

**BUDGET SUPPORT, AID INSTRUMENTS AND THE  
ENVIRONMENT: THE COUNTRY CONTEXT**

**GHANA COUNTRY CASE STUDY**

**FINAL REPORT**

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## List of Abbreviations

CEA	Country Environmental Assessment
CF	Consolidated Fund
CSOs	Civil Society Organisations
DFID	Department for International Development of the UK
EC	European Commission
EIA	Environmental Impact Assessment
EPA	Environmental Protection Agency
FC	Forestry Commission
GESS	Ghana Environment Sector Study
GOG	Government of Ghana
GPRS I	Ghana Poverty Reduction Strategy
GPRS II	Growth and Poverty Reduction Strategy
HIPC	Highly Indebted Poor Countries facility
IGFs	Internally Generated Funds
M&E	Monitoring and Evaluation
MC	Minerals Commission
MDAs	Ministries, Department and Agencies
MDF	Mineral Development Fund
MDBS	Multi-Donor Budget Support
MES	Ministry of Environment and Science
MoFEP	Ministry of Finance and Economic Planning
MLGRDE	Ministry of Local Government, Rural Development and Environment
MLF	Ministry of Lands and Forestry
MLFM	Ministry of Lands, Forestry and Mines
MTEF	Medium Term Expenditure Framework
NCEIA	The Netherlands Commission for Environmental Impact Assessment
NEAP	National Environmental Action Plan
NEF	National Environmental Fund
NGOs	Non-Governmental Organisations
PRSP	Poverty Reduction Strategy Plan
RNE	Royal Netherlands Embassy
SAA	Subvented Agencies Act
SNV	Netherlands Development Organisation
UNEP	United Nations Environmental Programme
WB	World Bank

## Summary and recommendations

### *National Environmental Policy issues*

1. National environmental policy is formulated by several ministries and agencies that each hold an environmental remit. Evolving national policy intent can then be usefully followed through the government's annual Budget Statements. These statements capture the dynamic nature of policy. They also provide an insight into government's immediate policy intentions (and priority actions), and are subject to some measure of parliamentary oversight and debate.

### *National institutional issues*

2. Environmental agencies were set multiple mandates in the 1992 Constitution. There is a case for reforming these mandates that would see the separation of function and define more clearly who should be responsible for the following aspects of environmental governance: policy development, regulation, management and revenue collection. At present, all four functions are statutory requirements of each of the subvented agencies that deal with environmental issues (the Forestry Commission, Minerals Commission and Environmental Protection Agency).
3. Weaknesses in strategic planning have allowed these overlapping mandates to continue unchallenged; this situation has been exacerbated by recent changes in ministerial portfolios for the environment and natural resources.
4. The National Development Planning Commission (NDPC) also holds an important environmental remit, which potentially offers it a role in coordinating national environmental actions and mainstreaming environmental issues across government. Through its leadership position in overseeing the implementation of the national poverty reduction strategy, the NDPC is well placed to promote a developmentally appropriate environmental reform agenda. The NDPC could play an important supportive role in any evolving environment sector programme.

### *National funding issues*

5. Fragmentation of the budget is a serious issue for all the environmental agencies. It has led to a lack of transparency in terms of the total financial envelope within which agencies have to operate. Donor-funded development projects that are off-budget are also poorly visible.
6. Accountability of public expenditure needs to be further strengthened as part of national public finance management reforms. The use of special funds by subvented agencies, including the National Environmental Fund and the Mineral Development Fund, needs to be made more transparent, perhaps by providing information on their intended use at the time when the budget is placed before Parliament.
7. There are serious inconsistencies in financial reporting across government, with discrepancies between the Ministry of Finance and Economic Planning, the sector ministries and the environmental subvented agencies. The quality of financial administration and auditing of accounts needs to improve.
8. Continuing project support to environmental agencies acts as a relatively easy alternative to normal budget funding; this limits the incentive for these agencies to make their case during the annual budget round. The strong presence of project

support from UN agencies is a complicating factor, because UN systems tend to make it difficult to bring these projects on-budget.

9. The apparent increasing reliance on Internally Generated Funds by state regulatory agencies appears to be a relatively high-risk funding strategy. For those activities where a public regulatory function is undertaken it might be expected that the main source of funding should be government's Consolidated Fund.
10. There is a need to re-examine the financial model of subvented agencies for the three environmental agencies. The institutional origin of these environmental agencies can be traced back to government departments that relied solely on the Consolidated Fund. The creation of semi-autonomous government agencies was a part of the government reform programme of the mid-1990s. Agencies were allowed to create their own Internally Generated Funds – as part of the so-called 'service culture'. All three environmental agencies now rely more and more on IGF, particularly as donor project funding ceases. This may create an internal incentive for each institution to focus on those service activities that can generate revenue. There is the danger that non-revenue earning parts of their environmental remit (including activities that are intended to have an effect on poverty reduction) will attract less and less resources during the agencies' budget planning. The Subvented Agencies Act of 2006 may provide the catalyst for such a review.

#### *The role of Development Partners*

11. The low priority given by government to environmental issues vis-à-vis the social service sectors continues to be a major impediment which sector budget support may be able to address. However, there is a risk that it may also perpetuate the marginalisation of environmental issues in government's strategic decision-making, because it will allow government monies to continue to be allocated to non-environmental priorities.
12. The Performance Assessment Framework within the MDBS arrangement has evolved strongly over the three years of its use, bringing together Development Partners (DPs) and government. There have been considerable changes in policy objectives and progress indicators and how it will further evolve is uncertain. However, environmental policy objectives are now established within the PAF, offering an important opportunity to mainstream environmental issues at the centre of government.
13. The emergence of an environmental sector working group as part of the MDBS arrangement, with strong in-country leadership and analytical work involving multiple DPs, has clearly strengthened the harmonization of DP's actions on the environment in Ghana. Government involvement has been less apparent; incentives for participation might include the holding of periodic meetings that focus specifically on strategic issues of common interest.

# 1. Introduction

## 1.1 Aims of the study

### 1.1.1 Background

The provision of aid through budget support is becoming increasingly important to a number of development agencies, primarily because it can offer significant country ownership of the development process. Budget support has been defined as 'financial aid which is provided in support of a government policy and expenditure programme, spent using national (or sub national) financial management, procurement and accountability systems' (DFID, 2006).

The OECD Joint-Donor Evaluation of General Budget Support suggested that environmental considerations have fared worse than other cross-cutting issues such as gender (IDD and Associates, 2006). There are clearly still challenges in integrating environmental priorities into national planning processes, and the report highlighted that a) even where environmental issues have been raised in a PRSP, there is little or no follow-up by donors during budget discussions and/or b) the financial support provided to tackle the issues is small/non-existent.

As a result of the OECD evaluation, DFID, in collaboration with the Poverty Environment Partnership (PEP), recently commissioned a literature review of evidence on links between the environment and budget support and aid instruments (ODI, 2006). This highlighted the relative paucity of information on what is actually happening in country in relation to budget dialogue, budget support agreements and national environmental actions.

### 1.1.2 Purpose of the study

The purpose of this study is to analyse and document experience in transferring environmental priorities from national plans to budgets, and through into government implementation plans. In addition, the study will identify how donors can facilitate and support such processes within the context of increasing budget support and the use of other aid instruments. The study is being carried out in four countries, of which this report is the Ghana country case study.

The primary audiences are government officials in the respective countries and their environment/natural resources counterparts in donor agencies. A secondary audience are non-environment specialists involved in the development of budget support arrangements.

### 1.1.3 Approach of the study

Given the short time and logistical constraints in carrying out this study, research was limited to those ministries and agencies that have oversight responsibility for the environment as well as for managing the national budget. Interviews were conducted with officials from the following ministries and agencies:

- Ministry of Finance and Economic Planning
- Ministry of Lands, Forestry and Mines
- Ministry of Local Government, Rural Development and Environment
- Environmental Protection Agency (EPA)
- Minerals Commission (MC)
- Forestry Commission (FC)
- National Development Planning Commission (NDPC)

There have been a number of recent re-alignments or re-designations of the ministries concerned, which have also affected the various agencies. Until January 2001, Mines and Energy was one Ministry. However, following the change of Government in that year, Mines was separated and made an independent ministry. Then in 2005, Mines was annexed to the Ministry of Lands and Forestry to become the Ministry of Lands, Forestry and Mines. Similarly, Environment was part of the Ministry designated as Ministry of Environment, Science and Technology, until the Environment sector was transferred to the Ministry of Local Government and Rural Development in 2006 to become the Ministry of Local Government, Rural Development and Environment. These recent changes have led to a loss of focus, with key posts and individuals not being replaced and key documentation being misplaced or lost.

## **1.2 Public sector involvement in the environment**

### **1.2.1 Environmental Protection Agency (EPA) Act 490 of 1994**

Environmental management issues took centre stage in Ghana when the Environmental Protection Council (EPC) was established on 23<sup>rd</sup> January 1974 by National Redemption Council Decree (NRCD) 239. The Creation of the EPC brought together for the first time under one national body all activities and efforts aimed at protecting and improving the quality of Ghana's environment. The functions of the EPC, as stipulated in the Decree, included the co-ordination of all environmental matters in the country; being responsible for creating public awareness on the collective and individual responsibilities in the management, enhancement and protection of the environment; and, to serve as the official national body for co-operating and liaising with local and international organizations on the environment.

The EPA Act, Act 490 that was passed in December 1994 replaced the EPC. The essential difference between the EPC of 1974 and the EPA of 1994 is that while the EPC was an advisory body, the EPA has far-reaching, multiple statutory functions and responsibilities, listed in Sections 2 of the Act. These include:

- *Policy development:* 'to advise the Minister on the formulation of policies on all aspects of the environment and in particular make recommendations for the protection of the environment', sub-paragraph (a);
- *Environmental regulation:* 'to prescribe standards and guidelines relating to the pollution of air, water, land and other forms of environmental pollution including the discharge of wastes and the control of toxic substances', sub-paragraph (h);
- *Environmental management:* 'to promote effective planning in the management of the environment', sub-paragraph (n);
- *Revenue collection:* 'to impose and collect environmental protection levies in accordance with this Act or regulations made under this Act', sub-paragraph (q).

To strengthen the Agency to carry out the above functions, Executive Instrument Number 9 of 1999 was passed empowering the EPA to prosecute offenders in Court without having to pass through the Ministry of Justice and Attorney-General, where delays are prevalent. The EPA was further empowered to perform its functions with the passage of the Environmental Impact Assessment Regulations of 1999 (Legislative Instrument 1652 of 1999).

### 1.2.2 The Minerals Commission Act 450 of 1993

Article 269 of the 1992 Constitution (Box 1) directed that parliament should pass into law various natural resources commissions, including the Minerals and Forestry Commissions. The rationale behind this Constitutional obligation on Parliament was to ensure the smooth, efficient and transparent management of the natural resources of Ghana. Consequently, the Minerals Commission Act 450 was passed in 1993. Section 2(1) of Act 450 stipulates that:

'The Commission shall be responsible for the regulation and management of the utilization of the mineral resources of Ghana and the co-ordination of the policies in relation to them'.

#### **Box 1. Protecting Natural Resources – a constitutional issue**

The approach taken by government concerning environmental governance and management was prescribed in the 1992 Constitution. Under section 269 of the Constitution, the creation of Commissions to oversee policy coordination, regulation and management of the country's natural resources was defined. It is this combination of potentially conflicting mandates within single institutions that may be at the root of the problem concerning the country's environmental governance.

*Section 269 of the 1992 Constitution states that:*

'(1) Subject to the provisions of this Constitution, Parliament shall, by or under an Act of Parliament, provide for the establishment, within six months after Parliament first meets after the coming into force of this Constitution, of a Minerals Commission, a Forestry Commission, Fisheries Commission and such other Commissions as Parliament may determine, which shall be responsible for the regulation and management of the utilization of the natural resources concerned and the co-ordination of the policies in relation to them.

(2) Notwithstanding article 268 of this Constitution, Parliament may, upon the recommendation of any of the Commissions established by virtue of clause (1) of this article, and upon such conditions as Parliament may prescribe, authorise any other agency of government to approve the grant of rights, concessions or contract in respect of the exploitation of any mineral, water or other natural resource of Ghana.'

### 1.2.3 Forestry Commission Act 571 of 1999

The Forestry Commission is also a Constitutional body established by Article 269 of the 1992 Constitution. As the Constitution requires, an Act of Parliament was passed within six months of Parliament's first sitting in 1993 as Act 453. This Act was repealed in 1999 and the Forestry Commission was re-established under Act 571 of 1999. The purpose of the change of Act 453 was 'in order to bring under the Commission the main public bodies and agencies implementing the function of protection, development, management and regulation of forest and wildlife resources and to provide for related matters'. Section 2(1) of Act 571, explicitly states that the object and functions of the Commission will include:

'the regulation of the utilization of forest and wildlife resources, the conservation and management of those resources and the co-ordination of policies related to them'.

#### 1.2.4 National Development Planning Commission Act 479 of 1994

The National Development Planning Commission (NDPC) is also a constitutional body having been provided for in the 1992 Constitution under Article 86. Parliament subsequently passed the NDPC Act 479 to expand and give full effect to the Constitutional provisions concerning the NDPC's advisory role on national development policies and strategies. This mandate was provided under Act 479 and in the National Planning Systems Act 480 of 1994 that set government's direction on decentralised planning.

Act 479 states in Section 2 that the NDPC should 'make proposals for the protection for the natural and physical environment with a view to ensuring government strategies and programmes are in conformity with sound environmental principles'. The NDPC has since been the focal point for the preparation and co-ordination of the Ghana Poverty Reduction Strategy (GPRS I) and the subsequent Growth and Poverty Reduction Strategy II (GPRS II).

Although environmental considerations were present in GPRS I, subsequent criticism of the Strategy suggested that environmental issues needed to be mainstreamed more explicitly throughout the national plan. The use of strategic environmental assessment was therefore promoted by the NDPC and the EPA (with support from Development Partners) as the means to bring in environmental issues during the preparation of GPRS II. The NDPC has also issued planning guidelines<sup>1</sup> for the MDAs and District Assemblies to prepare medium-term development plans under the policy framework. These guidelines include a 'Sustainability Test' that examines the impact of the proposed programmes.

### 1.3 Government planning and the national budget cycle

#### 1.3.1 Medium-term development plans

Medium-term development plans are now being prepared for the first time by MDAs, which will include costed activities. In the absence of such a planning framework, all the MDAs were previously brought together on an annual basis. The NDPC would state government policy priorities derived from the GPRS II and the MDAs would then translate these policies into programmes and costed actions using the MTEF process to inform the national budget. Guidelines for the preparation of the 2007-2009 Budget Statement and Economic Policy of May 2006 (MoFEP) included the statement that 'Issues on HIV/Aids, *Environment*, Gender and Employment have been treated as cross-cutting and should necessarily be treated as priorities for all MDAs'. To facilitate that these priorities are integrated into the budget preparation a checklist has been recently prepared by MoFEP: 'Checklist for the validation of MDA draft estimates'.

#### 1.3.2 The national budget cycle

Budget preparation for the MDAs is an annual exercise involving a number of well defined steps. The Budget process involves senior officials in all the MDAs, the Cabinet and the President, and finally Parliament.

##### *Budget proposals*

Budgeting begins with the preparation of budget proposals by the MDAs taking into account their functions, both statutory and administrative, their priorities for the year or the period, and their proposed outputs. The Departments and Agencies through their Heads and accounting and budget staff submit budget proposals to the Section Minister or Ministry. A

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<sup>1</sup> NDPC Guidelines for the preparation of the sector medium-term development plan under the GPRS II 2006 – 2009.

meeting is then held between the Heads of Departments and Agencies with the relevant Minister(s) and the Chief Director and Accountant for the Ministry. They discuss their policy objectives vis-a-vis the budget allocations and reconcile figures, thereby preparing a good case for the budget hearing at the Ministry of Finance.

#### *Budget hearings*

The Ministry of Finance schedules each Ministry with its Agencies and Departments to appear before the Minister and his/her Director of Budget to discuss the MDA's Budget proposals. A dialogue takes place between these two groups until a consensus of some sort is arrived at. At this stage the Ministry of Finance makes known to the MDA the amount of money available to the Sector (*the ceiling*) and advises them to go back and re-prioritize their spending plans so as to be within the ceiling. The MDAs then re-examine the priorities for the year, having regard for other national objectives and reduce their budget proposals accordingly. At the end of the budget hearings the Minister of Finance presents the draft Budget to Cabinet, where it is considered by the President and the Minister's colleagues and provisionally approved.

#### *Budget statement before Parliament*

After Cabinet has approved the budget the Minister of Finance links with the Minister of Parliamentary Affairs and the Speaker, and a date is fixed for the Budget Statement to be read in parliament. This takes the form of a motion by the Minister of Finance, and at the end of the reading the House is invited to approve the Budget estimates. After the Finance Minister's Statement in Parliament, a full debate on the budget then ensues. The policies and figures contained in the budget are debated upon and this normally lasts for up to two weeks so that many MPs can contribute to the debate. During the presentation by the Minister of Finance and the subsequent debate by Parliament it is expected that all Sector Ministers, their Chief Directors and Heads of Department and Agencies are in the Chamber to take note of concerns raised by the Members of Parliament. One principle is that Parliament can reduce but not increase the MDA's budget allocations. At the end of the debate Parliament then takes a vote to approve the allocation of resources to the MDAs.

#### *Budget release*

After Parliament has approved the budget, the next step is for the MoFEP to release the sums of money as allocated to the various MDAs in the Budget. This is not a straightforward process. The Finance Minister may reduce the budget of MDAs under various circumstances, sometimes referred to as Budget Constraints. This happens when projected revenues fall short or some national event (i.e. disaster or crisis) takes place requiring huge financial commitments.

The MoFEP may also introduce quarterly ceilings or even monthly ceilings; meaning that MDAs - irrespective of their budget allocation – receive only amounts determined by the MoFEP on a quarterly or monthly basis despite any proposed timing of the budgeted activities. When this happens many projects have to be abandoned and service activities curtailed. Worst still, it is not uncommon that by the 3<sup>rd</sup> quarter of the year the MoFEP freezes all further budgetary releases except personal emoluments. It is in this context that proposals for budgetary support earmarked for environmental public actions will have to function.

## 2. Analysis of public spending on the environment

### 2.1 The nature of public spending

Acquiring an accurate picture of government's spending on the environment is a challenge. Any analysis is faced with the task of defining which parts of the government administration possess an environmental remit. This is not an easy task due to the cross-cutting nature of many environmental issues. For the purpose of this study spending trends by the environmental ministry and one of the major natural resource ministries have been taken as an approximate measure of the national environmental spend.

It has not been possible to collate a consistent set of data across the relevant ministries over a uniform time period. Therefore, it should be stressed that the analysis presented is indicative. Government's reporting has recently become more comprehensive, allowing for an improved understanding of the budget. However, a direct comparison of budgetary allocation and spending over a number of years is far from straightforward.

The changing nature of the environmental remit within the government administration also raises challenges for multi-year comparisons. The two ministries chosen for this study, the Ministry of Environment and Science (MES) and the Ministry of Lands and Forests (MLF) have seen significant recent change. As noted earlier, the environmental remit of the MES was transferred to the Ministry of Local Government, Rural Development and Environment (MLGRDE) in April 2006, whilst the remit of the MLF was expanded to include the mining sector, becoming the Ministry of Lands, Forestry and Mines (MLFM) in 2005. These institutional changes complicate the financial reporting of environmental expenditure.

All ministries and their respective departments and agencies (MDAs) have four potential sources of funding:

- the Consolidated Fund (CF) of the Government of Ghana;
- Internally Generated Funds (IGF) raised by the relevant MDA;
- Special Funds from the Ministry of Finance and Economic Planning (including HIPC funds); and
- Donor funds.

The balance between these funds varies between ministries, as does the reporting of their value. One difficulty in reading across studies is the inconsistency as to which sources of funding are reported upon. For this study, all four sources are included, unless otherwise stated, and are expressed in Billion cedis<sup>2</sup>.

Reported spending by the MDAs is classified into four major economic categories:

- Personal Emoluments (salaries and wages);
- Administration and General Expenses;
- Service Activities; and
- Investment.

Work programmes are resourced under the Service Activities category, which, for example, would include the expenses required to carry out field monitoring exercises by the environmental agencies.

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<sup>2</sup> Ghanaian currency has recently been reformed, with the introduction of the Ghanaian Cedi in July 2007. This replaces the old Cedi, at a rate of 1 GC = 10,000 cedis. For this study all historic expenditure is reported in old cedis.

## 2.2 Previous analyses

There have been a number of recent attempts to examine environmental public expenditure. All of these studies refer to significant weaknesses in the public finance management (PFM) system, reflecting other commentaries on Ghana's PFM (e.g. Lawson, et al., 2007). Inconsistencies in the data reported can mask real trends in expenditure patterns and make any financial analysis hazardous.

### 2.2.1 2006 World Bank external review of public financial management

This external review is carried out on an annual basis in the context of the implementation of multi-donor budget support (MDBS) (World Bank, 2006a). Two tables provide some insight into recent trends on environmental expenditure, and highlight the large differences in funding between the MES and MLF (Tables 1 and 2). National expenditure on environmental actions over the three year period from 2003 to 2005 – as measured by the combined budget release of discretionary funds to MES and MLF – appeared to remain constant, at approximately two percent of the total government budget.

*Table 1. Voted and actual government discretionary expenditure for the Ministries of Environment and Science (MES) and Lands and Forestry (MLF), 2003 – 2005.<sup>3</sup>*

Billion cedis	2003			2004			2005		
	Voted	Actual	Percent	Voted	Actual	Percent	Voted	Preliminary	Percent
Govt total	7,798.6	7,638.7	98	10,513.1	10,110.2	96	12,693.9	12,456.0	98
MES	132.7	114.1	86	157.8	175.3	111	128.9	165.4	128
MLF	57.5	55.5	97	76.3	83.0	109	80.2	75.6	94

*Table 2. Collection and retention of Internally Generated Funds for the Ministries of Environment and Science (MES) and Lands and Forestry (MLF), 2004 – 2005.<sup>4</sup>*

Billion cedis	2004			2005		
	Collected	Retained	Percent	Collected	Retained	Percent
MES	5.8	5.8	100	8.1	8.1	100
MLF	150.3	107.2	71	113.4	65.8	58

During 2003-2005, MES was one of the higher resourced ministries from the Consolidate Fund. The ministry raised a small amount of Internally Generated Funds (IGF) and these were completely retained within the ministry. In contrast, funding for the MLF was predominantly sourced from its IGF, despite a significant proportion being transferred to central funds. So, whereas the MLF may be perceived as a revenue generating ministry, the MES would not. This distinction is often considered an important one when it comes to the overall allocation of resources by central government.

### 2.2.2 2006/7 World Bank Ghana Country Environmental Assessment

A multi-donor supported Country Environmental Assessment (CEA) was undertaken in 2006 to assess the country's environmental priorities, the environmental implications of key

<sup>3</sup> Data extracted from Table 2, Annex A: statistical annex of 2006 External Review of Public Financial Management, World Bank Report No. 36384-GH. These data exclude internally generated funds and donor funds.

<sup>4</sup> Data extracted from Table 9, Annex A: statistical annex of 2006 External Review of Public Financial Management, World Bank Report No. 36384-GH.

economic and sector policies, and existing institutional capacity to address environmental concerns (World Bank, 2007). The study focused on sectors of the economy (including forestry and mining) that had major potential for economic growth and poverty reduction.

Inconsistencies in financial reporting across government, with discrepancies between the Ministry of Finance and Economic Planning (MoFEP), the sector ministries and subvented agencies, made the assessment of government financial support for environmental actions difficult. A fragmented budget had led to multiple data sources, making many expenditure estimates unreliable (World Bank, op.cit.). However, the sector ministries' funding strategies were described using available data sets. Table 3 highlights the gap between the agreed budget of the MLF in 2004 and the actual money received. Overall, the ministry secured 56 percent of its budget, with the donor contribution component being the least reliable in that year. In the following year this source of funding represented the largest source of the ministry budget, at 40 percent of the total. The significant percentage changes of different funding sources between the two years is noteworthy, suggesting lack of stability in the ministry's funding base.

Table 3. Funding of the MLF Budget by Sources of Funding, 2004 and 2005<sup>5</sup>

million US\$	2004			2005		2004/05
	Voted	Actual	Percentage received	Voted	Share of the budget (in percent)	Change (in percent)
Total	74.3	41.3	56	68.8	100	-7.5
CF	10.7	7.8	73	12.9	19	19.9
IGF	25.6	15.1	59	19.9	29	-22.4
HIPC	9.9	7.3	73	8.3	12	-15.9
Donor	28.1	11.1	39	27.8	40	-1.3

At the agency level, the Minerals Commission is funded almost entirely out of its Internally Generated Funds, derived from application fees, publications and public services. However, this income does not match the Commission's expenditure and so its financial autonomy is not secure. Resources taken from a reserve established in the 1990s have financed the deficit, yet this reserve will soon be diminished. As a result, the Minerals Commission is in the process of exploring further areas of revenue increases (e.g., the revision of fees and licenses) to avoid future dependency on the government's budget.

The Environmental Protection Agency (EPA) is financed primarily under a two-budget system. In addition to Government of Ghana funding, resources are provided from the National Environmental Fund (NEF) for the operation of the agency. The CEA reported that the agency has yet to make efforts to consolidate this fragmented budget and to make the funding of the NEF more transparent.

One important outcome of the CEA was a request from government for the creation of a multi-donor natural resources and environmental governance (NREG) program, to be financed under a sector budget support arrangement. An issue pertinent to this arrangement is there appear to be significant shortcomings in the budgetary processes of all the MDAs involved in this proposed program.

<sup>5</sup> Table 3.6 of the Ghana Country Environmental Assessment, quoting MLFM data. World Bank Report No. 36985-GH.

### 2.2.3 2007 SNV/RNE Ghana Environmental Sector Study (GESS)

The most recent analysis of public environmental spending in Ghana is included in the Ghana Environmental Sector Study (GESS), which takes an institutional orientation and focuses on the Environmental Protection Agency (SNV, 2007). The budgetary allocation to the EPA (excluding IGF and donor funds) is summarised for 2002-2006 in Table 4, distinguishing between the amount allocated by the budget and the amount received by the agency. A significant drop in funds released is recorded in 2006.

Table 4. GOG budgetary allocation to EPA from the Consolidated Fund (2002 – 2006<sup>6</sup>)

Budget to EPA	2002	2003	2004	2005	2006
Billion cedis					
Amount allocated	5.96	7.43	7.16	6.93	7.78
Amount released	4.66	6.20	6.07	6.47	4.60
Percentage released	78	83	85	93	59

The GESS report noted two important characteristics of public funding for the environment:

- Spending by the government on environmental issues is very small compared to social sector spending.
- Dependency on donor funding is high within the environmental sector.

### 2.3. Budgetary allocation and income of the three environmental agencies

The difficulty in obtaining complete data sets on government expenditure has driven the focus on the three environmental agencies that are part of the proposed natural resources and environmental governance (NREG) program. These agencies are the Forestry Commission (FC), the Minerals Commission (MC) and the Environmental Protection Agency (EPA). However, even here parts of the data sets appear internally inconsistent and incomplete.

The following tables are built up from:

- (i) The total budget allocated to the agency. (Recorded in the Annual Estimates contained within the Medium Term Expenditure Framework (MTEF) document of the relevant Ministry, being the sum of the consolidated fund, IGF, special funds and donor funds) as approved by Parliament; and
- (ii) The annual income and expenditure of the agency. (Recorded in the Annual Financial Statements of the relevant agency).

#### 2.3.1 Forestry Commission

Two issues stand out when comparing the Commission's approved budget with the record of annual income (i.e. monies received) (Table 5):

- The Forestry Commission appears unable to secure its agreed budget (with the notable exception of 2005). A shortfall in proposed funding of approximately 20 - 30% has been

<sup>6</sup> Data taken from Table 8, page 24, of Ghana Environment Sector Study: synthesis report, final version. Accra, Ghana, February 2007.

observed in recent years. This has been caused by the unpredictable nature of IGF funds. Reliance on this funding source appears to be a relatively high-risk strategy for a regulatory body.

- The Forestry Commission's own spending is weighted to meeting staff costs (the PE component), which in 2004 and 2005 ran significantly over-budget. The implementation of FC's work programmes, resourced through the Services cost category, can be expected to have suffered as a result. This is suggested in the shortfall in the expenditure on Services in 2004 and 2006. Securing sufficient finances to resource the Services function of the FC will likely be a major challenge in the years ahead. In the recent past there was a heavy reliance on donor project funding to support such activity and this is effectively coming to an end.

Table 5. *Budgetary Allocation and Annual Income of the Forestry Commission*

Billion cedis	2003	2004	2005	2006	
Amount allocated <sup>7</sup>		286.5	154.0	221.7	201.9
Amount received <sup>8</sup>	176.4	203.9	198.4	166.7	166.7
Percentage received		71	129	75	83
Expenditure pattern		Allocation from MTEF Section 7, p.42-75	Allocation from MTEF Section 7, p.45-100	Allocation from MTEF Section 4, p.4	Allocation from MTEF Section 7, p.36-97
% PE allocated		187	285	119	172
% Admin allocated		46	191	77	60
% Services allocated		60	118	68	60

An example of the apparent inconsistency in financial reporting is found in the 2006 estimates for the Forestry Commission contained in that year's MTEF report. Different total budgets and functional components can be derived from Table 4, *Summary of Expenditure by Function and Programme (p.4)* and Table 7, *Budget Implementation: cost by account, activity, output, objective, organisation, source of fund and priority (p.36-97)*. It is not clear why there is this discrepancy, which occurs in the IGF and donor fund components of the budget. Both estimates are included in the table above.

### 2.3.2 Minerals Commission

The Minerals Commission, as mentioned in the previous section, is self-financing through its Internally Generated Funds. It was not possible to carry out an analysis of the variance between planned and actual expenditure, as was possible with the Forestry Commission, because the proposed expenditure figures were not available. Instead the year-on-year percentage increase in personal emoluments, administrative expenses, and service activities (travelling, transport, repairs and maintenance) were calculated (Table 6).

The audited accounts were not available for 2006, although an examination of the MLFM MTEF document shows a large discrepancy over the amount of the Services component of the IGF budgeted. This explains the two figures quoted in the table below as the 2006 budget allocation.

<sup>7</sup> Data taken from MTEF & Annual Estimates reports, Volume 13, MLFM for 2004, 2005 and 2006. Government of Ghana.

<sup>8</sup> Data taken from Forestry Commission Financial Statements for the Years 2003 – 2005. State Enterprises Audit Corporation and Draft Financial Statements for the Year ended 31<sup>st</sup> December 2006. Forestry Commission.

Table 6. Budgetary allocation and Annual Income of the Minerals Commission

	2003	2004	2005	2006	
Income Billion cedis					
Amount allocated <sup>9</sup>	Data unavailable		11.1	19.6	25.6
Amount received <sup>10</sup>	15.2	14.4	13.8		
<b>Expenditure (% change from previous year)</b>					
PE	144	106	133		
Administration	100	193	116		
Services	149	95	120		

An important financial issue for the Minerals Commission (as mentioned above) appears to be the apparent decline in its overall income between 2003 and 2005. The large increase in spending on administration in 2004 was the result of investments in staff training, seminars and conference attendance.

### 2.3.3 Environmental Protection Agency

It would appear there is a somewhat better balance between the budget allocation and received funds at the Environmental Protection Agency (Table 7). The large jump in EPA's receipt of funds in 2006 was a consequence of salary increases under the civil service reform program that took place in that year.

Table 7. Budgetary Allocation and Annual Income of the Environmental Protection Agency

Billion cedis	2003	2004	2005	2006
Amount allocated <sup>11</sup>		7.2	14.0	19.3
Amount received <sup>12</sup>		9.8	10.8	19.7
Percentage received		136	77	102

The figures in Table 7 refer to the CF and IGF elements of the EPA's budget. Neither donor funds nor income from the National Environmental Fund appear within the Annual Statements, which leaves a considerable gap in understanding the agency's total financial resource envelope. External, off-budget funding has been substantial in recent years, as reported by the Ghana Environment Sector Study. The following table (Table 8) is taken from the GESS report on the EPA's organisational performance and capacity (draft version).

Table 8. Summary of donor support to EPA (2002 – 2006)<sup>13</sup>

Type of fund	2002	2003	2004	2005	2006
Donor funds in US\$ denomination	291,390	294,317	458,418	225,605	864,601
Total in other currencies	€ 121,144			0.32 Billion cedis	2.22 Billion cedis

If these amounts are taken into account (and the additional funding available through the NEF), the emerging picture is that the EPA receives sufficient financial resources to cover its budgeted work programmes.

<sup>9</sup> Data taken from MTEF & Annual Estimates reports, Volume 13, MLFM for 2005 and 2006. Government of Ghana.

<sup>10</sup> Data taken from the Minerals Commission audited accounts for 2003, 2004 and 2005. Asante Wiredu & Associates, Accra.

<sup>11</sup> Data taken from MTEF & Annual Estimates reports, Volume 17, MES for 2004, 2005 and 2006. Government of Ghana.

<sup>12</sup> Data taken from the EPA audited accounts for 2004, 2005 and 2006. Kufuor and Associates, C.A. Accra.

<sup>13</sup> Table 9, page 29 of the GESS Final Report (Assignment 1) 15<sup>th</sup> December 2006. SNV, Accra.

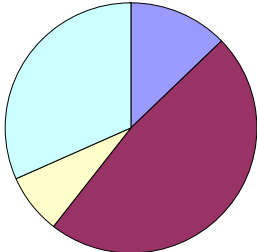
**2.4 Sources of funding**

In this section the funding sources of the three agencies will be described, based on the agencies' annual audited accounts. However, the figures presented in these reports do not always coincide with other statements on funding. It has not been possible to examine these inconsistencies in the time available. An omission from the accounts of the Environmental Protection Agency (cf. Table 8), and to a lesser degree both the Forestry and Minerals Commissions, is the financial contribution made by donor funding. These sums are not only off-budget, they also appear to be 'poorly visible' in the financial record of the agencies concerned. The continuing use of such funds suggests that it is easier for MDAs to access DP funding at the sector level than to deal with the Ministry of Finance and Economic Planning.

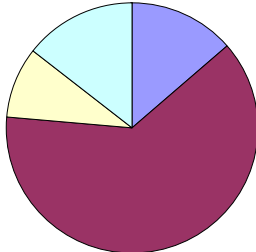
**2.4.1 Forestry Commission**

The following charts show a clear trend since 2003 of declining donor funds being matched by an increasing reliance on Internally Generated Revenue (IGF). The contribution of the government, through provision from the consolidated fund has remained, as a proportion, reasonably constant. (The actual amounts are subject to some uncertainty, due to inconsistent reporting.)

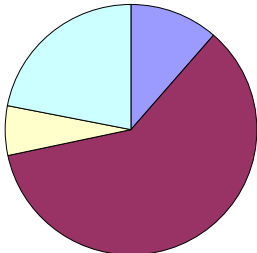
Forestry Commission Income Sources, 2003



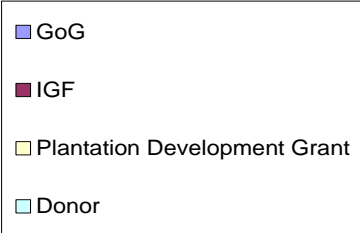
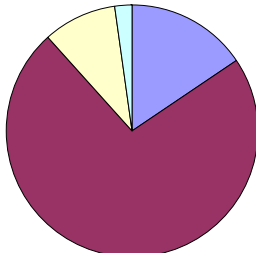
Forestry Commission Income Sources, 2005



Forestry Commission Income Sources, 2004



Forestry Commission Income Sources, 2006



## 2.4.2 Minerals Commission

A similar funding pattern is observed with the Minerals Commission. Small grants are provided from the government account, and an unspecified amount of donor funding appears also to be present. However, almost all of the Commission's activities are resourced from internally generated funds (Table 9).

Table 9. Income sources of the Minerals Commission, 2002-2005<sup>14</sup>

Billion cedis	2002	2003	2004	2005
GoG Grants	2.07	3.50	0.28	0.00
IGF	11.60	11.73	14.13	13.77
Total	13.67	15.23	14.41	13.77

However, it is important to note that the composition of IGF is quite different between these two agencies. The IGF funds raised by the MC come from consideration and exemption fees<sup>15</sup>. In contrast, the FC relies on the very much larger timber stumpage fees and an export levy on timber as the principal sources of its IGF. The FC, which collects these fees directly, currently retains between 40% (for off-reserve areas) and 60% (for within-Forest Reserves) of the raised stumpages fees, the balance going to local landowners. There is no transfer of funds into the Consolidated Fund of the GoG. In contrast, mining royalties are paid direct into the GoG Consolidated Fund, with the Internal Revenue Service (IRS) being responsible for the collection of these royalties. In theory, the MC has access to 10% of the total mineral royalty through the Minerals Development Fund, which is administered by the Ministry of Finance, although apparently there have been no transfer of such funds since 2004. (A further 10% goes to the Office of the Administrator of Stool Land, whilst the 80% balance is retained by the GoG, going into the CF account.)

## 2.4.3 Environmental Protection Agency

The annual audited accounts of the EPA do not include income arising from the NEF accounts. As a result, the analysis undertaken by the GESS study is presented in Table 10. This suggests there has been a recent, and substantial, increase from this funding source.

Table 10. Income sources of the Environmental Protection Agency, 2002-2005<sup>16</sup>

Billion cedis	2002	2003	2004	2005
Consolidated Fund	4.66	6.20	6.07	6.47
NEF	1.78	5.03	8.73	10.38
Total	6.44	11.23	14.80	16.85
NEF as % of CF	38	81	144	161

## 2.5 Funding challenges

There are important issues concerning the comprehensiveness of the budget for the Minerals Commission and the Environmental Protection Agency. The absence of reporting on the donor contribution to the MC and the separate reporting on the National Environmental Fund by the EPA obscures the financial resources available to these agencies. In addition, the credibility of the budget for all three environmental agencies – in terms of whether the annual

<sup>14</sup> Data taken from the Minerals Commission audited accounts for 2002 - 2005. Asante Wiredu & Associates, Accra.

<sup>15</sup> Consideration fees for mining licences and tax exemption fees.

<sup>16</sup> Data taken from tables 8 and 9, GESS synthesis report, final version. SNV, Accra.

budget is a reliable estimate of actual expenditures – has been poor, with significant differences between these two figures being a feature of all three agencies in recent years.

#### 2.5.1 The implications of the financial model of subvented agencies

A third important conclusion concerns the financial model of subvented agencies. The institutional origin of these environmental agencies can be traced back to government departments that relied solely on the consolidated fund. The creation of semi-autonomous government agencies was a part of the government reform programme of the mid-1990s. Agencies were allowed to create their own Internally Generated Funds – as part of the so-called ‘service culture’. As the preceding analysis has shown, all three environmental agencies now rely more and more on IGF, particularly as donor project funding ceases. This may create an internal incentive for each institution to focus on those service activities that can generate revenue (the issuance of permits and EIA type work in the Minerals Commission, for example). There is the danger that non-revenue earning parts of their environmental remit (including activities that are intended to have an effect on poverty reduction) will attract less and less resources during the agencies’ budget planning - until the arrival of new, additional resources, such as HIPC funds.

Under these circumstances, sector budget support for the environment may be the best funding strategy for development partners to adopt, where project support is not being considered. It recognises that in Ghana the current political reality is that the environment is not a priority issue across government. Without demand for such services being strongly expressed by civil society, this situation is unlikely to change in the near future.

### **3. Analysis of three key environmental policy initiatives**

#### **3.1 Selecting three priority themes**

##### 3.1.1 How environmental priority issues are identified, resources and implemented

Each year, the Budget Statement and Economic Policy of the Government of Ghana is presented to Parliament. These statements contain both a macroeconomic review of performance in the previous year and an outlook for the year ahead. The major programmes of all MDAs are summarised and hence provide insight of the priorities set by government. A review of these Statements for 2004 – 2007 shows the evolving prioritisation within the environmental agencies and provides a basis for selecting a number of public-funded environmental themes that are deemed to be a priority for government action.

Once such policy themes have been identified, they then need to be resourced through the relevant MDA budget. This financial planning can be identified in a number of programmes described within each ministry's Medium-Term Expenditure Framework and Annual Estimates, as approved by Parliament. Implementation then follows and is reported upon at the end of the year in the Annual Reports of the various agencies.

##### 3.1.2 The three themes

In consultation with government officials and DP personnel from the Environmental and Natural Resource Sector Group three themes were identified for this study. These three themes are:

- Regularising small-scale mining
- Validating legal timber
- Undertaking strategic environmental assessment of the GPRS

#### **3.2 Regularising small-scale mining**

##### 3.2.1 Background

Small-scale mining makes a significant contribution to national gold and diamond production and employs approximately 80,000 people (Aryee et al., 2003). However, much of this activity is illegal and the environmental impact of mining causes serious land degradation and water pollution. In response to this, the Minerals Commission (MC), and its Department for Small-Scale Mining, has developed a number of strategies to address these negative environmental impacts.

First, the MC began a programme of work in 2004 to identify geological areas suitable for small-scale mining with the intent of regularising production and reducing its negative environmental impact. This was in accordance with government policy to support small-scale mining within a legal framework, which had been established under the 1989 Small-scale Gold Mining Law. The strategy involved promoting the creation of mining cooperatives, with whom the MC could then work, providing both technical and financial support to empower them to operate in a safe and environmentally sustainable manner.<sup>17</sup>

A second strategy to lessen the negative impacts of small-scale mining has been the promotion of alternative livelihood projects to absorb some of the excess unskilled labour in mining communities. A committee set up by the MC in 2004 was given the task to plan the

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<sup>17</sup> Section 3.5.2, page 23 of the Mineral Commission 2005 Annual Report. Minerals Commission, Accra.

implementation of an oil palm project that would create significant employment opportunities in one major mining area.

### 3.2.2 Developing policy intent

2005 was the first year that mining was part of the MLFM remit. No mention of public programmes to assist small-scale miners was made in the ministry's contribution to the Budget Statement. However, in the 2006 Statement this theme was mentioned twice. First in paragraph 355, describing work undertaken in the previous year: 'the Ministry identified three areas namely Adjumadin and Japa in Western Region and Winneba in Central Region as suitable for small-scale mining operations. It is expected that resettlements in these areas would lead to organised and eco-friendly operations, reduce hazards in operations, and increase gold production by small-scale mining operations'. Later, in paragraph 365 investments to monitor the mining activities of small-scale and "galamsey"<sup>18</sup> operators, with the intent of reducing their negative environmental impact, was listed as a priority of work for the mines sub-sector.

### 3.2.3 Budget estimates

A programme of work to support small-scale mining was described under the 2005 MLFM MTEF objective '*to promote the public awareness and local communities participation in sustainable management and utilisation of forest, wildlife, land use and mineral resource management*'. It appeared within the Minerals Commission IGF budget for 2005 as Output 1: '*to reduce conflict in mining areas*'. This output area was resourced with a budget of 621.8 million cedis and was to be addressed by four activities<sup>19</sup>:

- Consultancy to undertake detailed exploration of areas from desk study.
- Prepare a feasibility report on alternative livelihood projects for Prestea pilot project.
- Organise radio discussions on local FM stations and produce educational materials on dangers of illegal small-scale mining.
- District officers to address district assemblies on illegal mining activities.

In the 2006 Annual Estimates this Output had its financial ceiling raised substantially, to 5.1 billion cedis, and additional activities were budgeted:

- Contract to undertake detailed exploration of areas from desk study.
- Liaise with NBSSI etc on alternative livelihood programs in other mining communities.
- Organise radio discussions on local FM stations and produce educational materials on dangers of illegal small-scale mining.
- Organise meetings with mining NGOs.
- Produce educational materials on dangers of illegal small-scale mining.
- Organise educational workshops on salt.

In the 2007 Annual Estimates this Output is no longer found, although some of the constituent activities appear under another objective '*to review, update and consolidate existing legislation and policies affecting natural resources management*'. This raises some questions over the consistency of classifying these activities and the continuity of this part of the MC's work programme. Whether this type of work has continued with off-budget funding needs to be explored.

### 3.2.4 Government spending on the small-scale mining programmes

To gain some insight into government spending, the Quarterly Performance Reports of the MLFM were analysed for 2006 to see whether the MC's programme of work on supporting small-scale miners was resourced through the release of funds from the MoFEP. Table 11

<sup>18</sup> Galamsey: Ghanaian term for small-scale gold miners, often working without the prescribed permit to operate.

<sup>19</sup> MTEF & Annual Estimates report, Volume 13, MLFM for 2005. Government of Ghana.

describes the programme of work undertaken in the first Quarter. It can be seen that the release of funds for the first programme area (*to identify and investigate areas for small-scale mining*) was limited. There was no release of funds for the second set of programmed activities (*alternative livelihood projects in mining communities*), the funding of which was to have come from a HIPC grant.

Table 11. Implementation of Mineral's Commission programme of work, first quarter, 2006<sup>20</sup>

Programmed Activities	Budget Performance ₵		Expected Outcome/ Impact	Actual Outcome/Impact	Remarks
	Planned	Approved			
<b>Identify &amp; Investigate Areas for Small Scale Mining:</b> Undertake geological investigation of areas identified for small scale mining	Planned	9,000,000,000	1. About 2,000 small-scale miners expected to be employed after viable areas have been made available  2. Reduced environmental degradation due to indiscriminate mining by small-scale miners.  3. Reduced security risk to large-scale mining companies.	A total area of 300 sq. km. has been identified for investigation. The areas cover parts of Dokrupe, Damongo, Adwumadiem, Japa, Jacubo, Awudua, Winneba and Oguakrom.	1. Two areas in the Western Region (Prestea & Awudua) covering 48 sq. km are being investigated geologically by Geological Survey Department (GSD) and GEOMAN Consult respectively.  2. An application was sent to the MoFEP through MLFM last year for funding from the MDF. Funds are yet to be released
Approved	9,000,000,000				
Released	23,010,750				
Expended	23,010,750				
<b>Alternative Livelihood Projects in Mining Communities:</b> Create alternative livelihood projects (Oil Palm Pilot Project) in the mining communities of Prestea - Huni Valley.	Planned	14,961,573,000	1. Other economic activities in mining communities to sustain the communities during and after cessation of mining developed.  2. 6,000 out of a total of 10,000 acres of Oil Palm plantation established in the Wassa West district for year 2006.  3. 10,000 jobs to be created in project year 1	1. Document to access HIPC funds for implementation developed and sent to the Ministry of Finance through the MLFM.  2. Community sensitisation has been done  3. Chiefs and land owners willing to offer land for the Oil Palm Plantation development.  4. Land for nursery development already released by Chiefs of participating communities awaiting commencement of project.	HIPC funds for an amount of ₵9.2 billion which covers activities for the first quarter of year 2006 involving land demarcation, preparation, planting of oil palm seedlings etc. yet to be released by the MoFEP.  Total amount approved for project year 1 (2006) is 14,961,573,000
Approved	14,961,573,000				
Released	0				
Expended	0				

The second quarter Performance Report<sup>21</sup> records a number of constraints on the release of funds:

- Significant delays were experienced in trying to access funding from the Mineral Development Fund (see note below).
- The MoFEP practice of releasing funds on a monthly basis did not allow for effective planning, and was administratively cumbersome. This affected the continuity of projects, especially those activities that involved field operations.
- Decisions over the release of funds by MoFEP appeared to be discretionary and further oversight on the release of approved budgets was identified as being needed.

<sup>20</sup> MDA performance reporting. Ministry of Lands, Forestry and Mines. 1<sup>st</sup> Quarter report, 2006. MLFM, Accra.

<sup>21</sup> MDA performance reporting. Ministry of Lands, Forestry and Mines. 2<sup>nd</sup> Quarter report, 2006. MLFM, Accra.

By the third quarter no additional funding was made available '*to identify and investigate areas for small scale mining*', with the request to access the Mineral Development Fund still outstanding. The alternative livelihoods project for mining communities also remained on hold, awaiting HIPC funds. A small amount of money was released by MoFEP to cover the cost of sensitising the proposed communities (12.3 million cedis). The situation did not change in the fourth quarter. With the non-materialization of both MDF and HIPC funds the planned annual work programme does not appear to have taken place.

### 3.2.5 The Mineral Development Fund

The Mineral Development Fund (MDF) was established in 1992 with the two following objectives:

- To enable the recycling of mining revenues to communities which host mining operations, to enable them to undertake development projects that mitigate effects of mining on the environment.
- To support the operating budget of mining sector institutions, as well as some specific mineral related projects.

The Fund is derived from 20% of total mineral royalties collected by government from the mining industry (the 80% balance passes direct into the GoG Consolidated Fund). Half of the MDF income then nominally goes to government mining sector institutions, with the balance going back to the communities in which mining takes place through the Office of Administrator of Stool Lands. However, the 10% for mining sector institutions is held by the MoFEP and is disbursed as and when it is endorsed by the Minister responsible for mines and approved by the Minister of Finance. Apparently, there has been no release of these funds since 2004.

### 3.2.6 Conclusion

The Quarterly Performance Reports indicate that implementation of this policy theme depended on funding from special funds (specifically, the MDF and HIPC funds). Considerable disruption to the planned programmes of work occurred as no funding was available from either source in 2006. However, it is not clear why these activities were not funded from the IGF allocation of the 2006 MC budget as recorded in the Annual Estimates. This raises concerns over budget reliability and accountability. Further, as there is a social service function to these work programmes it is not immediately clear what prevents financial resources being secured from the Consolidated Fund.

## **3.3 Validating Legal Timber**

### 3.3.1 Background

The high value end of Ghana's timber trade is strongly focused on the international market, with countries in the EU being important wood trading partners. The international dimension of this wood trade requires Ghana to be sensitive to changing demand and led to an early interest in the EU Voluntary Partnership Agreement (VPA) scheme, which aims to prevent timber produced illegally from entering the EU market. This policy initiative is therefore, in large part, a reaction to the international demand for improved forest stewardship in timber-producing countries.

This policy initiative began in January 2005, with the start of the Validation of Legal Timber Programme (VLTP) (Bird et al., 2006). A log-tracking proposal was developed by the Forestry Commission, containing new institutional arrangements and log-tracking processes to improve the regulation of timber production and to clamp down on widespread illegal logging in the forestry sector.

The purpose of the VLTP is to put in place an efficient and cost-effective system for demonstrating the legal origin of timber, and subsequently, legal compliance of forest management. The programme has four main objectives:

- To maintain access to a major export destination (i.e. the EU)
- To improve the monitoring of forest resource utilization
- To improve revenue flows from timber harvests
- To establish the first step towards sustainability

### 3.3.2 Developing policy intent

The highest priority for the forestry sub-sector in the 2004 Budget Statement was expanding the National Forest Plantation Development Programme and the rationalisation of the fiscal and taxation regime in the forest sector. A third priority (para. 419) was to implement measures that enhanced law enforcement and good governance in the forest sector (including log tracking). The 2005 Statement provides the first reference to the Validation of Legal Timber (Log Tracking) project (para. 456), which is repeated in 2006 Statement (para. 350). By the 2007 Budget Statement paragraph 353 states 'The design of the Validation of Legal Timber Project (VLTP) and competitive tendering for the procurement of the relevant equipment are far advanced and will be completed by end 2006.' Paragraph 363 provides a detailed statement of policy intent for this policy theme (see Box 2). These repeated statements show government placing a high priority on achieving reform in this area.

#### **Box 2. The Validation of Legal Timber Project (VLTP)**

Paragraph 363. 'Mr. Speaker, the Validation of Legal Timber Project (VLTP) initiated in 2005, will be brought to the piloting stage making it ready for a roll out by the end of the year. VLTP will essentially enforce the regulated harvest limit, contribute to securing forest revenues as well as assist government to meet its commitment under the future Voluntary Partnership Agreement with the EU as a means of securing Ghana's traditional wood products markets.'

*The Budget Statement and Economic Policy of the Government of Ghana for the 2007 Financial Year presented to Parliament on 16<sup>th</sup> November 2006.*

### 3.3.3 Budget estimates

The VLTP programme first appears in the budget figures for 2005, under two headings in the MLFM MTEF estimates for the Forestry Commission (Corporate Headquarters):

- FC, HQ, IGF, Services Activity Expenses, Objective 1303; Output 0001; Activity 0004; Support log tracking (night allowances): 7,220,346 cedis.
- FC, HQ, Donor, Services Activity Expenses, Objective 1305; Output 0003; Activity 0006; Implement Validation of Legal Timber Programme (VLTP) or Log Tracking programme: 19,825,707,549 cedis

Further small sums were allocated for night allowances under the first budgeted activity in the 2006 and 2007 Annual Estimates. It is of interest that the main budgetary allocation is recorded as coming from the donor account rather than the IGF. Also, there is an apparent discrepancy in that these activities are seen to contribute to two quite different ministry objectives:

- 1303 (night allowances): 'To promote public awareness and local communities' participation in sustainable management and utilisation of Forest, Wildlife, land use and Mineral Resource management' and
- 1305 (Implementation of VLTP): 'To promote and facilitate effective private sector participation in land service delivery, forest, wildlife, mineral resource management and utilisation'.

The second objective (1305) is the ministry's fifth priority (out of seven).

### 3.3.4 Government spending on the VLTP by the Forestry Commission

Considerable delays were experienced in the release of government funds for the VLTP. The budget figure of 19.8 Billion cedis allocated under the donor account in the 2005 Annual Estimates was not released until early 2007, when approximately a quarter of the amount was obtained by the Forestry Commission. The lack of government funding required staff to identify alternative financial resources from an early stage. Approximately € 400,000 was secured under a bilateral grant from the Netherlands in 2005 in order to complete a number of studies that examined different aspects of the proposed design of the timber verification system. Without this project funding the initiative would have been seriously undermined. More recently, further off-budget funding has been secured from the United Kingdom to allow VLTP staff to participate in international meetings with regard to the proposed EU-Ghana Voluntary Partnership Agreement.

### 3.3.5 Conclusion

This is an example of where, despite repeated statements of policy intent on the part of government, the financial resources to support implementation of the proposed work programme have not been easily forthcoming. As a result, the continuation of the programme has depended on financial support from international development partners. It could be argued that without such support government would have had to take a decision on whether or not to continue the programme. As it is, there is the danger that this area of reform is seen as an environmental agenda driven very much by external interests, although the release of government funds in early 2007 suggests some political commitment for reform.

## 3.4 **Undertaking Strategic Environmental Assessment of the GPRS**

### 3.4.1 Background

The Ghana Poverty Reduction Strategy (GPRS) identified environmental degradation as a contributory cause of poverty. In order to assess the environmental risks and opportunities of the strategy, the Environmental Protection Agency (EPA) proposed that a Strategic Environmental Assessment (SEA) be carried out of the strategy's programmes and plans. The Netherlands Commission for Environmental Impact Assessment (NCEIA) was subsequently invited to assist the EPA in formulating a framework and guidelines for such an assessment. At that time there was little experience world-wide in the application of SEA for multi-sectoral plans, so the NCEIA developed a two-level approach (NCEIA, 2002):

- An objective **study** to assess environmental impacts of proposed interventions, propose better alternatives if possible, and propose an appropriate institutional framework for environmental management;
- A participatory **process**, involving other actors and sectoral agencies in the complex field of poverty reduction and sustainable development, aimed at building up mutual understanding and environmental awareness.

The SEA of the GPRS began in May 2003 and took two complementary trajectories: (a) SEA at district level involving local authorities and (b) SEA of the GPRS involving central

government ministries and departments. Over a 15-month period all the MDAs and 108 out of 110 District Assemblies nationwide were consulted in a well planned and managed consultation process. The results of this consultation were subsequently fed into the preparation of GPRS II (2006-2009).

### 3.4.2 Developing policy intent

The 2004 Budget Statement contains a reference to the completion of a SEA of the GPRS. The assessment was described as providing the 'information to develop a framework for mainstreaming environmental concerns across all sectors' (para. 425). This was followed up in the 2005 Statement, where mention was made of the EPA's capacity building work with other MDAs and District Assemblies to incorporate environmental issues in all development plans and projects. Paragraph 446 specifically mentions the SEA findings as being used as the mechanism for mainstreaming environmental issues into all levels of government planning. Further strong statements of policy intent featured in the 2006 Budget Statement, with paragraph 468 outlining the roll-out of the SEA process by the EPA into sector and district policies, plans and programmes (Box 3).

#### **Box 3. The role of SEA in government planning processes**

Paragraph 468. 'Mr. Speaker, the Ministry will continue with its effort to mainstream environmental issues into all aspects of GPRS and into sectoral and district planning guidelines issued by NDPC. The results of the Strategic Environmental Assessment (SEA) will provide the information to develop a framework for mainstreaming environmental concerns across all sectors. This will be achieved through the following activities:

- SEA tools will be used to mainstream environmental issues into sector and district policies, plans and programmes; and
- Water Sector SEA will be conducted in collaboration with Ministry of Works and Housing, Water Resources Commission and Environmental Health Division of the Ministry of Local Government and Rural Development at national, regional and district levels.'

*The Budget Statement and Economic Policy of the Government of Ghana for the 2006 Financial Year presented to Parliament on 10<sup>th</sup> November 2005.*

### 3.4.3 Budget estimates and Government spending on SEA by the EPA

The MES MTEF reports for 2005 and 2006 make no mention of any budgeted service activities by the Ministry (or EPA) associated with developing the SEA programme. This programme of work appears to be an 'off-budget' activity, with donor funds providing the financial resources to allow implementation.

### 3.4.4 Donor support and sources of government funding for the EPA

The SEA of the GPRS received project support from the Royal Netherlands Embassy (RNE) in 2003 and 2004. A grant of just over US\$440,000 was provided to the EPA. To put this figure in context, the amount received was the equivalent of the total, combined administration, services and investment components of the EPA's budget from the Consolidated Fund in those two years. This provides an indication of the financial constraints that prevent the EPA from undertaking this type of policy initiative under its own resources at present funding levels.

Government funding for the EPA comes from two sources: the Consolidated Fund and the National Environment Fund. The latter was created in 1994 under the Act establishing the

EPA (Act 490), although the relationship between the NEF and the Consolidated Fund as different funding sources is not well defined in the Act. It would seem that the NEF was created to offer additional sources of funds (appropriate for an agency that has subvented status) and was to be achieved by the collection of levies, together with government grants, donations and gifts. However, since 1994 the latter three categories of funding have been negligible – NEF funds are almost entirely derived from levies, charged on developers according to levels currently prescribed by the Environmental Assessment (Amendment) Regulations, 2002. Both sources of revenue – the NEF and the Consolidated Fund – help the EPA fulfil its statutory functions, although the trend for each fund has been very different in recent years. As indicated in section 2.4.3, NEF funding levels have risen dramatically, whilst funds received from the Consolidated Fund have only marginally increased.

### 3.4.5 Conclusions

The institutional arrangement of the EPA as a subvented agency raises a number of issues, as documented in the 2007 Ghana Environment Sector Study. Under the Subvented Agencies Act, 2006, all existing agencies have been classified into four categories, the purpose of which is to reduce their dependence on public funds, minimise the role of government in activities which can efficiently be delivered by the private sector and enhance service orientation, delivery, productivity and accountability in the public interest. The categories are:

Category 1: agencies which cease to receive subvention because they are not delivering core government functions. Such agencies to be closed down;

Category 2: agencies which will continue to receive full Government subvention because they deliver core Government functions;

Category 3: agencies which receive partial Government subvention where they operate in the public interest and have the capacity to perform a commercial function;

Category 4: public agencies which are fully commercial.

EPA is currently a Category 2 Agency but given the commercial aspects of EPA's service delivery to the private sector, the status of the Agency may change to a Category 3 Agency. Such a change in status could potentially lead to a reduction in funding from the Consolidated Fund, which would undermine the EPA's ability to undertake non-commercial programmes of work, such as the SEA of the GPRS. The 2005 Paris Declaration's specifically calls for a harmonized approach to environment assessments, including SEA. This suggests DPs may be willing to support multi-stakeholder dialogue on how the public environmental remit of the EPA (including the implementation of SEA) should be funded.

## 4. The role of development partners

### 4.1 Donor support for environmental actions

Over the last ten years donors have provided significant levels of support to all three environmental agencies and their respective ministries. Recent national efforts in environmental mainstreaming through inter-sectoral processes have also been supported, to a greater or lesser degree, by Ghana's development partners (DPs). The Ghana Environmental Sector Study (SNV, 2007) described these processes in the following way:

'Various national planning processes have taken place that aimed to take into account environmental issues, including the NEAP, Vision 2020, GPRS I and GPRS II and the SEA process. These initiatives have used variable approaches and have had variable success. While several inter-sectoral processes have generated concrete outputs (in terms of policies, plans, strategies, programmes, inter-sectoral working groups), none has been successful in influencing the GoG budget in such a way that funds are being allocated to environmental priority issues. All SEA recommendations were incorporated into the GPRS II except for the one on Green Accounting. The range of processes that were undertaken have been successful in raising a certain level of environmental awareness. However, the level of environmental awareness has not been sufficient to bring about a change of mentality as regards the importance attributed to environmental governance and management by Government in the first place' *GESS, 2007, p.54.*

This, therefore, is a key challenge for DPs as external support begins to shift from project-based activities to more programmatic forms: how to assist national agencies in their attempts to increase government's budgetary allocation for environmental actions and, at the same time, to ensure the effective use of financial resources targeted on policy priorities in an open and transparent way.

However, for as long as government agencies are able to secure additional funds outside the budget there will continue to be a countervailing force limiting the interest of these agencies to make their case during the government's annual budget round. This is a major criticism of project support, which remains a significant form of aid delivery to environmental agencies. For example, the GESS study lists the large number of projects that continue to operate within such agencies as the EPA. In 2005-06 alone, ten international agencies were supporting 28 separate projects implemented by the EPA (SNV, 2007). These projects have different reporting, contracting and procurement standards, all of which tie up human resources, duplicating government's own systems.

### 4.2 Experience with Multi-Donor Budget Support (MDBS)

Development assistance is shifting away from project interventions towards financial support delivered directly into the national budget. Two possible advantages of such support for public environmental spending are that (a) it can reduce the financial pressure on environmental agencies by increased discretionary funding through the national budget; and (b) it can strengthen budgetary discipline within the Environmental Ministry, through heightened oversight by the Ministry of Finance, thus increasing national ownership over environmental spending priorities (Bird and Cabral, 2007). Whether this potential is realised or not depends, in part, on how general budget support is managed in-country.

With the completion of the GPRS, a framework memorandum between the Government of Ghana and nine donors supporting the GPRS was signed in 2003 and a harmonised Multi-Donor Budget Support (MDBS) arrangement was introduced. This funding mechanism was underpinned by a set of agreed policy actions between government and donors to improve dialogue. With several years of experience with MDBS, some general lessons are emerging

that indicate the type of hurdles that still need to be overcome to ensure improved efficiency in public spending in general (Lawson et al., 2007)(Box 4). These issues also challenge improved public actions on the environment.

#### **Box 4. The Joint Evaluation of Multi-Donor Budget Support to Ghana**

A recently completed evaluation of the implementation of MDBS since 2003 by Lawson, et al. (2007)<sup>1</sup> describes how this new aid modality has worked in practice. The evaluation confirms that budget support has brought a number of significant benefits but it also highlights significant errors that have been made in the design of MDBS as well as important weaknesses in the operating context. It thus offers useful insights on issues that need to be considered during the design of sector programmes (such as the proposed NREG programme) and their supporting financial mechanisms.

First, during the introduction of MDBS insufficient attention was given to the national budgetary processes. Little thought was given to the potential benefits of shifting resources on-budget and promoting reliance on national procedures and structures of democratic accountability. The lack of direct attention to the core problem of restoring credibility and predictability to the budget has meant that these issues remain a serious constraint to the planning of public programmes.

Second, continuing weaknesses in the public finance management system hamper the delivery of public policy. PFM systems in Ghana were severely weakened over the 1970s and 1980s and have yet to return to an adequate level of functionality. Yet it is this system that creates the link between planned poverty-reducing actions and actual public expenditures. The impact of public spending (and hence of budget support as a component of public spending) depends crucially on a PFM system in which budgets reflect GPRS and the corresponding sector policy priorities, expenditures follow budgets, and expenditure management and procurement systems generate reasonable value for money in public spending. Despite the considerable body of reform measures, these reforms have had limited impact to date on the actual performance of the PFM system.

Third, limitations have arisen through the structure of the government - development partner dialogue. The use of the Performance Assessment Framework as both a monitoring framework and a conditionality mechanism has created contradictory incentives between government and their development partners. Government has sought to establish modest performance targets (so as to secure predictable levels of budget support) while MDBS partners pushed for more ambitious targets. This has created a relatively confrontational structure of dialogue, in which much attention has been given over to the detail of assessment processes, often at the expense of open discussion over strategic problems and their potential solutions.

<sup>1</sup> Lawson, A., Boadi, G., Ghartey, A., Ghartey, A., Killick, T., Kizilbash Agha, Z. and Williamson, T. 2007. *Joint evaluation of multi-donor budget support to Ghana. Final Report. Volume One: Evaluation Results and Recommendations on Future Design & Management of Ghana MDBS. ODI, London and CDD-Ghana. 156 pp.*

An important point, however, is that the use of general budget support does not appear to have impeded DP's dialogue with government on sector issues. In fact, this has been strengthened by the introduction of sector working groups (as described below).

### **4.3 Incorporation of environmental objectives into the budget support dialogue**

Budget support dialogue between government and DPs involves discussion around the performance assessment framework (PAF). The PAF forms part of the system of monitoring performance that helps to prioritize reform efforts and identify feasible targets for measuring progress. It represents a new type of policy dialogue between the government and DPs and

so it is not surprising that the PAF has changed considerably since its introduction in 2004. Time has been required for all parties to come to consensus on where the strategic focus of the PAF should lie. This can be seen in Table 12, where the number of policy objectives and indicators can be seen to have varied considerably over the last three years.

*Table 12. The number of policy objectives and progress indicators in the MDBS policy matrix 2005 – 2007.*

	2005	2006	2007
Number of policy objectives	19	31	25
Number of progress indicators	39	55	35

The PAF consists of policy objectives, indicators and a smaller number of triggers. They all relate to the three pillars of the GPRS II, namely (a) promoting growth, income and employment; (b) improving service delivery for human development; and (c) improving governance and public sector management. There have been persistent efforts to include NR-related indicators and triggers under the first GPRS II pillar. This represents a significant challenge, as there is an agreed principle to keep triggers (in particular) to a small number and there is a clear advantage to focus on key areas of progress where the government is confident that targets can be met.

In 2004, the then Ministry of Lands and Forestry (MLF) expressed an interest in having a forest-related indicator included in the PAF. However, the significant revenue-raising function of this ministry complicated the internal government discussions and the proposed indicator did not appear. In 2005, a new approach was taken with the recognition of the value of including a NR-sector governance trigger to help address major governance challenges. This view was no doubt influenced by research that highlighted Ghana’s economic growth was being achieved only at a high cost to the environment. Those costs have been estimated at approximately six percent of GDP, or around US\$520 million, annually (World Bank, 2006b). Discussions between government and DPs continued to a late stage on this trigger but were not concluded, although an indicator relating to the improved management of natural resources did appear within the PAF.

Continuing dialogue between government and DPs led to an agreed trigger in 2006 that focused on a financial framework that would secure funding for the Forestry Commission, with the intent of helping to ensure the sustainability of this key sector. With one NR-related trigger now in the PAF, a second environment-related indicator was also agreed upon with the then Ministry of Environment and Science. However, the demise of the MES in April 2006 interrupted this policy dialogue and progress against the indicator as a consequence was limited. The most recent discussions on this indicator have changed focus with emphasis now being placed on the continuation of strategic environmental assessment as the critical tool to ensure environmental mainstreaming across government.

These discussions on environmental objectives show how detailed the government - DP dialogue has become since the introduction of the PAF in 2004. There is clearly a strategic line to be drawn concerning the appropriate level of detail that is deemed acceptable to all parties. Ultimately these are policy goals of government, for which the Government is accountable to Parliament. DPs should therefore exercise considerable care not to stray into a conditionality mode of negotiation that would undermine this line of national accountability.

**4.4 Development of a sector programme and sector budget support**

The proposed Natural Resource and Environment Governance Program (NREG) is presently under development. This sector-based programme represents a transitional phase between

project support and general budget support, during which time national systems can continue to strengthen. It also provides both DPs and government the opportunity to learn how best to move forward as DPs disengage from project support. When fully developed, it is intended that the sector program should be characterized by five elements:

- a comprehensive and coherent sector policy;
- a unified budget with a medium-term programming framework including all funding sources (government, donors, beneficiary contributions) and a common management, planning and reporting framework;
- a well performing financial management system at sector level, embedded in an overall sound Public Finance Management (PFM) system;
- clear and verifiable performance indicators and a well functioning monitoring and evaluation system;
- a process of institutional strengthening and capacity development (of institutions and human resources) at sector level.

Amongst DPs, the vision has been to create a single, coordinated platform in response to the challenges of environmental management in Ghana. Two important factors have strengthened this perspective: first, it was acknowledged that different agencies could provide support in a number of complementary ways; and second, the multi-agency Poverty-Environment Partnership (PEP) was seen to represent a pool of virtual expertise that could be called on to support the development of thinking around the NREG process.

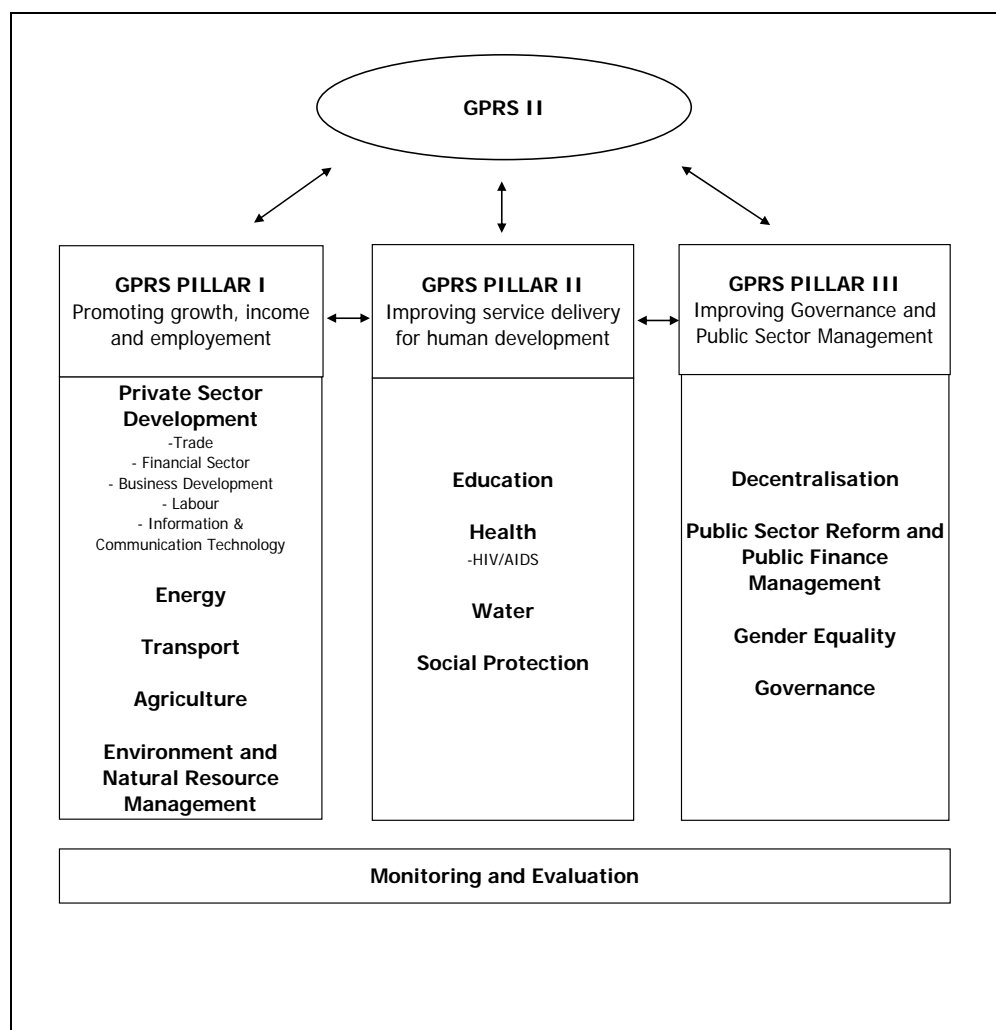
On the government side, the scale of the NREG programme has been defined over time. Forests and wildlife, minerals and mining, and the EPA have become the core government institutions involved in the programme. This spread of environmental remit across a range of government agencies has led to considerable complexity. The model of coherent, integrated planning and budgeting to which the sector programme aspires remains a demanding goal, particularly with each agency continuing to derive resources from multiple sources.

There has been recognition by DPs of the likely need for complementary technical assistance to support capacity building of government departments and agencies. In addition, the proposed budget support arrangements will be complemented by other financing modalities so that continuing support can be directed to non-state actors.

#### **4.5 The role of the environment sector working group**

An important contribution of MDDBS has been the creation of a structured process of dialogue between sector MDAs and the MoFEP at the centre of government. The process relies on a network of sectoral and thematic working groups, whose membership comprises representatives of sector MDAs, MoFEP, Development Partners and Civil Society Organisations. These working groups make proposals for the policy targets and triggers by which to judge their performance in implementing the GPRS and key sectoral policy priorities. A selection of these targets is in turn incorporated within the MDDBS Performance Assessment Framework. Environmental issues are taken up by the environment and natural resource management sector group, which is located under GPRS Pillar I (promoting growth, income and employment) (Figure 1).

Figure 1. Proposed sector working group architecture for GPRS II



Considerable investment (e.g. the preparation of terms of reference for sector groups, the development of key principles for sector group working and model codes of conduct for visiting missions) has been made to define how sector working groups (SWGs) shall operate. These operating guides should now be shared internationally as examples of emerging best practice for guiding government - DP dialogue.

Experience with SWGs is brief. However, one likely challenge will be to limit the scope of these groups to those priorities defined within the GPRS II and not to begin to track all government functions. A strong government sector lead will be necessary to ensure this happens. This is foreseen in the 2007 Ghana Joint Assistance Strategy (G-JAS), which highlighted the fact that natural resources and environment need careful management to assure long-term growth and this could be supported through strengthened coordination mechanisms including sector working groups.

## 5. Conclusions

The main conclusion of this study is that the tracking of public environmental expenditure is very difficult to make because of the fragmentation of the budget, the limitations of the chart of accounts and the discrepancies in financial reporting. We have found this to be the case at the institutional level, as described in chapter two, and also when it comes to specific policy themes, as described in chapter three. Difficulties arise at both ends of the administrative process. Multiple funding sources obscure the full amount of financial inputs and poorly developed tracking systems lose sight of how resources are expended on the delivery of final outputs. Why should this be?

This short study has been unable to discover whether these systemic weaknesses are found right across the government administration. In other words, what is the relative performance of the environmental agencies in comparison with other government MDAs? Attracting only two percent of the national budget, are these weak systems a consequence of the marginal position of environmental matters on the government's agenda?

There is also the question of why this situation is allowed to continue. As reported in chapter two, this study is not the first to note significant weaknesses in public finance management in the Ghanaian administration. So, who might benefit from the status quo? One possible answer may lie within the environmental agencies themselves. Without a strong commitment to transparency, the relative resource allocation given to different work programmes cannot be readily determined. Under such circumstances, personal and institutional interests may override the public and national interest. Even should this criticism be misplaced, there is the risk that these agencies have no strong defence should they be challenged by civil society.

The role of development partners in such a situation should be to promote and encourage speedy improvements in environmental governance. Will this occur under the proposed Natural Resources and Environmental Governance Program? Increasing the financial resources available to the environmental agencies will only see improvements if the institutions themselves are committed to the necessary reforms that will ensure they are 'fit for purpose'. Two major challenges need to be addressed:

- The multiple mandates held by the environmental agencies under the 1992 Constitution should be reviewed.
- The Consolidated Fund as the funding source for government's regulatory functions should be re-emphasised for environmental actions.

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## Laws of Ghana

- 1992 4<sup>th</sup> Republican Constitution of Ghana
- EPA Act 490 of 1994
- NDPC Act 479 of 1994
- Forestry Commission Act 571 Of 1999
- Minerals Commission Act 450 Of 1993
- Sub vented Agencies Act 706 of 2006
- Ministries, Department and Agencies (Retention of funds) Act 735 of 2007

## Annex

### List of those persons interviewed:

<b>Persons met</b>	<b>Date met</b>	<b>Designation</b>	<b>Institution</b>	<b>Email</b>	<b>Phone</b>
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Demedeme Naa Lenason	10 September 2007	Director, Environmenatal Health & Sanitation	MLGRDE		0244 220564
Rudolph Kuuzegh	11 September 2007	Director, Environment Sector	MLGRDE	<a href="mailto:sanykuuz@yahoo.co.uk">sanykuuz@yahoo.co.uk</a>	0244 158319
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Franklin Ferdinard Ashiadey	12 September 2007	Senior Economic Policy Analyst	MoFEP	<a href="mailto:fashiadey@yahoo.com">fashiadey@yahoo.com</a>	0244 689819
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