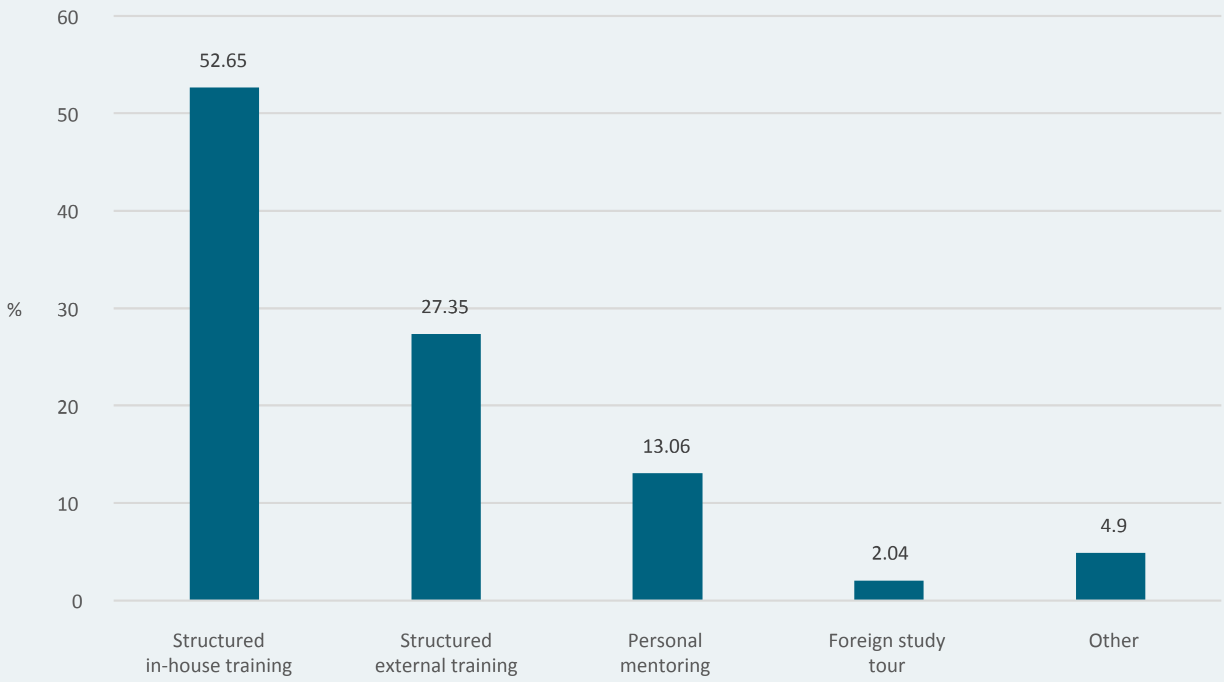


Figure 5.17: What do you think is the weakest aspect of capacity among civil servants in your area of work?



Analysis of the survey data found some pointers to the ways in which the capabilities of personnel involved in the performance of PFM roles could be improved. In this regard, structured in-house training and structured external training were deemed as the best pathways, followed by personal mentorship. This is even more important given the limited evidence of direct impact of transfer of knowledge by external consultants sometimes deployed to those organisations. That said, we recognise that a significant proportion of respondents reported having professional mentors when they joined the organisation, although it is unclear whether this arrangement was formally institutionalised and reviewed for the desired outcomes.

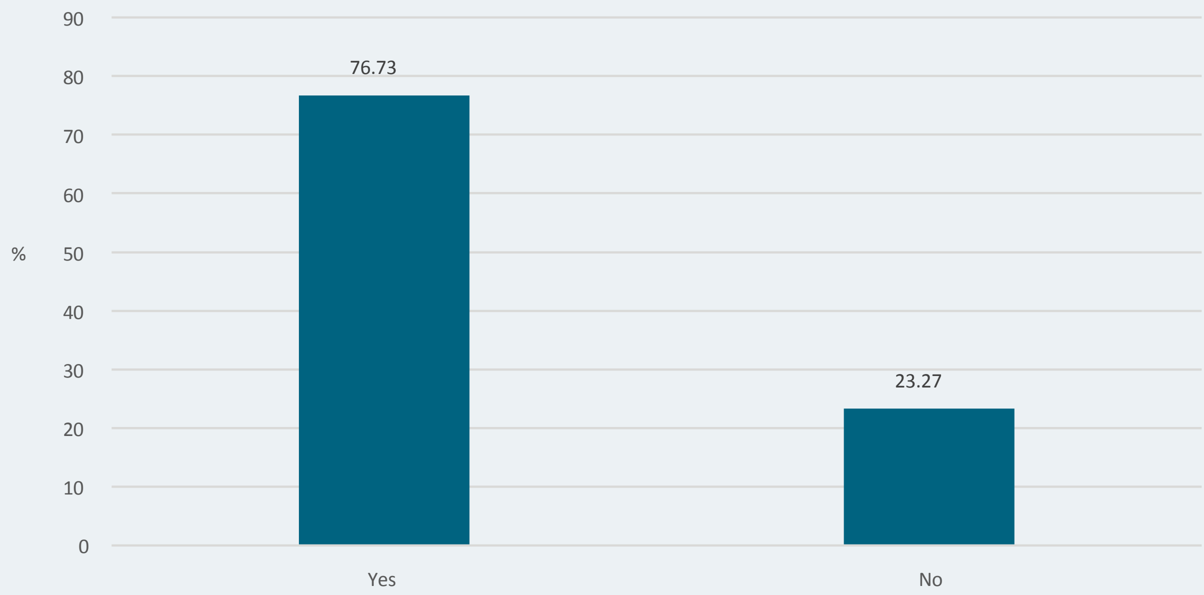
Figure 5.18: In your area of work, what is the most effective mode of capacity building?



> ***Structured in-house training and structured external training were deemed as the best capacity-building pathways, followed by personal mentorship.***

In sum, while the majority of personnel surveyed appear to be satisfied with their jobs, this is largely based on the fact that they have limited options outside the public service. Indeed, perceptions of low motivation are rife, rewards and growth opportunities are limited, and staff turnover remains a challenge. A key concern about the capacity of MDAs to undertake functions in the budget cycle relates to the availability and quality of human resources. In the Ministry of Lands and Natural Resources, for example, the head of budget was the only budget officer at post, raising questions as to how the budget units could provide the requisite support to other cost centres both within and outside the ministry. Whilst some MDAs report the availability of high numbers of personnel, with some even overstaffed, many do not have adequate staff as the requisite skills mix is lacking. The situation was quite common in the internal audit units as well as in budgeting, where some cost centres do not have budget officers who could guide management in the preparation of their budget plans, with the result that there is often a mismatch between the plans of the various units and the main budget office in the ministry.

Figure 5.19: Did you have a senior colleague who mentored you professionally when you got into your current position for the first time?

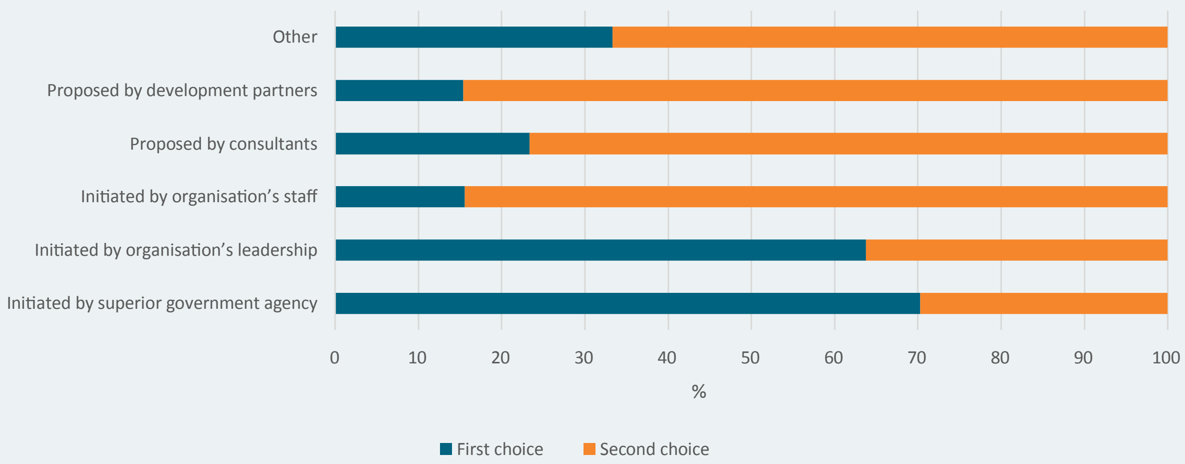


6 Reform ecosystem

One of the most established principles in organisational performance or development practice is that policies or strategies are likely to be successful if their formulation and implementation involve the contributions of end users or those tasked with implementation. In short, for PFM reform initiatives within the organisations sampled to achieve their desired outcomes, they must be characterised by a sense of ownership among officials. For this reason, our survey included questions that sampled the opinions of officials about the reform ecosystem of the organisations within which they operate. A key determinant of ownership within organisations relates to the originator of reform ideas. More than half of respondents reported that new ideas are often the brainchild of their respective organisations' leadership whilst 34.6% indicated that superior government agencies were responsible for such initiatives. Only 5% of new practices are reportedly led by consultants or development partners, suggesting that PFM officials have some significant control over the direction of those organisations. It is worth highlighting, however, that very few respondents mentioned that reforms are initiated by staff from their respective organisations, although these are often more aware of the bottlenecks in their organisations.

The effectiveness and efficiency of PFM instituions does not only depend on new ideas but also the opportunity for changing or replacing less functional systems and practices. When asked about the means through which such changes are made, nearly 80% of respondents noted that their organisations have often resorted to internal reviews. Less than 10% of respondents suggested that ineffective systems are ralely reformed. This suggests that PFM institutions may be proactive in ensuring that they are on course to achieving their mandates.

Figure 6.1: How are new ideas and practices usually introduced in your work environment?



Despite this, some caveats are worth noting. The analysis further highlights a seeming contradiction because a significant proportion of respondents believed that whilst reform ideas may be common, the most important motivation for managers to lead such initiatives are political pressure and requirements from external parties or partners. Some notable examples here relate to the introduction of the GIFMIS, the passage of the PFM Act, and the Fiscal Responsibility Act, which were mainly response to the requiremnets of donors such as the International Monetary Fund. This therefore begs the question whether PFM institutions actually have control over what, how and when to introduce reform initiatives.

Figure 6.2: What is the most common process through which ineffective systems and practices are reformed or changed in your unit?

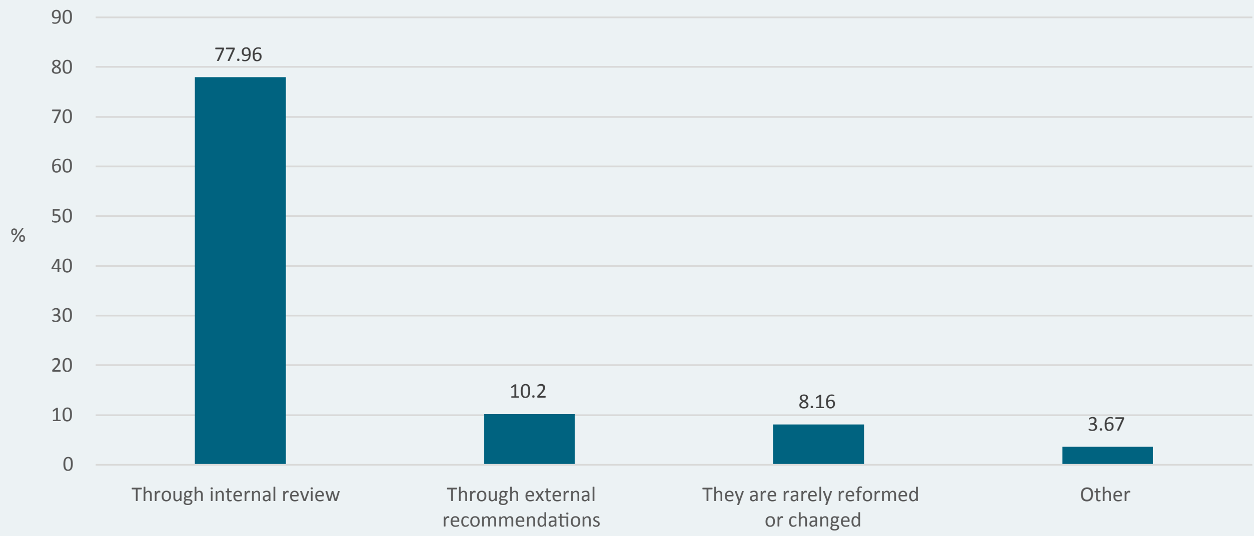
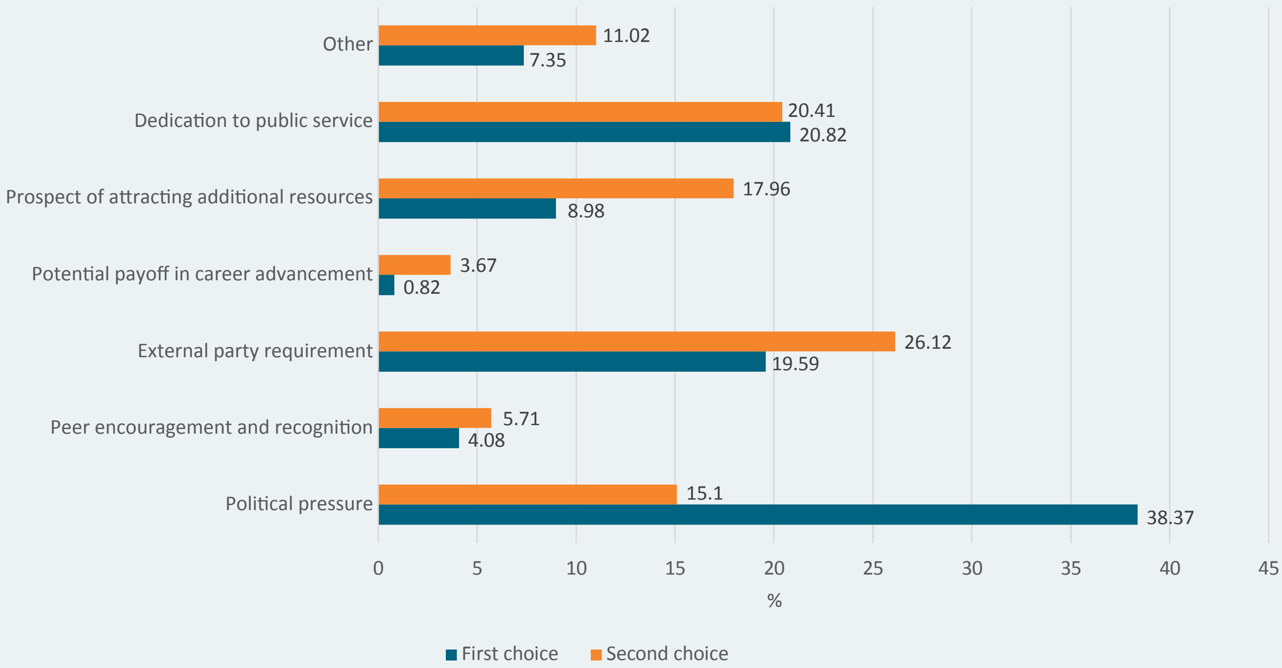


Figure 6.3: What do you think usually motivates your managers to initiate or try a new idea or practice?



The recognition that changes may be necessary, whether this emanates from organisational leadership or external stakeholders, is not a sufficient condition for ensuring that new ideas are introduced. The survey analysis shows evidence that there are sometimes obstacles to the implementation of these initiatives. In particular, most respondents believe that PFM officials sometimes lack the authorisation to introduce initiatives whilst others think that the possibility of disrupting the status quo with initiatives which may be experimental at best disincentivises organisational leadership in a context where public officials are often risk averse. This point is further supported by the observation that 'demotivation for future reform', 'investigation by higher authorities' and 'inefficiency due to reversal of reform' are the most common fall outs from failed initiatives within the organisations sampled for this assessment. It seems reasonable to infer, therefore, that PFM officials are more receptive to revising existing strategies based on implementation experiences and cross-fertilisation of ideas than introducing wholesale or significant reform initiatives which are visibly different from what they are accustomed to.

Whilst the internal capacity of PFM institutions is important, this also needs to be complemented by financial and logistical resources, as well as technical expertise from stakeholders external to these organisations. The majority of the survey respondents (75.1%) acknowledged that the most important means through which they benefited from development partners were funding and expertise. There is evidence that external consultants or seconded personnel sometimes participate in reform initiatives, the expectation being that they may provide technical backstopping or in some cases guarantee that external stakeholders' expectations are also being met. That said, questions of sustainability arise in terms of the impact of consultants after the expiration of their stay in these organisations: 65% of respondents noted that there is often limited knowledge and skills transfer from external consultants and seconded staff.

In summary, the analysis has unearthed mixed evidence in terms of the reform ecosystem within which PFM officials operate. On one hand, there is a sense of ownership of reform initiatives because officials are directly involved in their implementation; on the other, there are indications that the original triggers for such requirements are outside the authority of PFM officials. This apparent divide could be explained by the fact that PFM officials are wary of the potential cost of initiating reforms which may end up failing or disrupting the status quo. They would therefore defer to the political elite and external partners whose instructions could serve as a cover for possible liability. The result is that reform ideas may not always reflect the policy learning experiences of PFM technocrats per se but the expectations of more powerful stakeholders who may be driven more by political incentives.

Figure 6.4: What are the most common reasons in your unit for failing to try new ideas that may eventually improve performance?

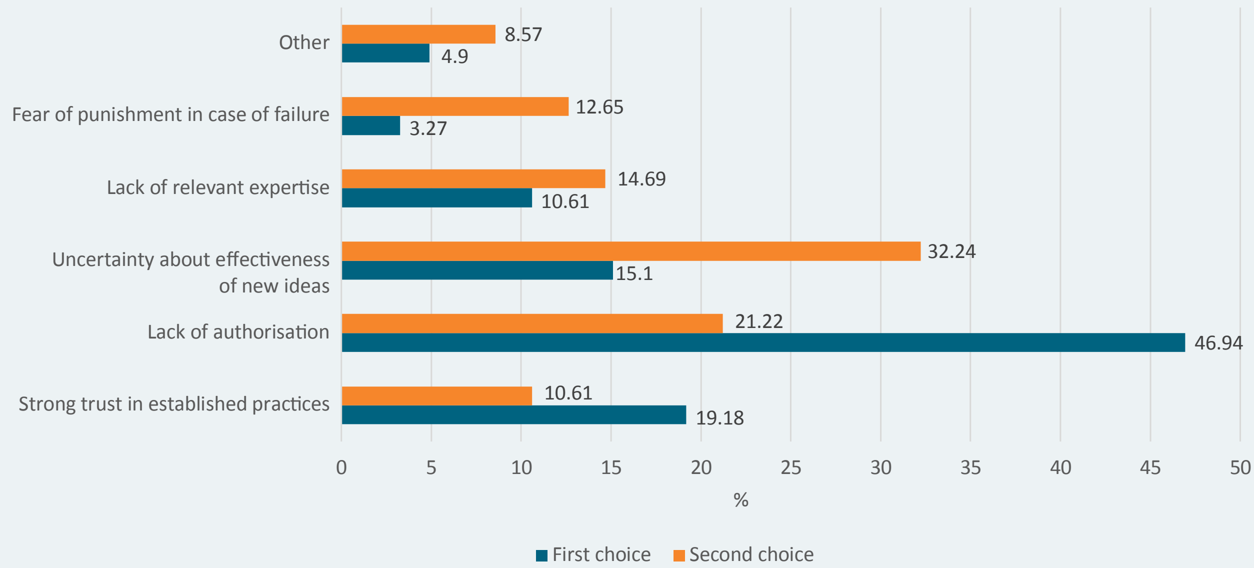


Figure 6.5: What are the most common modalities for your organisation to engage with development partners?

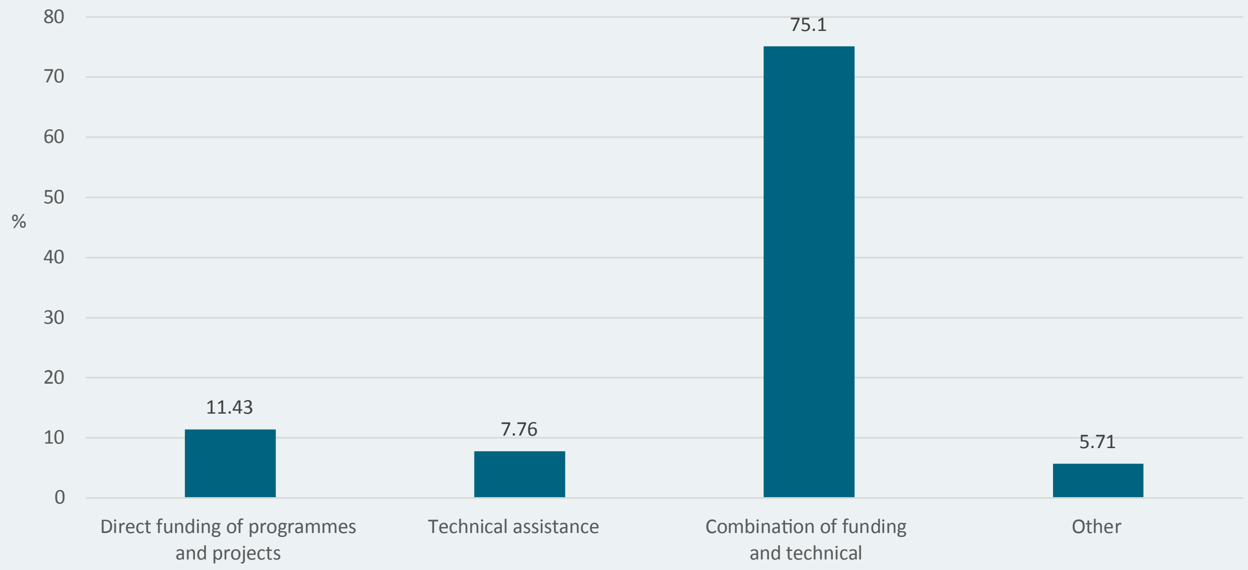
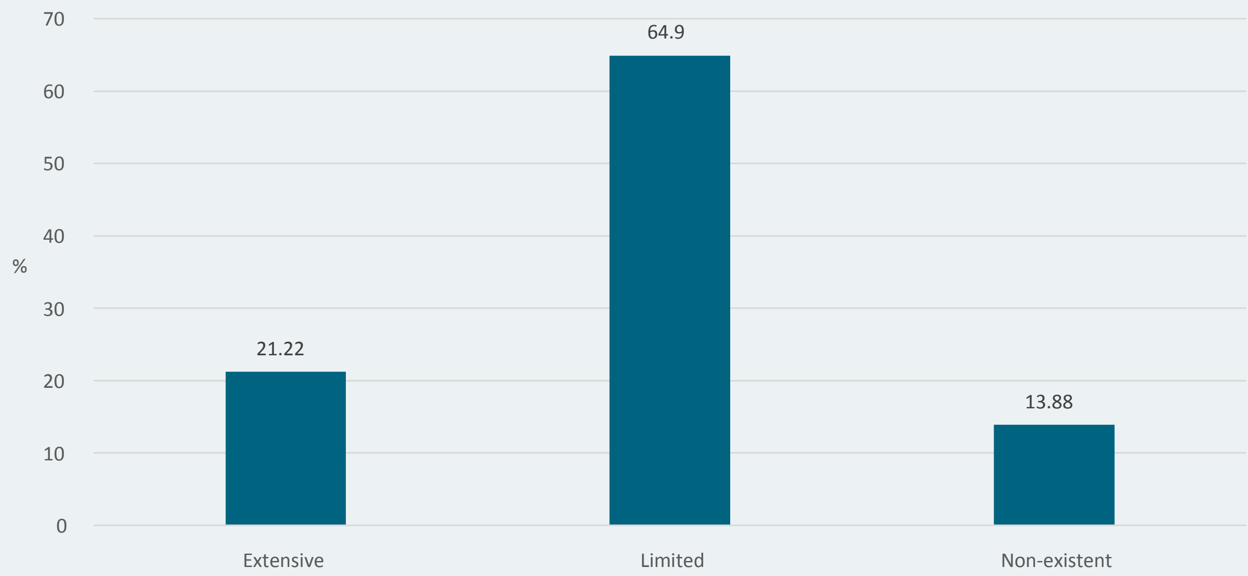


Figure 6.6: What is the extent of knowledge and skills transfer from external consultants and seconded personnel to internal staff in your area of work?



7 Discussion of findings and conclusions

The analysis above has provided insights into both the institutional and personnel capabilities for public financial management in Ghana. It shows that whilst Ghana has made some gains in recent history through some reforms, significant challenges remain in the way of progress towards achieving efficient and effective PFM systems.

One notable technical challenge relates to the lack of the requisite staff, particularly in the areas of budgeting and auditing. For example, the Internal Audit Act requires internal auditors to possess required proficiencies by obtaining the appropriate certification and qualification. The Internal Audit Agency offers quality assurance to the internal audit units, but this is not done to the level required by law, due in part to 'too few personnel and the multiple responsibilities imposed on it, including training, follow-up of implementation and auditing' (Republic of Ghana, 2018, p. 135). As the analysis has demonstrated, the nature of the recruitment process in the civil service is such that postings hardly reflect the human resource gaps of the MDAs. Therefore, for technical units such as the internal audit units, postings are often based on the traditional understanding that auditing is an accounting or finance function, whereas auditing units may require personnel from different backgrounds such as engineering, education, architecture, among others, to function effectively and efficiently. For others, even where staff are available, the required technical competence may be lacking. Across many MDAs sampled for this study, some officials bemoaned that despite the fact that the GIFMIS was integral to their operations, some responsible officers were yet to receive the required training that would enable them to use the system proficiently, especially the aspects that relate to capital expenditure.

Closely related to the availability and quality of staff is the motivation of PFM personnel, and civil servants generally, to perform their mandates. It is quite evident from the study that a significant majority of survey respondents feel less incentivised not only in comparison with those working in the private sector but also in relation to those others with the same qualification and experience in other public sector organisations. Thus, many have remained at post because they have limited options elsewhere (especially given the few job opportunities outside the public sector) and they are always on the look-out for the next opportunity to exit. Thus, although some studies, including Ansu (2013, p. 512), claim that 'the lack of competent Ghanaians or poor remuneration' may not be a significant contributor to the weak state capacity, our review suggests otherwise. That said, and as we shall recap subsequently, our study also supports the argument that other factors, including political economy considerations, may interact with this to further compound the capacity constraints in public sector organisations.

Issues of state capacity in Ghana cannot be simply understood as technocratic problems that can easily be fixed through technocratic interventions like capacity building or improvements in conditions of service for staff. Instead, it is also important to appreciate the challenge as the product of the incentives generated by the nature of the political environment. Ghana's political context is characterised by a ***competitive clientelist political settlement***, where ruling elites are perennially vulnerable to being removed from power due to intense electoral competition between two dominant political parties in a clientelist political environment. As a result, 'Ghana has a track record of high fiscal deficits, partly reflecting procyclical fiscal policies in good times and electoral cycles. Fiscal performance in Ghana tends to worsen during election years with concomitant increase in the debt levels' (Daily Graphic Online, 2017). One recent qualitative study concludes that although bureaucrats within the finance ministry have thus far failed to keep public spending within budgetary limits during election years, this lack of capacity has little to do with insufficient technocratic expertise within the ministry, and more to do with 'politicians' limited commitment to heeding technocratic advice in the context of mounting electoral pressures' (Abdulai and Mohan, 2019). This position is corroborated by current analysis: despite the introduction of the GIFMIS and commitment controls, the passing of a new PFM Act and other reforms, political elites within the PFM institutions sampled orchestrate expenditures that fall outside their approved budgets, especially in election years. Further, the fact that no punitive sanctions stipulated in the PFM Act were imposed is also an indication that political authority and influence at times hold sway over technical processes.

Second, and more importantly, competitive clientelism means that the administrative capacity and performance of most state institutions have been regularly undermined by the rapid turnover of organisational leaders during political transitions. As one study by Ansu (2013, p. 502) notes, 'a partisan political environment that produces a large turnover of senior staff and technocrats whenever governments change, weakens state capacity. This undermines professionalism, continuity, long-term planning orientation, learning and innovation in the public service.'

The observations above align with findings from both the qualitative interviews and personnel surveys reported in our current study. Notably, the position of the Chief Director, who is supposed to be the main spending officer and head of the budget committee within the ministries, has become political, with career civil servants standing little chance of progression to that position. The result is that appointees may not only lack the technical competence and institutional memory required to perform PFM functions but are also more incentivised to implement political decisions even where these may be contrary to sound technocratic advice or legal requirements.

Another by-product of the influence of politics on bureaucratic capacity is that political interests may compel bureaucrats to act against the rules, failing which they could be punished. Viewed from this perspective, it is not surprising that despite the introduction of various reforms, including laws which stipulate punishments for spending officers who spend outside approved budgets, evidence still abounds that MDAs incur such expenditure.

In this respect, state capacity needs to be understood not only in terms of the limited technocratic expertise to be redressed through capacity building, but also in terms of the ways in which the imperative for political interests undermines the efforts of technocrats.

By way of conclusion, although Ghana has made some gains in recent times in strengthening public financial management systems, particularly following the introduction of the GIFMIS and the PFM Act, much remains to be done. There is a case to be made for a more scientific budgeting system which makes room for greater participation by MDAs, particularly at the strategic planning level. Tied to this point is the need to ensure a stricter link between budget approvals and releases. Currently, there is a disconnect between appropriations, releases and actual receipts, which results in various cases of arrears and virements across all ministries. There are also persistent cases of out-of-budget expenditure, especially in election years where political influence seems to trample legal or administrative processes, with this problem further compounded by a less effective institutionalised accountability process.

In terms of personnel capability, a comprehensive human resource assessment is required to address specific PFM gaps in personnel adequacy and skills in key units such as budget and auditing. Related to this is improved conditions of service that not only ensure that quality and experienced staff are retained but also new ones are attracted into the civil service. At present, the civil service appears to be an employer of last resort because of the lack of jobs in other sectors of the economy. This has implications not only for the quality of the outputs since staff are, as a survival strategy, more likely to deviate from due processes and hinder efforts at ensuring budget credibility as a result.

"Competitive clientelism means that the administrative capacity and performance of most state institutions have been regularly undermined by the rapid turnover of organisational leaders during political transitions."

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Appendix A: Methodology

The data-collection work conducted for this report proceeded in four stages: scoping, desk research, instrument design and fieldwork.

Scoping

The scoping exercise started with consultations with a team of public finance and planning officials participating in an action-learning programme organised by CABRI, with the specific objective of identifying gaps in the weak linkages between budget allocation and cash releases and proposing potential solutions. The purpose of the consultation was to identify priority areas in which officials need more evidence to bolster existing or planned reforms. Accordingly, the officials identified issues around budget credibility as areas that need further investigation to understand capability gaps. Specifically, these issues included the accumulation of arrears that affected budget execution, delays in releasing goods and services provided for settlement, increase in domestic borrowing and associate costs to close unplanned funding gap, as well as judgment debts, interests, penalty, and extra expenditure arising from unplanned, or delayed payments for, contracts executed. They also offered suggestions on the criteria to select MDAs for the organisational review. The second part of the scoping exercise involved the identification of key informants for the qualitative interview on institutional capabilities as well as sampling of officials from selected MDAs for the quantitative survey on personnel capabilities and reform experience.

Desk research

The preliminary research consisted of document analysis. The document review was used to extract relevant qualitative and quantitative data from a variety of publications, such as legislative documents, constitutional documents, academic articles and reports, including other assessments (such as PEFA). This was aimed at providing information on the de jure PFM system as well as setting a point of departure for the analysis of de facto practices, which was expected to be conducted through primary data collection.

Instrument design

Both the qualitative and quantitative questionnaires for data collection were built upon parts of the generic instruments developed by CABRI for the PFM capability review programme. The main instruments had been pretested for relevance and clarity with a number of public finance officials in four countries. Moreover, a tailored version of the instruments was deployed for a similar review in the Central African Republic and Benin. The questionnaires were customised for the Ghanaian capability review using the information provided by the teams of officials as part of the scoping exercise.

Fieldwork

The fieldwork, consisting of both qualitative and quantitative interviews, was conducted in Accra. Qualitative interviews were done with 27 key PFM units of the ministries including policy, planning, monitoring and evaluation, budgeting, finance, and auditing as well as experts from civil society organisations. Participating ministries included Finance, Education, Health, Roads and Highways, Lands and Natural Resources, Trade and Industry, Local Government and Rural Development, Food and Agriculture, and Railways Development. Interviews focused mainly on institutional capabilities for planning and budgeting, management of resource flows and institutional accountability.

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CABRI Secretariat
Cnr John Vorster & Nellmapius Drive,
Centurion, 0062
South Africa

Email: info@cabri-sbo.org
www.cabri-sbo.org