
Ghana: Budget support between dialogue and power play

*Richard Gerster**

When Switzerland and other donors directly support the budget of a partner country, like they do in Ghana, their engagement is not only about money. Regular talks about reforms for the implementation of Ghana's Growth and Poverty Reduction Strategy (GPRS II) are also part of the package of measures which come with budget support. In the conference room the representatives of Ghana's government are seated on one side, the donors on the other – already the seating arrangement invites a confrontational style. The dialogue can be interrupted upon the donors' request so that they can make separate arrangements. Aims shared by the government and the donors are the basis of the dialogue, but the way leading there leaves a lot of room for poker and power play.



Africans exchanging their experiences in citizen's participation in view of demanding accountability from the government.

Dialogue has an impact...

"Budget support is most effective in those areas with the most intensive dialogue", says Christian Rogg (DFID), chair of the donor group 2008/09. Progress achieved in recent years, particularly in the educational sector, in public finance management including procurement (see interview with A.B. Adjei) and in framework conditions for the private sector, is impressive. In all of these areas there are sectoral working

groups with specialists from various backgrounds (ministries, donors, academia or non-governmental) who openly discuss achievements and problems. These working groups take stock for the annual budget support joint meetings as well as the GPRS. "In the budget support dialogue we do not repeat the sector discussions, but bring up unresolved issues", say members of the well organised private sector group. This is how sectoral and overall views are linked and complement each other.

According to an independent evaluation, "the scope of policy dialogue which has been made possible through the MDDBS (Multi Donor Budget Support) arrangement could not have been reproduced even through a series of several sectoral arrangements." More specifically:

- Cross-cutting issues like public finance management or equal opportunities for women and men are anchored better than ever before;
- A marked increase of budget allocations for health and education are a consequence of the intensive dialogues;
- The commitment for continuous dialogue has up-held the government's will for reforms;
- Until now, macroeconomic questions were not an important issue in budget support dialogue, as intense talks between the Ministry of Finance, Ghana's Central Bank and the International Monetary Fund already take this place.

These are some of the results of the evaluation of budget support, carried out by a British-Ghanaian research group.

... in spite of weaknesses

However, the independent evaluation also found that "key governance and democratic accountability deficits persist despite MDDBS dialogue, suggesting some significant limitations in its degree of influence." Or as an NGO-representative says: "Politi-



A marked increase in the budget allocated to the educational system is the result of an intensive dialogue.

cal reforms can not be bought, even though donors repeatedly foster this illusion.”

Admittedly, the manner in which the dialogue is conducted, is far from perfect. It is partially perceived to be predominantly technical, which takes its toll with respect to its strategic orientation. This tendency towards technical details is a consequence of the fact that 50 percent of budget support is disbursed on the basis of a performance agreement (PAF) – which means that large amounts of money are at stake, should the government fail to meet a disbursement criteria. The donors have recognised the problem: Great Britain, Canada and the Netherlands have changed their proportionality and now only tie 20 percent of their disbursements to the performance assessment. Switzerland stays with the 50/50 formula. Furthermore, starting in 2008, an overall, inclusive progress assessment is introduced for the fixed tranche, instead of relying only on specific indicators. These steps make sense, however, they will not completely forestall all future struggles for influence.

Donors' power play

A conflictual tug of war took place in 2004/05 when energy issues became a prominent in budget support (see separate text about energy). At that time kerosene which was imported for the transport sector was heavily subsidised. It burdened the budget with some 250 million US dollars – a lot of money which could also have been invested in health or another sector. “When it came to the continuation of these subsi-

dies, there were different opinions within the government”, says Martin Saladin of the Swiss Embassy and responsible for budget support. International partners, like the International Monetary Fund, the World Bank and bilateral donors insisted on stopping the use of tax money for this price reduction and liberalising kerosene imports and they stopped their budget support disbursements until the relevant law was adopted.

The government faltered between internal political sensitivity and fiscal reason and finally increased fuel prices reluctantly by 50 percent to the level of the world market. This did not happen without demonstrations, as large parts of the population were directly affected because of increased costs for bus tickets or transportation. But one thing is certain: the wallets of the middle and upper classes were most affected by this measure. In mid-2008 a litre of fuel costs around 1.50 Swiss Francs. Fuel subsidies no longer exist. With current prices of around 80 dollars or more per barrel subsidies to the earlier extent would go beyond the scope of all financial possibilities. The measure therefore ensured that neither tax nor budget support money is consumed by fuel subsidies due to increasing oil prices on the world market, but that the money can rather be used to support the agricultural or educational sector.

Self confident government

Ghana's government makes a self confident appearance in the dialogue. At the



In spite of being small donor, Switzerland holds the chair of the budget support group in 2009 (in the picture the Swiss Embassy in Accra).

meeting, during which the assessment of two triggers for disbursement is renegotiated, the donors inform that the European Commission will not participate, as the Government of Ghana has missed the original deadline for a positive assessment and they consider that as final. Government representatives openly express their displeasure. Budget support is a joint instrument and solo attempts by single donors are not acceptable. When it comes to budget support, the relationship with the EU is somewhat strained, because two years ago the donor community and the government had negotiated a set of performance indicators and agreed upon it. However, the EU head office in Brussels demanded amendments. Ghana's government refused, even though it meant that for two years (2007 and 2008) the performance based tranches of 50 percent were cut.

Ghana has also successfully insisted that the number of performance indicators included in the PAF were reduced. The PAF

2007 – 2009 is now more strongly based on sector dialogues. This was the basis for reducing the number of targets and indicators from 67 to 35. The government particularly pushed for the reduction of the numbers of indicators in the matrix, namely from 14 to 10.

The self confidence reflects the fact that Ghana's government is less dependent on international aid than other developing countries. And while the amount of international aid is significant for Ghana's budget, there are other opportunities for the country to obtain financial resources. Placing a bond issue on the capital market might be expensive, but a test run in 2007 with 750 million dollars was a huge success. It was followed by a bond issue of 300 million dollars in 2008. This demonstrates the trust of international finance in Ghana and its future. The global financial crisis impedes temporarily Ghana's access to the capital markets. The outlook of producing oil in some years, however, will further increase the country's room for manoeuvre.



Democracy won the elections in December 2008: Nana Akufo-Addo from the ruling New Patriotic Party (NPP) accepted defeat in the second round of voting. With a share of 49.8 percent it was a very close run against the new president John Atta Mills of the National Democratic Congress (NDC) who received 50.2 percent of the votes.

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