

**DEVELOPING GHANA'S AID POLICY**

**BY THE**

**MINISTER OF STATE  
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**ON THE OCCASION OF THE**

**CONSULTATIVE GROUP ANNUAL PARTNERSHIP MEETING**

**IN**

**ACCRA, GHANA**

**30 JUNE, 2008.**



**Colleague Ministers and Members of Parliament,**

**Excellencies, Members of the Diplomatic Corp,**

**Development Partners,**

**Distinguished Ladies and Gentlemen**

1. It gives me great pleasure to address you on this occasion. This meeting is indeed very important, in view of our current stage of development and considering the fact that we are at a point in time where an aid policy is critical to guide our engagements with Development Partners.

## **Background**

2. Ghana like other developing countries relies on external aid for budgetary support as well as capital projects. Over the last two decades, external aid has constituted an important source of financing for Ghana and will continue to play a vital role in the medium to long term horizon. In recent years, external aid has averaged below 30% of the total annual government budgetary resources though it has served as the major financing anchor for our infrastructure development. It has also provided critical support for the

balance of payments and budgetary support financing which to a large extent has contributed significantly to sound macroeconomic management and stability in Ghana.

3. Furthermore, external aid has been a vital source of funding for local and international Non-Governmental Organizations (NGOs), and civil society organizations (CSOs) in Ghana. The activities of these groups have aided the poor and vulnerable groups in our society. These activities have been complementary to Governments efforts to reduce poverty.

4. The aid inflow is highly volatile showing a seasonality effect (especially in election year when DPs adopt a wait-and-see approach to aid delivery).

5. As you already know, after the successful implementation of the Enhanced HIPC and MDRI debt reliefs, debt level reduced significantly, creating more fiscal space and sovereign credit rating improved. Coupled with the large financing gap, Ghana took advantage of the situation and made a maiden appearance on the international capital market to raise a benchmark

Eurobond of US\$750 million which was over subscribed by about 300%. In addition, our successes in the oil and gas explorations are likely to enhance and improve our revenue outlook in the immediate future.

### **Rationale for Aid Policy**

6. Though external aid plays a significant role in the Ghanaian economy, it has been fairly unpredictable and/or not delivered effectively and efficiently. External aid has also not been properly coordinated and in most cases is supply-driven.

7. Recently, several attempts at both national and international levels have been made to make aid delivery more effective. At the national level, initiatives such as the G-HAP, G-JAS, MDBS and some SWAPs have been taken where we have chalked significant successes. International conventions and declarations, such as the Paris Declaration and the pending Accra Agenda

for Action (Triple As) are all geared towards improving aid effectiveness. Prior to endorsing the Paris Declaration in March 2005, Ghana had gone ahead to sign a Memorandum of Understanding on aid harmonization in February 2005.

8. We believe that to make aid delivery more effective and be able to negotiate for better aid allocation, we need to develop good policies and procedures, strong human and institutional capacity within a sound legal environment to enhance its impact on growth and poverty reduction.

9. Notwithstanding Ghana's positive expectation on its financial stance in the medium term, external aid will continue to play a crucial role for us especially in pursuit of the goal of middle income status by 2015. This and other developmental goals are compelling us to diversify our sources of financing and also improve on its delivery. Given this background, we hope to reduce the dependence on aid while stepping up domestic revenue mobilization and also attract more private capital inflows through good governance and prudent macroeconomic management in the long term.

## **Objectives of the Aid Policy**

10. The overall objective of the aid policy is to ensure that external aid assistance programmes are geared to support Government's objective of attaining a middle income status by 2015.

11. In this regard, the aid policy will define clearer structures for dialogue between Government and her Development Partners, preferred modalities and forms of external aid to ensure that aid is aligned with country priorities. The policy aims to modify aid for capacity development and also define the internal aid management policies and procedures in order to improve aid management and strengthen ownership of aid supported programmes in the country.

## **Guiding Principles**

12. In developing the aid policy, Government would be guided by the following core values and principles among others:

13. *Country ownership* will be the bedrock of the aid policy which will spell out the sourcing, utilization, monitoring and management of external aid in Ghana. In this regard, it is envisaged that Government will take the onus to set out national development priorities and strengthen capacity in aid management and drive Development Partners' assistance in this direction.

14. *Alignment of Aid:* External aid should be aligned with government's development priorities and country systems. Harmonization of DP procedures should be subsidiary to Alignment.

15. *Predictability and Flexibility:* You will all agree with me, that short term aid commitments are not effective tools for delivering long term development programmes. We would, therefore, prefer that commitments are provided over a medium to long term basis, to synchronize with the Medium Term Expenditure Framework (MTEF), to ensure strategic planning and effective delivery of results. The policy will propose measures for DPs to be able to adjust to emerging priorities and short term shocks by providing flexibility in our engagements.

16. *Mutual Accountability and Shared Responsibilities:* Mutual accountability will underpin interaction with Development Partners and enhance participation of local stakeholders in aid management. We believe when we are all transparent in all aspects of our engagement, committed to meeting targets and reporting standards, and share the outcome of engagements, it will facilitate effective aid delivery.

17. *Reduce Aid Dependency:* Our long term objective is to ultimately reduce our dependency on aid. While Government recognizes the role of external aid in advancing Ghana's national development, it is also cognizant of the need to reduce dependence on aid in the medium-to-long-term. Government will therefore, endeavour to intensify its efforts to improve on domestic revenue mobilization and attract private international resources through trade and investment.

## **Key Policy Areas**

18. Following from the core values and principles indicated, Government's key policy areas will include the following:

*a. Alignment with Ghana's development priorities*

By 2009, the GPRS II will roll into the National Development Plan (NDP), which will be the primary reference document for dialogue with DPs. The NDP will also guide the development of comprehensive sector strategies by MDAs.

*b. Preferred aid modalities*

External aid in Ghana is channelled through general (MDBS), sector and project support as well as vertical and pooled funds. We also have funds channelled through NGOs and civil societies.

Government's preferred aid modality is unearmarked general budget support and to a limited extent, sector budget support defined within the sector-wide

approach. Project aid will be limited to specific circumstances, in particular to infrastructure operations that are capital intensive.

*c. Use of country systems*

Government will also intensify the ongoing improvements in the country systems which will require assistance from Development Partners, both in terms of resources and technical know-how. We believe it is through the use of country systems that we can all build a robust system that can achieve desired results, ensure greater accountability and broad based participation that will enhance good practices.

*d. Technical assistance and capacity development*

About 30% of external aid is provided through Technical Assistance. TA has been largely supply-driven, highly uncoordinated and fragmented, in many instances, duplicated and unsustainable. Government's core objective is to ensure that technical assistance becomes demand-driven, reflecting government priorities and structured in way to ensure sustainability as well as value-for-money.

*e. Management for development results*

Despite existence of G-JAS and G-HAP, there is lack of harmonisation of M&E leading to multiple reporting requirements that over-stretch the PPMEDs. These systems are parallel to government systems. Ghana's aid policy will ensure that the National Monitoring and Evaluation (M&E) system developed by the NDPC shall be the primary system for results monitoring on development priorities, at the central, sectoral and regional levels.

*f. Coordination and management of aid within government and with DPS*

Coordination of aid in terms of sourcing, monitoring, management and reporting, is somewhat fragmented within GOG and with DPs. There are also 15 sector working groups and unspecified number of thematic working groups. To resolve the issues on aid management and reporting related problems, the aid policy will define clearly the institution (MOFEP) constitutionally mandated to source and manage external aid and will coordinate all external aid while strengthening inter and intra coordination.

In addition, an Annual Policy Review Meeting will replace the various review processes as the central mechanism for Government and Development Partner

consultations. This will be preceded by semi-annual sectoral reviews, which will feed into the Annual Policy Review Meeting.

g. Mutual accountability and shared responsibilities

There is significant asymmetry in the accountability of external assistance in Ghana. GOG is accountable to DPs through numerous reporting arrangements. However, no formal mechanism exists to ensure DPs are also accountable in terms of meeting their agreed obligations. Government and DPs will have to commit to share development outcomes governed by the principle of mutual accountability and shared responsibilities. This will be led by GOG, and we believe it is by this that both parties can be passionate and deeply committed to achieve results.

## **Conclusion**

19. In conclusion, I strongly believe I have given you some key elements and issues that we intend to showcase in our aid policy. Several follow up actions and decisions to be taken include:

- The analysis needed to define benchmarks and targets for the key policy areas;
- Detailed implementation plan for the improvement of systems and procedures;
- Coordination mechanisms and institutional re-arrangements;
- Mechanisms for mutual accountability, including the independent assessment of GoG and DP performance;
- Development of detailed implementation strategy and plan.

20. Also crucial to the finalization of the aid policy will be consultations with relevant stakeholders. At this juncture, may I request your Excellencies, to let our deliberations reflect the aspirations expressed above.

21. Thank you all.