

IN THE THIRD SESSION OF THE SIXTH PARLIAMENT OF THE FOURTH REPUBLIC OF
GHANA

REPORT OF THE FINANCE COMMITTEE

ON

**THE FINANCING AGREEMENT BETWEEN THE GOVERNMENT OF
THE REPUBLIC OF GHANA AND THE INTERNATIONAL
DEVELOPMENT ASSOCIATION (IDA) FOR AN AMOUNT
EQUIVALENT TO THIRTY-TWO MILLION, SEVEN HUNDRED
THOUSAND SPECIAL DRAWING RIGHTS
[(SDR32,700,000.00)(USD\$45 MILLION EQUIVALENT)] TO
SUPPORT THE PUBLIC FINANCIAL MANAGEMENT REFORM
PROJECT.**

July 2015

PARLIAMENT OF GHANA LIBRARY
PARLIAMENT HOUSE
OSU - ACCRA

**REPORT OF THE FINANCE COMMITTEE ON THE FINANCING AGREEMENT
BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA AND THE
INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) FOR AN AMOUNT OF
EQUIVALENT TO THIRTY-TWO, MILLION, SEVEN HUNDRED THOUSAND
SPECIAL DRAWING RIGHTS [(SDR 32,700,000.00) (USD\$45 MILLION
EQUIVALENT)] TO SUPPORT THE PUBLIC FINANCIAL MANAGEMENT
REFORM PROJECT**

1.0 INTRODUCTION

The request for approval of the Financing Agreement between the Government of the Republic of Ghana and the International Development Association (IDA) for an amount equivalent to Thirty-two, Million, Seven Hundred Thousand Special Drawing Rights [(SDR 32,700,000.00) (USD\$45 Million equivalent)] to support the Public Financial Management Reform Project was presented to the House by the Hon. Minister of Finance Mr. Seth Emmanuel Terkper, on Thursday 9th July, 2015 in accordance with Article 181 of the 1992 Constitution. The Rt. Hon. Speaker referred the request to the Finance Committee for consideration and report in accordance with Order 169 of the Standing Orders of the House.

The Committee was assisted at its deliberations by the Hon. Minister for Finance, Mr. Seth Emmanuel Terkper and His Deputy, Mr. Cassiel Ato Baah Forson, and officials from the Ministry of Finance.

The Committee is grateful to the Hon. Minister, his Deputy and officials for the cooperation and assistance received during the deliberations.

2.0 REFERENCE

The Committee referred to the following additional documents during its deliberations:

- The 1992 Constitution of Ghana;
- The Standing Orders of the Parliament of Ghana; and
- Loans Act 1970 (Act 335)

3.0 BACKGROUND

The Government of Ghana (GoG) has over the years implemented varied forms of reforms to streamline its financial management systems. The first comprehensive Public Financial Management Reform Program (PUMARP) was implemented during the period 1997-2003. The ultimate objective was to enhance efficiency, transparency and accountability of financial management functions of government. The program components involved the Medium Term Expenditure Framework (MTEF); Financial Accounting and Reporting, Legal and Regulatory framework, Revenue Management, Aid and Debt Management, comprehensive Auditing, Procurement reforms, Fiscal Decentralization, Integrated Personnel and Payroll Database and Budget and Public Expenditure Management System (BPEMS).

Planning Reforms were also debuted during 2006-2009 with the introduction of Integrated Short and Medium Term Action Plans (ST/MTAP), following the release of the Ghana Shared Growth and Development Agenda (GSGDA I)

There were some successes recorded under the reforms. Prominent amongst them, was the Legal and Regulatory Framework which helped with the promulgation of the following financial laws: Financial Administration Act (FAA) 2003, Act 654; the Financial Administration Regulations (FAR) 2004; and Public Procurement Act, 2003. The recent

Ghana Revenue Authority Act, 2009, Act 791 also brought all the three Revenue Agencies (IRS, CEPS and VAT) under one umbrella. Another important success was the establishment of a payroll processing and personnel management database for MDAs.

In spite of these successes, there were some significant limitations to the reform that did not help achieve the overarching objective of controlling the budget management challenges. The scope of the PFM reform programme was overly ambitious, encompassing changes to PFM practices across MDAs, beyond the consolidated fund, and mixing process overhauls with changes in IT systems. Also, fiscal transfers were neither transparent, nor predictable, and lacked a fully-fledged and credible PFM improvement programme at the decentralized level. The reform also encountered strong resistance to change, particularly from MDAs and MMDAs. In the end, it did not meet its key objectives either of renovating core budgeting and accounting systems; or of changing budget commitment and execution behaviors in line ministries. However, government was able to learn valuable lessons from this experience, which informed the approach taken in the subsequent phase of reform especially with the implementation of the Ghana Integrated Financial Management Information System (GIFMIS) project.

4.0 OBJECTIVES OF PROPOSED PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT (PFMRP)

The PFMRP being funded by the World Bank seeks to implement key elements of the new PFM Reform Strategy. Implementation of the project will closely be coordinated with the measures adopted by Government under the IMF program as well as the proposed budget support operation of the World Bank and other development partners.

The objective of the project is to improve budget 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.

5.0 TERMS OF THE FACILITY

The terms of the credit facility as follows:

Loan Amount	:	SDR 32.7 million (US\$45 million)
Repayment Period	:	20 years
Grace Period	:	5 years
Maturity Period	:	25 years
Interest Rate	:	1.25% p.a
Maximum Commitment Charge	:	0.5% of 1% p.a. on unwithdrawn balance
Service Charge	:	0.75% of 1% p.a. on withdrawn balance
Closing Date	:	June 2019
Grant Element	:	38.75%

6.0 PROJECT COMPONENTS:

The project has four main components and related sub-components, as elaborated below:

Component 1: Enhancing Budget Credibility

Component 1 seeks to improve budget management and strengthen the credibility of the national budget by among others:

- a. Strengthening budgetary planning and macro-fiscal management through, inter alia: (i) firming up the engagement of Cabinet in the budget process and designing a charter to establish budget principles, roles and responsibilities; (ii) designing a budget framework paper for obtaining approval of medium-term fiscal forecasts; (iii) building the capacity of national government institutions to develop sector strategies and sector medium-term development plans; (iv) strengthening linkages between fiscal forecasting and analysis and budget formulation and execution; and (v) building forecasting and debt management capacities of relevant government units.

- b. Strengthening public investment management capacity through (i) building the capacity of relevant government units in evaluating and prioritizing investment projects, (ii) improving the coordination of public investment management with the budget process; and (iii) reviewing the functionality of the public investment management system.
- c. Improving fiscal risk management and reporting through developing a standard fiscal risk statement and a system for monitoring fiscal risks; and (ii) identifying a government unit, and building its capacity, to perform risk analysis and develop a risk mitigation policy.

Component 2: Public Financial Management Systems and Control

This component will support the development and implementation of the public financial management systems and control, such as:

- a) Strengthening the government information systems for public financial management;
- b) Improving cash and treasury management through;
- c) Strengthening internal audit at the national and local levels.
- d) Improving public procurement planning, management and capacity;
- e) Strengthening payroll and pensions management,
- f) Improving financial reporting and asset management through building the capacity of relevant government institutions on financial reporting and implementation of the international public sector accounting standards; and (ii) establishing and implementing policy guidelines on the management, control and reporting of public assets.

Component 3: Reinforcing Financial Oversight and Accountability

Activities under this component will enhance external audit capacity and legislative oversight on budget management by strengthening the financial oversight role of the Ghana Audit Service to carry out comprehensive performance and systems based audits. It will also look at enhancing the capacity systems of Parliament to exercise oversight on public financial management processes.

Component 4: Public Financial Management Reform Coordination and Change Management

This component will support activities to provide a continuing institutional and coordination basis for the oversight of public financial management reforms as well as provide support for Project management, coordination, monitoring and evaluation.

7.0 OBSERVATIONS

Justification for Government Action

Justifying government actions and the importance of the Facility, the Deputy Minister of Finance indicated that notwithstanding Government programmes aimed at strengthening PFM in the Country, significant institutional, policy and systems and process weaknesses continue to manifest themselves, thus limiting the impact of reforms already implemented. According to the Deputy Minister, these issues have been identified through the articulation of lessons learned so far during GIFMIS implementation, the directions embedded in the Government's medium term Public Financial Management Reform Strategy (PFMRS) (2015-2018), and through a project preparation workshop where the stakeholders outlined the key problems that have led the country into an unsustainable fiscal path.

The Deputy Minister added that the PFMR Project is in line with GoG's overall goal of improving the budget management, financial control and reporting of the Government of Ghana. The Project, the Deputy Minister further indicated will contribute to enhance fiscal discipline, strategic allocation of resources and service delivery efficiency, through strengthened systems and procedures and targeted capacity building.

He also stated that in spite of the achievements, the procurement system still has a number of weaknesses and bottlenecks, which is hoped to be addressed under this project. The Deputy Minister cited the lack of integration of the procurement planning tool with the Hyperion Budget Planning Tool and ultimate interface with the GFMIS as one of the major weaknesses of procurement planning. It was emphasised that the project will improve public procurement planning, management and capacity through the enhancement of online procurement planning tool; integration of the e-procurement system with the

GIFMIS; establishing a database for the unit cost of infrastructure; establishing functional procurement units, building the capacity of private sector stakeholders on bidding processes; and establishing a framework for procurement audits.

The Committee was also informed that the project is in line with government's commitment of addressing the payroll challenges. It was stated that a number of measures have been developed into strengthening payroll and pension's management through supporting the implementation of the payroll cleaning plan and conducting payroll and personnel verification audits which needs to be maintained and reinforced.

Further, Financial Reporting and Asset Management have always been a challenge and the project will help improve financial reporting and asset management through building the capacity of relevant government institutions on financial reporting and implementation of the international public sector accounting standards; establishing and implementing policy guidelines on the management, control and reporting of public assets.

The Deputy Minister concluded by indicating that there was the need to reinforce financial oversight and accountability and this he explained would be achieved by enhancing the external audit capacity as well as building the capacity and systems of Parliament specifically, the Public Accounts and Finance Committees to enable them exercise oversight on PFM process.

Institutional and Implementation Arrangement

The Committee noted that the Ministry of Finance shall be responsible for the overall strategic coordination and oversight of the Project. The overall institutional and implementation arrangement is detailed below:

i. PFM Steering Committee

A PFM Steering Committee, chaired by the Minister responsible for Finance, shall be maintained throughout the implementation of the Project and shall meet at least three

times in a fiscal year. The Steering Committee shall provide strategic guidance and oversight to ensure prompt and efficient implementation of the Project.

ii. PFM Technical Committee

The PFM Technical Committee will be a sub-committee of the Steering Committee with the responsibility of reviewing, evaluating and providing recommendations on technical issues related to Project implementation.

iii. PFM Coordination Unit

The PFM Coordination Unit operating under the Chief Director of MoF shall be responsible for coordinating and consolidating all projects under the PFM Reform Strategy, including: (a) confirming Project goals and objectives; (b) monitoring resources and annual work plans and projects; (c) reviewing progress reports; (d) supporting the resolution of implementation issues.

iv. Project Management Unit

A Project Management Unit shall be established to be responsible for the day-to-day administration of overall planning, coordination, the technical and fiduciary (i.e. procurement and financial management) compliance, monitoring, evaluation, reporting and communication of the activities under the Project.

Expected Outcomes

The following were highlighted as some of the expected outcomes of the project:

- (a) Greater budget discipline will be exercised by all key stakeholders in the budget process.
- (b) Sector medium term strategy plans will be comprehensively costed to provide a sound input for the development of annual budget ceilings that are more closely related to the Government's policy objectives, and consistent with available fiscal space.
- (c) An orderly process exists for ensuring that all projects submitted for funding through the budget are appropriately prepared. This will impact favorably on budget credibility and avoidance of 'throw-forward' instances for projects that remain uncompleted year upon year.

(d) Fiscal risk monitoring will become institutionalized as an established part of the budget process. This will both strengthen the authority of the responsible entity and demonstrate the commitment of the Government to comprehensive management of fiscal risks.

(e) Coverage and usage of the integrated Budgeting and financial modules of the GIFMIS will improve.

(f) Control of warrant release within expected cash receipts over the forecast period to avoid over-commitment and, combined with progressive improvement in cash flow forecasting.

(g) Accumulation of arrears will be limited signaling that spending plans must be adjusted.

(h) A comprehensive TSA to reduce borrowing requirements and costs is established.


8.0 CONCLUSION AND RECOMEMDATION

The Committee after a careful examination of the facility recommends to the House to adopt its report and approve by resolution, the request for approval of the Financing Agreement between the Government of the Republic of Ghana and the International Development Association (IDA) for an amount of equivalent to Thirty-two, Million, Seven Hundred Thousand Special Drawing Rights [(SDR 32,700,000.00) (USD\$45 Million equivalent)] to support the Public Financial Management Reform Project in accordance with Article 181 of the 1992 Constitution, Section 7 of the Loans Act, 1970 (Act 335) and Order 169 of the Standing Orders of the Parliament of Ghana.

Respectfully Submitted.



**HON. JAMES KLUTSE AVEDZI
(CHAIRMAN, FINANCE COMMITTEE)**



**ROSEMARY ARTHUR SARKODIE (MRS)
(CLERK, FINANCE COMMITTEE)**

July, 2015

