

GRIPS PFM Seminar NO.5:

**FINDINGS AND LESSONS FROM PUBLIC
FINANCIAL MANAGEMENT REFORM
PROGRAM (PUFMARP), GHANA:
From a Ghanaian Perspective**

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OUTLINE OF PRESENTATION

1. Brief background of the Reform Process
2. Description of the Reform Process
3. Ghana's Experience
 1. Gradualism and comprehensiveness
 2. Ownership
 3. Donor coordination



OUTLINE OF PRESENTATION

4. Achievements

5. Challenges

1. Gradualism and comprehensiveness
2. Ownership
3. Donor coordination

6. Lessons

1. Gradualism and comprehensiveness
2. Ownership
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Brief Background

1. Public Finance Management (PFM) problems uncovered by annual Public Expenditure Reviews (PERs) in the early 90s
2. PFM problems:
 - a. Incremental budget system
 - b. Lack of budget ownership
 - c. Lack of proper accounting , auditing, and reporting
 - d. Ineffective public expenditure monitoring and control
 - e. The budget lacked medium term outlook
 - f. Lack of broad based budgeting

Brief Background

2. PFM Problems (cont.):

- g. No linkage between recurrent and capital budget
- h. Lack of strategic planning
- i. Lack of accurate and timely financial information for decision making
- j. Weak compliance with financial regulations
- k. Personnel and payroll problems (phantom employees)
- l. Incomplete aid and debt management information
- m. Low level of human resource capacity

Brief Background

3. Earlier efforts to address the above problems were conducted in an **isolated, piecemeal** manner. These efforts were found to be **ad hoc, disjointed, incoherent, and incomprehensive**

4. Earlier initiatives:

1. Public Investment Program (PIP) to deal with issues affecting **capital budget**
2. Civil Service Reform Program
3. Integrated Personnel and Payroll Project (IPPD) to deal with **staff cost**

Brief Background

3. Earlier initiatives (cont.):
 4. Budget Improvement Working Group (BIWIG) to help implement the **broad based budget** concept, and
 5. Expenditure Tracking System (EXTRACON) to **monitor expenditures** in the Ministries, Departments, and Agencies (MDAs)
4. These efforts did not transform the government's financial management system and did not help to implement an **integrated system**

Brief Background

5. Instead the piecemeal approach led to each ministry adopting measures that sought its own solution to its problems leading to a **proliferation of accounting systems** introduced and funded by international donor agencies
6. Thus there was the need to develop an **all-embracing programme**, which would **link** all aspects of public financial management together

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Description of the Program

1. PUFMARP was thus conceived from this background by the GoG as more a **comprehensive** and **integrated** approach to resolving the above named problems.
2. PUFMARP was launched in July, 1995 at Akosombo by the then Minister of Finance with the full backing of the president of Ghana.
3. It was officially initiated in **1996** with the setting up of a secretariat and a Project Management Team (PMT). The program officially ended in **2002**

Description of the Program

4. The Government's strategy was to institute a **comprehensive** and **integrated** PFM program that will **unify** all aspects of public finance to overcome the problems of earlier attempts
5. PUFMARP was funded by GoG and **multi-bilateral donors** led by the **World Bank**. The other donors were:
 1. Overseas Development Administration (ODA, now **DFID**)
 2. The Canadian International Development Agency (**CIDA**)
 3. The European Union (**EU**)

Description of the Program

6. The ultimate objective of PUFMARP was to enhance the **efficiency, transparency** and **accountability** of financial management functions of government
7. Programme components:
 - a. Budget preparation (MTEF and BPEMS)
 - b. Budget implementation (BPEMS)
 - c. Financial accounting and reporting (BPEMS)
 - d. Cash Management (BPEMS)
 - e. Revenue Management

Description of the Program

8. Programme components (cont.):
 - f. Aid and Debt Management
 - g. Comprehensive Auditing
 - h. Procurement Reforms
 - i. Fiscal Decentralisation
 - j. Legal and Regulatory Framework
 - k. Integrated Personnel and Payroll Database
9. BPEMS, the core component of PUFMARF, is aimed at reforming the **budgeting** (preparation and implementation), **accounting** and **financial reporting** system, and to provide for a **computerised** platform to run the entire financial management system

Description of the Program

10. Five BPEMS modules have been designed to provide the above functions. The modules are
 1. Accounts Receivable (**AR**);
 2. Accounts Payable (**AP**);
 3. General Ledger (**GL**);
 4. Purchasing Ordering (**PO**); and
 5. Public Sector Budgeting (**PSB**)
11. MTEF which preceded the implementation of all the other components was designed with the overall objective to **improve the planning and budgeting of public expenditures** and thus contribute to strengthened fiscal policy formulation and implementation

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Ghana's Experience-Gradualism and comprehensiveness

1. The implementation of MTEF was initially planned for 3 pilot ministries (MoH, MoE, and MoRT) but was later extended to cover all 21 MDAs
2. However the MTEF process was implemented **gradually** and later **deepened** to introduce more complicated concepts (e.g. national goals, sectoral goals, outcomes)

Ghana's Experience-Ownership

1. PUFMARP was **managed** and **coordinated** by the PMT which consisted of well qualified Ghanaian professionals in relevant areas of public finance management recruited through international search.
2. The PMT were under the direct supervision of the PUFMARP **Steering Committee** which met monthly to provide the **policy guidance** and review the progress in design and implementation of the various components of PUFMARP

Ghana's Experience-Ownership

3. To show the **political will, ownership, and commitment** of GoG, the PUFMARP steering committee was headed by our **deputy Minister of Finance** and was composed of **chief directors** who are the civilian heads of all the key ministries and other government agencies
4. GoG counterparts (including myself) were seconded from MoF to take active part in the **design and implementation** of the project to enable **appropriate technology transfer** from the PMT and project consultants

Ghana's Experience-Ownership

5. A Central Implementation Team (CIT) drawn from relevant ministries was constituted to assist in the implementation of the various components
6. Budget committees were instituted in all MDAs as change drivers of the new budgeting system and with well defined responsibilities
7. Well **motivated** trainers were drawn from **within** the ministries and other government agencies. Similarly incentives were provided for government officials who participated in workshops

Ghana's Experience-Ownership

8. In terms of MTEF, training went down to the **district level** though the degree of permeation was rather limited
9. The preparation of the budget has been **decentralised to line ministries**. For example, **80%** of the 2006-2008 budget was captured from the other line ministries with only **20%** captured centrally at MoFEP
10. To prepare the minds of government officials and ensure **general acceptability** for the new coming change, **change management workshops** were held at various levels.

Ghana's Experience – donor coordination

11. Donor **coordination** among the sponsors was led by the **World Bank**
12. The donors had **less of an active role** in the day to day design of the process and left the Government to define the details of the approach
13. Donors were **active participants** of the **steering committee meetings** resulting in better flow of information and perhaps reduction in transaction cost (associated with stand alone PFM projects)

Ghana's Experience – donor coordination

14. However there was some level of **fragmentation** in donor support with donors working in **isolation** in different areas
15. Donor support was characterised by **large and complex IT projects** managed by project units, donor financed consultants, and seconded civil servants

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Achievements so far- MTEF

1. Since 1999 the MTEF has been fully operational in all MDAs. Even though it was initially planned for 3 pilot ministries, the process was later expanded to cover all 21 MDAs in the year due to the enthusiasm shown by all MDAs and also to prevent running a parallel budget
2. MTEF has been implemented in 25 District Assemblies to date
3. Deepening of the MTEF process is on-going and training has been institutionalised in GIMPA and School of Administration in University of Ghana

Achievements so far- MTEF

4. Technical guide and a user-manual prepared and later revised and consolidated into MTEF handbook
5. MTEF has also contributed to facilitate the integration of aid into the budget and to improve dialogue between GoG and donors

Achievements so far- BPEMS

6. Budget formulation:
 - a. The PSB module under the Oracle Financial Management System is currently completed
 - b. The 2006 – 2008 budget is being captured as a parallel system to the Activate software currently used to prepare the MTEF budget. The aim is to adopt the PSB Module to prepare the Budget from 2007 onwards

Achievements so far- BPEMS

7. Budget execution, cash management and reporting:

- a. BPEMS has been re-engineered with a **broad-based Chart of Accounts** in use by all MDAs countrywide
- b. In terms of on-line operations, set-ups for the entire **8 pilot MDAs** with **14 sites** and the **office of the president** are completed centrally even though the speed of the network is currently very slow

Achievements so far- BPEMS

8. Budget execution, cash management and reporting (cont.):

- c. Among the 8 pilot MDAs, **MoFEP and MoH** are currently running the system for their operations and the others will follow suit as soon as the network problems are addressed
- d. Interim measures implemented to address the delay in the online operations include
 - i. Commitment Control Systems
 - ii. Cash Management System
 - iii. Reporting using Budget Management System (BMS), Accounting System (ACCPAC) and National Expenditure Tracking System (NETS)

Achievements so far–Aid and Debt Mangt.

9. An application System, CSDRMS 2000+ is operational in the Ministry, Controller and Accountant General's Department and Bank of Ghana to handle all Aid and Debt of the Government
10. The Treasury functions of Aid and Debt Management are being strengthened
11. A standardised format for Reporting on Development Partners in-flows for project, programme and budget support has received broader cooperation and yielding a more comprehensive reporting.

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Challenges –gradualism and comprehensiveness

1. No proper **sequencing** of events. MTEF moved way ahead of the other components of PUFMARP. Till date BPEMS is not fully operational. BPEMS delay was a **potential threat** to the success of MTEF
2. The **IT** component of BPEMS was too **complicated** and was beyond the capacity of civil servants



Challenges –gradualism and comprehensiveness

3. The implementation of MTEF at the **district level is limited** and the objective of achieving **composite budgeting** at the district level is yet to be met. Till date only **25 districts** have prepared their budget in the current MTEF format

Challenges – ownership

4. Lack of **top level commitment** from some key stakeholders (e.g. CAGD) leading to consultants managing the program
5. The possibility of **reform fatigue** among those relatively few civil servants who have been involved in many different reforms, sometimes leads to faltering attendance at meetings and workshops
6. **Low participation** in training programmes due to non-payment of attendance allowances

Challenges – ownership

7. Limited **capacity to implement** reforms. Consultants often lead the implementation process so that the salary gap between these consultants and the less motivated civil servant works against project ownership and sustainability

Challenges – donor coordination

8. Since funding was provided **separately** by each donor, effective donor coordination and harmonisation was **difficult** to achieve
9. Donors were interested in achieving their project objectives only and in some occasions rushed to spend to prevent money returning to their government chest
 1. EU: inconsistencies between the new financial regulation passed and BPMS
 2. CIDA: Fiscal decentralisation was designed in isolation
10. GoG had no leverage on the use donor funds as disbursement of funds was subject to the **disbursement rules of each donor**

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Lessons –gradualism and comprehensiveness

1. It is useful to adopt the **gradualist approach** and ensure that reform extensively builds on **existing systems** and abstain from **over ambitious** projects (e.g. BPEMS). The lesson here is to embark on **parsimonious** PFM reform capable of satisfactorily addressing the PFM needs of the implementing country
2. Budget preparation process needs to be firmly **linked** to budget implementation, monitoring, reporting and evaluation to ensure that there is synergy in the implementation of all components

Lessons – ownership

3. Strong **leadership** is essential and **political will** should be amply demonstrated at all levels and at every stage. The high initial level of commitment of GoG at the highest level in part explains why the MTEF was very successful in its first year of implementation
4. MoF, its Ministers, the Chief Director and Director of Budget need to be at the forefront of the reform. The **commitment** and day to day involvement and leadership of the senior management of the Ministry of Finance is probably the greatest contributing factor in the success of the MTEF process in Ghana

Lessons – ownership

5. The involvement of **key stakeholders** in the design process ensured that the MTEF process met the needs of the Ghanaian situation and built on previous work. **The wheel was not re-invented**
6. Using **in house trainers** is useful in promoting general acceptance and ownership of reform. General acceptability can also be enhanced by creating the **awareness and desire for change** through **change management workshops** and increased **participation of civil society**

Lessons – ownership

7. A healthy relationship between the executing agency and the other governmental agencies is crucial in enhancing the success of a PFM reform
8. Effective **team building** and working relationships between Government and consultants is a necessary ingredient, as demonstrated by the team spirit and oneness of purpose of the CIT and consultants

Lessons – ownership

9. Being **flexible** and responding to people's reactions during implementation pays. The MoF responded to the **enthusiasm** shown by MDAs by extending activity costing to all MDAs even though it was initially planned for only 3 pilot MDAs. This prevented running **parallel budgets**
10. The experience and lessons of **previous reforms** needs to be built upon by involving those who were involved in earlier reforms

Lessons – ownership

11. There is the need to establish a **competent, effective, and creative** PMT which will use participatory mechanisms to ensure that country **ownership** of the program spreads to all stakeholders
12. There should be proper **links** among project components to ensure effective achievement of both sub project and overall program objectives
13. It is necessary to provide an **incentive program** to **motivate** and **retain** competent qualified staff to manage the system

Lessons - donor coordination

14. In such non-basket multi-donor programs, the country must build **capacity** to coordinate donor activities if it really wants to achieve program objectives
15. To ensure country **ownership**, donor policies and programs should be **aligned with existing country strategies and frameworks** (e.g. PRSPs, PRGF)
16. Choosing a strategic donor to lead the donors may be an effective way of resolving differences among donors on one hand and between donors and the partner country on the other

Lessons - donor coordination

17. Donors must be willing to take active part in donor-donor and donor-partner dialogue and to implement decisions on coordination taken jointly
18. Donors should be willing to subordinate their individual interests, concepts, and visibility to a joint approach to development



Lessons - donor coordination

19. Donors should assist and strengthen partner country **reporting and monitoring systems**, coordinate and simplify donor systems, and provide common financial reports

20. Donors should move towards increased **program or budget support** to ensure reduction in transaction costs, promote country ownership of policies and programmes, ensure pro-poor spending, and make aid much more predictable



**THANK YOU VERY MUCH
FOR YOUR ATTENTION**