PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC19932

Project Name	Ghana: Public Financial Management Reform and Improvement Project (P151447)
Region	AFRICA
Country	Ghana
Sector(s)	General public administration sector (100%)
Theme(s)	Public expenditure, financial management and procurement (100%)
Lending Instrument	Investment Project Financing
Project ID	P151447
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Implementing Agency	Ministry of Finance
Environmental Category	C-Not Required
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Concept Review Decision	

I. Introduction and Context

Country Context

1. Ghana, located on the western coast of Africa, has an estimated population of 25 million (2010 Census). Ghana has experienced rapid economic growth over the decade to 2011 (with the exception of 2009 which was impacted by the Global Fiscal Crisis), in part as a result of increased prices for its main exports (gold and cocoa) and the commencement of commercial oil production in 2011. This has resulted in substantial progress in reducing income poverty. However, as illustrated by Chart 1 (below), since 2011 growth has slowed dramatically, and this change has been associated with a growth in domestic and external balances and structural Budget deficits. Current account deficits have widened as the international prices of Ghana's major exports (by now including oil) have recently weakened significantly while import demand has remained strong. Devaluation of the Cedi has also contributed to strong domestic inflation. The government has recently adopted a strategy of fiscal stabilization and is continuing discussions with the IMF about a new program. If realized the program should support fiscal adjustment commencing in 2015.

2. As illustrated in chart 2, weak revenue growth accompanied with increased public expenditures has pushed the fiscal deficit higher (climbing to 12% of GDP in 2012 and 10.9% in 2013). The introduction of the Single Spine Salary structure caused a substantial and sustained increase in the cost of compensation of employees with little by way of productivity trade-off. This has been progressively implemented since 2011 (completed in 2014) and has destabilized the budget as MDAs have been progressively brought onto the scheme with back-pay to the Single Salary Spine (SSS) commencement date. Public debt has increased significantly over this period (due to climbing deficits) and exceeded 60% of GDP by 2014. As a result of the increasing wage bill, and increased debt servicing cost, expenditure grew rapidly from 19.6 percent of non-oil GDP in 2010 to an estimated 30 percent of non-oil GDP in 2014.

The impact of the implementation of the single spine salary system is clear from Chart 3, which illustrates that wages and salaries have nearly doubled as a percentage of GDP since 2002, with most of this growth occurring since 2010, and some tapering off in 2013. Interest payments have also grown significantly since 2011, with a resulting slight decline in capital expenditure, but slight increases (though oscillating) in other (operating) expenditure since 2009. This has placed and continues to place significant pressure on effective service delivery – indeed the low levels of goods and services expenditure make it difficult for many MDAs to deliver any services at all. This is exacerbated by poor budget discipline with high levels of unbudgeted expenditure (for political priorities, to cover arrears etc.) during the year, displacing already inadequate MDA goods and services budgets.

3. Current account deficits have also grown as the price of major exports (i.e. gold, oil and cocoa) has weakened and import demand has remained strong. The exchange rate has declined dramatically, fueling inflation and putting further pressure on the economy.

4. The inflationary impact of the Government's efforts to reign in the deficit and the declining exchange rate creates the risk of lower real incomes and could push many near-poor families into poverty. At the same time, the Government's liquidity difficulties have an impact on households, particularly the poor, through delays in the Livelihood Empowerment Against Poverty (LEAP) program cash transfers as well as delays in transfers from the District Assemblies Common Fund (DACF) to local government and Capitation Grants payments to basic schools.

5. Government has a significant role in ensuring that economic and social development follows a sustainable and positive trajectory. Despite recent advances in PFM reform, particularly through the GIFMIS Project, which is now being proposed to enter a second phase, significant weaknesses remain which impact macro-fiscal stability, as well as the ability of the authorities to reach their social and economic development goals. Current experience has shown that despite the strides made under GIFMIS to improve the PFM environment, the macro-fiscal situation has worsened. While it is true that GIFMIS was a tool to support the realization of policy, the fact that substantial sets of the tools have been put in place and the poor fiscal situation arose signals that these tools would not be sufficient by themselves to provide the full accomplishments of reforms, if not accompanied by strong and enduring policy design and implementation. For example, the introduction of the Single Spine Salary Structure (SSSS) was a policy decision that entailed increasing payroll costs and associated arrears; thus no financial management reform tools could counter the impact of such a policy especially that the policy was introduced before the inception of the GIFMIS. The implementation of the HRMIS was also not prioritized early enough at the time of

design of the SSSS. In effect, measures to address the credibility of the payroll and avert the potential of ‘ghost employees’ entering the payroll were absent until the GIFMIS initiated the introduction of the system, which is currently a work-in-progress. The impact of the SSSS was expected to be positive but current circumstances dictate that there were policy failures that were not conceived at the time of its introduction.

6. Nevertheless, the introduction of the GIFMIS was a welcome development since the failure of the Budget and Public Expenditure Management System (BPEMS) to provide positive PFM outcomes. The scenario suggests that a deliberate choice was made to first establish a foundation for sound fiscal management through the establishment of appropriate systems to monitor and control the budget. Under the GIFMIS, the establishment of: (a) a comprehensive budget preparation system and improved budget framework towards enhanced spending effectiveness and efficiency using PBB, (b) a budget execution system that laid the foundation for improved commitment monitoring and control, and (c) an accounting and reporting system that allows for timely recording and reporting of financial transactions as well as facilitate greater compliance with international standards, all served as focus activity areas with substantial measures of implementation success. Along with these, improvements registered in establishing a treasury single account (TSA) for reducing domestic borrowing and borrowing costs enhanced the efficiency in management of cash, amid liquidity constraints, in financing the budget.

7. To achieve visible outcomes that can be directly linked to improvements in the fiscal situation of the country, there is the need to consolidate on the work started in the GIFMIS and expand the scope for more comprehensive coverage of public finances.

8. In March 2014 the GOG released a final draft of the GSGDAII – national development plan for the period 2014 – 2017. The document is designed to provide a consistent set of development policy objectives and strategies to guide the preparation and implementation of medium-term and annual development plans and budgets at sector and district levels. From a PFM perspective, the most relevant sections of the document are Key Focus Areas 2 and 3. In total, 19 separate strategies are promoted by the GSGDAII within these focus areas, laying a sound foundation for PFM reform. The MoF is currently preparing a PFM Reform Strategy (due to be completed in September 2014), which should further articulate, prioritize and sequence these strategies.

Sectoral and Institutional Context

9. GOG is organized in a relatively complex manner. Central government comprises of 33 MDAs with national responsibility for the delivery of services. Also focused on service delivery, a number of statutory funds exist, which draw resources (by way of grants or subvention payments) from the central government as well as from internally generated funds (IGFs), and operate autonomously within a mandate spelled out in their respective enabling legislation. The statutory funds constitute about 13% of public finances while Internally Generated Funds and Donor Funds constitute, respectively 9% and 12%. Together, these are significant (34%) public funds that do not directly fall within the operational control of the Ministry of Finance, like the consolidated/treasury funds.

10. At a region/district/community level, the Local Government Act defines an autonomous system of local government authorities, which is overseen by elected District Assemblies. These organizations enjoy statutory independence and have a legislated mandate to collect revenues within their district, and to provide a wide range of services to the population. District Assemblies (DAs)

are obliged to operate in a manner consistent with the achievement of policy objectives stated in the GSGDA. There is significant overlap between the objectives of the District assemblies (and therefore the MMDAs – the local service delivery partners of MDAs) and national level MDAs. Financially, DAs are highly dependent on central government for resourcing. A large part of the district finances are funded through the national budget. That is: operating grants are made to DAs; much of the staffing of the local bureaucracy (MMDAs) is funded directly through the national budget (through the Ministry of Local Government and Rural Development); funding for specific services (e.g. schools, community health centers etc.) is provided directly through the budget of the relevant MDAs (albeit with appropriate earmarking); and Capital funding is provided through a statutory fund (District Assemblies Common Fund - DACF). The Local Government Act implies a less direct financial relationship between central and local government than these arrangements suggest.

11. PFM processes (ranging from strategic planning to ex-post financial reporting) are at varying stages of development. Key areas are described below.

- National Strategic Planning – the GoG has a strong record in maintaining a national development strategy. The Ghana Strategic Growth and Development Agenda (GSGDA) has recently been revised to set the strategic context for the next four years. GSGDA is a comprehensive document covering all Government sectors. It is not particularly strategic in that it provides only very rudimentary prioritization of initiatives and is not effectively sequenced. It does however provide a benchmark for the adoption of new budget initiatives – if the initiative is not supported by GSGDA, it will not be successful in the budget. The lead agency for developing the GSGDA is the NDPC, which reports to the President. The NDPC is a capable organization and effectively promotes the GSGDA.

- Sector Strategic Planning - The national planning process requires sectors to prepare strategies that are consistent with the GSGDA. However, sectors are not well defined and in some cases these are prepared by a sector working groups (comprising more than one MDA) and in others they are prepared by individual MDAs. In most cases they are not completed at all well. Unlike the GSGDA that is strongly supported by the NDPC, there is no central agency that is accountable for effective sector strategic planning. Most of the key central agencies recognize Sector strategies as an input to their processes (e.g. the budget process for MoF, manpower planning for CSC), but none take responsibility for quality assurance or capacity development in relation to Strategic plans. This is a significant systemic weakness as it should be Sector Strategies that ensure national priorities are resourced through the budget.

- Determining the resource envelope - At a macro level this is undertaken by the MoF in order to provide top-down guidance to the budget process. MoF continues to build its capacity for this task and takes a very consultative approach to forecasting by involving GRA, BOG, and a range of MoF units covering external resource (donor funding) management, debt management, etc.. At the micro level, MDAs prepare medium term forward estimates of expenditure. MDAs have not been effective in preparing these estimates (and have received little real guidance in this regard from MoF) with the result that these do not provide a reliable bottom up guide to resource allocation through the budget.

- Revenue Management – significant work has been undertaken to modernize taxation administration, including: the creation of a consolidated Ghana Revenue Agency, the upgrading of systems and processes, reforming arrangements for and accounting of non-tax revenue, and, through the GIFMIS program, efforts are on-going to interface revenue management systems with the central finance system.

• Budget Formulation – The introduction of a budget preparation module during 2014 facilitated the production of the 2015 budget and greatly reduced the time taken to load the approved budget to the general ledger system (GIFMIS) for budget execution control. However, budget credibility is an on-going issue because: (i) revenue estimates are often too optimistic; and (ii) expenditure estimates are lower than is achievable – often because the process is not sufficiently disciplined to ensure all costs are included in the budget. The Budget Department of MoF is aware of these issues and has an on-going program of organizational, systems and process reforms underway (including the implementation of the Hyperion budget preparation module last year). This includes continued effort to extend the implementation of Program based budgeting to MDAs (and perhaps ultimately to MMDAs), and proposals to reorganize the department to reflect a stronger budget policy advice role for the Department (rather than its current strong focus on managing the detail of budget execution). The MoF has accepted that the budget Department should be principally engaged in budget formulation and CAGD should be principally engaged in budget execution processes. It remains to be seen if the Budget Department is ultimately prepared to vacate its role in execution. Nevertheless the introduction of, consolidation on and fine-tuning of the budget framework through PBB will help to enhance effectiveness and efficiency in budget spending by MDAs.

• Cash Management – the GoG has established arrangements for improved cash management by establishing a Cash Management Committee and related Working Committee to enhance forecasting and strategic management of the overall cash position. This initiative has increased the Governments understanding of cash-flows but, due to structural deficiencies in the warrant control in budget implementation processes, has been unable to improve the position of Government and assure improved predictability in resource flows to service delivery agencies. Work is continuing on the extension of a Treasury Single Account, which has successfully been established and has already helped to link all GoG bank accounts held with the Bank of Ghana (BoG). This has enabled the Government to reduce some short-term borrowing and achieve worthwhile savings in domestic debt servicing costs.

• Strengthening of transparency and accountability controls - significant advances have been made in the transparency of the annual budget, including the presentation of program based estimates and performance targets by MDAs, increasing the scope of budget and budget reporting to include additional entities, aid programs, and internally generated funds that are retained by MDAs; and substantial improvements in annual financial reporting and in-year reporting of budget execution. MDAs now have the capacity to produce useful budget execution reports in-house for management purposes. Ghana Audit Services is undergoing capacity development and the Internal Audit Service has been restructured to be increasingly relevant is supporting the strengthening of internal management of MDAs. Significant progress has been made in fiscal decentralization – including the preparation of a composite budget to improve budget coverage of the general government sector.

• Increasing national network connectivity through the e-Ghana project - allowing increasing use of electronic platforms across government (e.g. electronic government procurement, HRMIS, GIFMIS, etc.).

• GIFMIS – This project has been largely successful in implementing a comprehensive IT platform for the management of financial resources. This includes: general ledger, ‘procure to payment’ module (P2P), budget preparation module; cash management module; accounts payable module; accounts receivable module; assets management module. These are all provided through the Oracle ERP platform, ensuring strong integration. A common chart of accounts has been implemented to drive this system. As at date, all 250 MDA spending units are judiciously using the system to execute their consolidated fund budgets from the requisition stage, all the way to final payment. To the extent of the consolidated fund, monitoring and control of expenditure arrears (intransparent financing of the budget that has contributed significantly to the current fiscal crunch) is in place. All MDAs have fully migrated to a PBB framework, and the Hyperion budget module is being used to prepare the national budget, thus liking the budget with execution on an integrated platform.

• Various policy reform programs have been undertaken (some still continuing) to address key resource management weaknesses in PFM. These include: wage & payroll management, including the implementation of the HRMIS and cleansing of the payroll; the on-going implementation of program based budgeting; determination of a public debt strategy; the establishment of a public investment management program; and the development of policy to cover Public Private Partnerships.

12. Most of these remain work-in-progress. While substantial achievements are evident, significant work remains to be done on most before sustainable improvements to the PFM system can be claimed. The government is currently preparing an overarching PFM reform strategy to guide future reforms. With this in mind, the donor-financed consultancy team, which prepared the 2012 PEFA assessment, was asked to also provide guidance for the preparation of a reform strategy. The resulting guidance recommended that the immediate strategic priorities should be aimed at improvement of: controls and monitoring to avoid future expenditure arrears ; the horizon and reliability of information on funds available to MDAs for implementing their annual action plans; transparency and reliability in the fiscal transfers between central and sub-national government that will allow MMDAs to reliably plan and execute their annual plans; and quality and comprehensiveness of budget execution reports available to both central budget managers and the Parliament.

13. These, with the possible inclusion of an objective to obtain budgetary control of the wages bill and consolidation of reforms delivered under current and recently closed projects that would lose momentum if not continued, would appear a sensible starting point for a PFM Reform Strategy. The GoG produced an interim PFM Reform Strategy in December 2014 and is in the process of finalizing the Strategy.

Relationship to CAS

14. The rationale for the proposed PFM Reform and Improvement project is consistent with and aligned to the Ghana Shared Growth and development Agenda II (GSGDA II) – 2014-2017, which seeks to promote, as one of its key pillars, transparent and accountable governance in Ghana. To this end, the Agenda focuses on strategic interventions including, in the areas of: strengthening public sector management and oversight; establishment of reliable public service HRMIS; implementation of PFM reforms through implementation and enforcement of laws to enhance transparency and accountability.

15. The World Bank's Country Partnership Strategy (CPS) for Ghana (2013-2017) is also closely aligned to the Government's Agenda and has, as its first pillar, the improvement of economic management through 'improving budget institutions' and 'strengthening public financial management and governance'. The CPS output under the pillar, aligned to the expected outcomes under the proposed project, focuses on pillar one outcome area – 'strengthening public financial management and improve e-governance', and will support GOG to reduce the risk of fiscal volatility and improve public expenditure and investment management, as well as strengthen the governance and performance of providers of key basic services. The proposed economic governance project is equally aligned to the foundational pillar of the World Bank's Strategy for Africa: 'governance and public sector'.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

16. The project development objective (PDO) is 'to improve fiscal policy management, financial control and reporting'. The project will contribute to enhancing fiscal discipline, strategic allocation of resources, and service delivery efficiency through strengthened systems and procedures and targeted capacity building.

Key Results (From PCN)

17. In order to achieve the PDO, the Project will support the implementation of priority reform actions identified in the GOG approved PFM Reform Strategy (to be completed by the Government by Q1 2015). It will aim to:

- establish tangible improvements in budget credibility, coverage, and realism through improvements in macro-fiscal planning and forecasting, budget compilation and comprehensiveness;
- strengthen revenue reporting as a basis for improved fiscal management;
- support improvement in internal and external controls and accountability processes in expenditure management to address issues impacting aggregate fiscal discipline and thus enhance service delivery;
- strengthen the capacity of the decentralized service delivery arm of government (MMDAs) to plan and account for the resources transferred to them; and
- support the overall governance and management platform for coordinating and monitoring the implementation of not only the proposed PFM reform and consolidation project, but the PFM reform strategy as a whole.

18. Key results indicators to measure outcomes in the areas as identified above are as follows:

(i) Budget Credibility
- Average expenditure outturn compared to original approved budget (PEFA PI-1): This indicator provides an assessment, at an aggregate level, of how closely the final expenditure is to the estimate in the budget. This provides a measure of the effectiveness of forecasting and planning and of aggregate budget discipline/credibility.
- Average revenue outturn compared to original approved budget (PEFA PI-3): This indicator provides an assessment of how accurate, aggregate revenues are forecast by comparing the forecast to the revenue outturn for that year. It provides a measure of the effectiveness of macro-economic

forecasting performance.

• Expenditure arrears compared to total expenditure (PEFA PI-4): This indicator measures the extent of in-transparent financing of the budget through obligations that remain unliquidated at the close of a fiscal period.

(ii) Financial Control and Accountability

• Effectiveness of payroll controls (PEFA PI-18): This indicator is a composite measure based on: (i) the degree of integration and reconciliation between personnel records and payroll data; (ii) the timeliness of changes to personnel records and the payroll; (iii) effectiveness of internal controls of changes to personnel records and the payroll; and (iv) use of payroll audits to identify control weaknesses and /or ghost workers. This indicator should be positively impacted by activities relating to the HRMIS.

• Transparency, competition, and complaints mechanism in procurement (PEFA PI-19): This indicator measures the (i) transparency, comprehensiveness and competition in the legal and regulatory framework; (ii) use of competitive procurement methods; (iii) public access to complete, reliable and timely procurement information; and (iv) existence of an independent administrative procurement complaints system.

• Effectiveness of Internal Audit (PEFA PI-21): This indicator provides a measure of the coverage of IA activity, the frequency and distribution of IA reports, and the extent of management responsiveness to IA recommendations

(iii) Core Project Indicator

• Direct project beneficiaries (of which % female)

19. Project Beneficiaries: The beneficiaries of the Project will include: the Ministry of Finance (Comptroller and Accountant General's Department, Budget Division, External Economic Management Division, Economic Research and Forecasting Division); Internal Audit Agency and Units in MDAs; Ghana Revenue Authority; Ghana Audit Service; Public Procurement Authority and procuring officials in MDAs; MDAs and MMDAs. In addition, the Project will benefit the non-state actors in executing their demand-side oversight responsibilities in the area of PFM.

III. Preliminary Description

Concept Description

20. The Bank's PFM engagement in Ghana focuses on strengthening the institutions and re-enforcing accountability and fiscal management for better aggregate fiscal discipline and improved service delivery. The rationale for strengthening institutions and systems is that they are a necessary condition for effectively implementing the government's macro-fiscal and socio-economic policies. The GIFMIS project, which has focused on financial management systems and frameworks, has closed on December 31, 2014. This proposed project seeks to consolidate the reforms started under GIFMIS as well as broaden the focus in support of implementation of priority activities as contained in the GoG Interim PFM Reform Strategy.

21. The preliminary description of the proposed project, as outlined below, provides a basis for supporting the set of reform actions required in the public financial management and related cross-cutting policy areas in Ghana. This is consistent with the government-led PFM reform agenda,

which will be finalized by end February, 2015. Based on the interim strategy developed by the GoG and the results of the Bank identification mission in December 2014 during which the Government provided a list of its PFM Reform priorities, the description of the proposed project was developed. The authorities have undertaken to prepare a “consultation” draft of a strategy by end-February, 2015, taking into cognizance the salient comments from development partners on the interim strategy.

22. The proposed project will be designed to (i) address the pre-requisites for sustained reform across the PFM system; (ii) ensure momentum gained through the GIFMIS project is maintained and the next phase of development of the broader system is completed effectively; and (iii) broaden the reform process beyond the areas addressed by the GIFMIS program. In relation to (iii), the government’s PFM reform strategy (once it is formally approved) will be supported by the project, based on selective priorities and taking cognizance of the division of labor between development partners. The financial design of the proposed project will recognize existing and planned interventions of various development partners, and the government itself, across the spectrum of PFM and seek to complement these within a well sequenced framework.

23. The proposed project would be implemented through three components over a four-year period, at an estimated total cost of about US$45 million. Since each of the components will contribute to more than one of the project outcomes, and there will be interdependencies between components (for instance, a strengthened IFMIS will contribute to improved budget planning and management by the MoF as well as to improved transparency and accountability), these linkages will be taken into account in project management and the monitoring and evaluation (M&E) framework for the project.

Component 1: Enhancing Budget Credibility (US$ 6.8 million)

24. The objective of this component is to improve the credibility of the national budget.

25. The key challenge for GoG over the next few years will be to dramatically improve budget credibility. Lack of budget discipline and consequent lack of transparency and credibility mean that the budget is not a good guide to the real intentions of fiscal policy. Most observers, analysts, as well as budget administrators and managers, see this as the most critical area needing improvement. Failure in this area spills over to nearly all aspects of fiscal management. Th e unreliability of the initial budget appropriations leads to poor cash forecasting and cash and debt management and undermines efforts made to establish PBB. Equally it weakens the potential for a better predictability of resource flows to service delivery agencies against their annual programs of work. Importantly, also, is the matter of fiscal risks to the budget arising from SoEs and other autonomous government agencies. Strengthening the monitoring of these enterprises and agencies and assessing the exposure of the government’s budget to the contingent liabilities explicit and implicit – of these entities will be critical area of support under the component.

26. Medium term expenditure commitments are currently not consistent with forecasts of resource availability. Wage and salary payments comprise an unsustainably high percentage of the overall budget and these crowd-out other important expenditures that support economic growth, diversification and service delivery. This suggests that significant budget restructuring is necessary to provide an enabling environment that facilitates effective policy implementation.

27. Taken in isolation, IT systems will have little impact. Policy, legal frameworks, procedures (including procedural manuals), discipline, human capacity and, most importantly, incentives must all be aligned in order to produce sustained reform. The GIFMIS follow-on project, given its limited available resources, will focus on those activities that: complete the development and roll-out of the various system components; create improved linkages between these systems and other PFM systems; and provide support to the government's own efforts to reform policies, procedures and human capacity. The proposed project will, of course, need to complement the intended programs of GoG and other DPs, and avoid duplication with these.

28. The GoG has in place a fiscal decentralization and composite budgeting project, led jointly by MoF and Ministry of Local Government and Rural Development. The project design will seek to identify areas in which this project can be supported and reinforced, particularly through the roll-out of GIFMIS functionality to MMDAs. As decentralization is a complex reform, it should be designed to align authority, responsibility and accountability within MMDAs and provide incentives for effective revenue mobilization, resource management and service delivery. At this point in the reform process, it would be useful to conduct a review of the process and how well it is meeting the principles listed above. This review could provide assurance that current activities are appropriately targeted and indeed provide guidance for the on-going reform process.

Sub-component 1.1: Strengthening budgetary and macro-fiscal planning and forecasting

29. The objective of the sub-component is to ensure the GoG has comprehensive and accurate forecast data on all aspects of the budget upon which to base budget decisions.

30. The project will provide resources to finance technical assistance, capacity building consultancies, and training, in the implementation of the following core activities:

- Revenue and expenditure forecasting – building on current developments to improve the accuracy of multi-year forecasts and integrate these more closely with the development of budget strategy;
- The development and implementation of a more robust system of MDA forward expenditure estimates – in conjunction with PBB reform;
- Public investment planning and appraisal – strengthening processes to ensure effective evaluation and whole-of-Government prioritization of projects before they enter the budget process (including ensuring that funding priority is given to the completion of existing projects);
- Sector strategies & costing – enhancing the policy base for budgeting by ensuring that sector strategies are well developed, consistent with national priorities, and resource limitations. This may include support for training and capacity building, and further development of Hyperion to support this process;

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Sub-Component 1.2: Strengthening budget framework and formulation

31. The objective of the sub-component is to support GoG sustain reform measures designed to close the gap between Budgeted and Actual expenditure through strengthening the budget process and framework for the national budget.

32. Under this sub-component, the following activity areas will be supported through technical assistance, consultancies, capacity building, software licenses for systems roll-out, computer hardware.

- PBB: supporting the on-going implementation of program based budgeting and enhancing the management of programs and sub-programs. This will include:
  - change management and capacity development for: MDA senior management and program/ sub-program managers; budget department analysts; line ministers and the Cabinet - each of which will perform different roles in a program based budgeting system;
  - ongoing review and improvement of program structures and the relevance of performance indicators and targets; and
  - progressively moving to appropriation and management of the budget onto a program basis;
  - further development of Hyperion input screens to allow direct input of program and sub-program budgets;
- implementing a more aggregated budget classification to accommodate the strategic focus of PBB and simplify the warrant release process;
- ongoing work to extend the coverage of the budget to all central and sub-national government agencies (including MMDAs, SFs).

Sub-Component 1.3: Fiscal risk management and reporting

33. The objective of the sub-component is to establish an early identification and mitigation of factors that represent a potential risk to the budget out-turn.

34. The following activity areas shall be financed, through technical assistance consultancies, capacity building, provision of hardware and monitoring software where required.

- Review and revise financial Legislation and Regulations to ensure legislation clearly provides authority and procedural guidance which is consistent with good practice and current reforms (e.g. program based budget);
- Support (including TA) to MoF to strengthen its framework for identifying, analyzing and treating fiscal risks as part of its budget strategy; including:
  - Review of Fiscal Decentralization/Composite Budget objectives, and how well these are currently being met – review should provide some focus on how best to balance the efficiency of centralized budgeting and accounting with the autonomous status of MMDAs;
  - SOE monitoring and reporting – particularly as it enables early identification of contingent risk.

Component 2: Strengthening Financial Control and Accountability (US$34.5 million)

35. The objective of this component is ‘to contribute to the more effective operation of control, accountability and internal oversight mechanisms’.

36. A significant focus of this component is on completing the implementation of significant elements of the first GIFMIS project. This includes the completion of rollout of various modules to MDAs and MMDAs, broadening the coverage of general government entities, and strengthening the linkages between GIFMIS and other PFM systems. Achieving control outcomes would require the strengthening of the capacity of the internal auditors as well as changing their orientation more towards systems/risk based audits. Building the competencies of external auditors too in carrying out audits of the IFMIS systems will be critical to reinforcing assurances in the accountability process. Reviews of business processes and elimination of redundant processes, while strengthening the controls around them, will also be focus areas under the component.. In addition,

the component will build upon the implementation of the Hyperion budget module, extend MDA accessibility to the budget preparation module, and link this module to systems that provide essential input to budget planning and strategy, as well as extend and consolidate the progress made on PBB reforms.

37. A key to budget credibility is the reliability of expenditure warrants as an indicator of cash availability. The warrant process needs to be more closely connected to cash forecasting and aligned, timely, with available cash during a particular reference period. Also essential is closer interfacing of procurement activities with the GIFMIS commitment controls.

38. The component has three sub-components as follows:

Sub-component 2.1: Strengthening financial management systems, controls, accounting and reporting

39. The objective of this sub-component is to support effective and efficient service delivery through clear procedures, controls, accounting and timely and relevant reporting.

40. Key activities to be financed under this sub-component, through procurement of hardware and software licenses, implementation services including consultancies, capacity building, ICT connectivity and infrastructure development, include:

• Review of the budget release and warrant process to: more closely align warrant approvals with cash forecasts (to assure cash releases for warranted expenditures); and improve the efficiency and timeliness of the process for improved predictability of resource flows to spending units;
• Financial management systems, controls, accounting and reporting, including:
- expanding the functionality and completing the rollout of GIFMIS (i.e. extending GIFMIS connectivity to the MMDAs in the regions, including for P2P implementation) and thus expand the scope of systems-based commitment control across government finances beyond the MDAs;
- consolidating accounting and reporting reforms, including update of the accounting manual, financial regulations, and the chart of accounts and budget classification.
• Build on the on-going development of internal audit activities (including moving from the current prepayment audit focus to ex-post auditing, focusing on risks and systemic issues).
• Procurement of hardware and software, implementation services, for setting-up the disaster recovery and business continuity center.
• Refurbishment of primary data center.
• Implementation of Phases 2 and 3 of the HRMIS as well as completing the implementation of the remaining aspects of Phase 1 HRMIS started during GIFMIS project.
• Roll-out of the Hyperion budget module to all 33 MDAs for budget preparation.

Sub-component 2.2: Cash and debt management

41. The objective of this sub-component is to strengthen the management of cash and debt with a view to minimizing net interest cost and ensuring cash is available to meet commitments and obligations for service delivery (thereby reducing arrears).

42. This sub-component will finance technical assistance and other consultancy services as well as capacity building under the following activity areas:

- Strengthen the management of cash and debt through GIFMIS reporting;
- Technical Assistance to assist the Government to improve its liquidity management and the predictability of budget releases to MDAs, MMDAs and statutory funds.
- Implementation of electronic bank reconciliation for the main treasury account as well as the sub-consolidated fund accounts;
- Continue work to broaden the coverage of the TSA.

Sub-component 2.3: Enhancing interface with Key PFM systems and processes

43. The objective of this sub-component is to ensure both human and technical interfaces between Budget and financial management and other key PFM systems and processes are optimized.

44. Activities covered under this sub-component, with the aim of establishing/strengthening linkages between key PFM systems, and to be financed through provision of technical infrastructure, capacity building, consultancy services, and ICT equipment and software include:

- Direct linkage of Hyperion Budget Module with Oracle Financials and HRMIS;
- Interfacing revenue systems (TRIPS for tax management, e-Monitor for non-tax receipts, GCMS for customs revenue management) with Oracle Financials;
- Integrating HR systems (HRMIS) with and payroll – the latter to be fed solely from the former;
- Interfacing e-procurement systems (funded outside the proposed project) with Oracle Financials; and
- Using Computer Aided Audit Techniques and other data generation and analysis modes (GAS and Internal Audit) to draw data from Oracle Financials/HRMIS/and Payroll to conduct ICT-based audits.

45. These activities will build on achievements of the GIFMIS project and/or compliment projects being undertaken by the GoG and development partners.

Component 3: PFM reform coordination and project management (US$3.7 million)

46. The objective of this component is to establish and maintain a central coordination function in the monitoring of the governance arrangements under the PFM reform strategy as well as for implementation of the proposed project. The component will be implemented under three sub-components.

Sub-component 3.1: Project Management & Reform Coordination

47. The objective of this sub-component is to provide excellent leadership and management of the overall reform program and to ensure the specific project objectives are met on time, on quality, and on budget.

48. Key activities to be implemented under the sub-component through technical assistance consultancies, operational expenses in program and project coordination and management, procurement of goods, specialized training, and non-consulting services include:

• Priority emphasis on:
o The creation of a sense of urgency for PFM reform. It is essential that MDAs and MMDAs realize and acknowledge that they have a big problem, and that change will be needed to address it. This will require engagement at the highest level, as well as with key stakeholders at various levels of the bureaucracy.
o Once that sense of urgency exists, it will be necessary to move to the collective identification of critical problems that MDAs / MMDAs have with current PFM policies and practices; this will require the intensive use of data, and a participative approach in a series of workshops / seminars
o The reforms that are contemplated will then need to be tailored in order to help address these specific issues in MDAs and MMDAS. This would be used as the platform to bring relevant changes to their practices, as well as a sense of ownership of the reforms. Barring this, the chance of the reforms actually being implemented by MDAs and MMDAs is very low.

• Provision of leadership of the project to ensure that all component managers and all stakeholders are fully aware of the objectives of the project and the interventions that it delivers.
• Oversee planning (including component work plans) of the project to ensure plans are consistent with the GSGDA and the GOG PFM Strategy and the Project’s Appraisal Document as well as the project cost table.
• Detailed day to day monitoring and evaluation of the project at all levels and provision of quarterly progress reports on project implementation.

Sub-component 3.2: PFM Strategy Monitoring, Evaluation And Communication

49. The objective of this sub-component is to enhance PFM reform program performance through effective monitoring and quality feedback to the Program institutional coordination mechanism and stakeholders.

50. Activities to be supported under the sub-component with funding for sensitization and awareness, technical assistance consultancies include:

• Preparation of a robust monitoring and evaluation strategy and overseeing its implementation, including ensuring that appropriate data is available from each intervention in support of the overall PFM reform strategy.
• Supply of regular (half-yearly) progress reports on implementation of the PFM reform strategy. Prepare and routinely update a communications and change management strategy that compliments each intervention under the strategy.

Sub-Component 3.3: Project Financial Management and Procurement

51. The objective of this sub-component is to establish and maintain the fiduciary aspects of project implementation with enhanced accountability measures to ensure that project funds are used for eligible expenditures and procurements are conducted in a fair, transparent and competitive manner.

52. Support under the sub-component will include consultancy services for procurement activities (particularly in defining technical specifications), basic hardware and software goods. The

key activities to be supported include:

• Management of all aspects of project financial management using GIFMIS as the primary accounting and reporting tool.
• Preparation of monthly financial reports for project management, quarterly interim financial reports for management and for submission to the Bank, and annual financial statements for audit within three months of year end.
• Setting standards, procedures and identifying the tools for procurement of goods and services under the project.
• Preparation and maintenance of a procurement plan for all project activities.
• Quality-assurance of all procurement transactions to ensure they meet the defined standards for integrity, equity and value for money, consistent with the Bank's guidelines.
• Incremental cost of project audit, including specialized audits - performance/procurement.

53. Project design will identify the management/governance structure for the project. Consideration will be given to: transitioning key positions from the management/governance structure of the GIFMIS project; ensuring the use of Government Systems to the greatest extent possible, including the use of GIFMIS for project accounting and reporting, and government's own governance framework for the PFM Reform Strategy.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		✕	
Natural Habitats OP/BP 4.04		✕	
Forests OP/BP 4.36		✕	
Pest Management OP 4.09		✕	
Physical Cultural Resources OP/BP 4.11		✕	
Indigenous Peoples OP/BP 4.10		✕	
Involuntary Resettlement OP/BP 4.12		✕	
Safety of Dams OP/BP 4.37		✕	
Projects on International Waterways OP/BP 7.50		✕	
Projects in Disputed Areas OP/BP 7.60		✕	

V. Financing (in USD Million)

Total Project Cost:	45.00	Total Bank Financing:	45.00
Financing Gap:	0.00		

Financing Source	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	45.00
Total	45.00

VI. Contact point

World Bank

Contact: Ismaila B. Ceesay
Title: Lead Financial Management Spec
Tel: 5359+295
Email: iceesay@worldbank.org

Borrower/Client/Recipient

Name: Government of Ghana
Contact:
Title:
Tel:
Email:

Implementing Agencies

Name: Ministry of Finance
Contact: Major M. S. Tara (Rtd)
Title: Chief Director
Tel: 233302665132
Email: chiefdirector@mof.gov.gh

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop

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