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GHANA

Domestic Mobilization for Health and Education

Resource Allocation and Utilization in the Health and Education Sectors: Challenges and Opportunities in Ghana

Overview

Sub-Saharan Africa is undergoing a period of significant transformation, with rapid population growth and urbanization, as well as a growing middle class and youth cohort. To realize the potential inherent in these changes, it is essential to ensure access to quality public services with sound governance as a prerequisite for economic growth and stability. In many low- and middle-income countries, the key social sectors – health and education – rely heavily on external funding for important components of sector expenditure, which is neither sustainable nor always sufficient to cover the increasing demand for services. As countries seek to reduce their dependence on donor assistance, it is important to recognize that the economic and political landscape both influences and is affected by decisions concerning the mobilization, allocation and use of resources.

In 2017, the Ghana Center for Democratic Development (CDD-Ghana) and the Health Finance and Governance (HFG) project completed a study that applied a political economy approach to examine the complex landscape of institutions, political pressures,

incentives, obstacles, and costs that Ghana – a country that has recently moved from low- to middle-income status – faces as it transitions towards financing the health and education sectors on its own. Political economy looks not only at the forces and incentives that oppose change, but also those that can be leveraged to drive positive change. This analysis, which draws upon semi-structured interviews, a literature review, and governance research, is particularly timely in the context of health, as Ghana faces increased pressure to improve the financial sustainability of the National Health Insurance Scheme (NHIS), which is open to all Ghanaians. This brief summarizes the results of the analysis, highlighting key constraints and opportunities for mobilizing domestic resources for health and education, and concludes with recommendations that take into account the observed political economy dynamics.



Ghana's Macro-political and Economic Context

Resource allocation decisions in the health and education sectors are made within a broader political and economic context in Ghana (and in other countries). Thus, an understanding of Ghana's political system, the patterns of political competition, and the economic and non-economic incentives they impose on government officials and voters is important for explaining some of the underlying influences on sector-specific resource allocation decisions.



In Ghana, intense democratic competition has contributed to the launch or extension of social policies and programs, but has also generated perverse incentives. Two main parties dominate the political landscape: the National Democratic Congress (NDC) and the incumbent National Patriotic Party (NPP). Since electoral reforms were introduced in the 1990s, elections have become increasingly close, and parties win or lose based on the decisions of swing voters. These voters are often influenced by government performance and substantive policy issues.

As a result, politicians are incentivized to adopt policy measures for the provision of crucial public goods like health or education, which not only promote the well-being of Ghanaians, but also are a means to win votes. Initiatives such as the School Feeding Program, the Ghana Education Trust Fund (GETFund), the National Health Insurance Scheme (NHIS), and the Livelihood Empowerment Against Poverty (LEAP) have all emerged out of election cycles. The success of political

earmarking strategies, which explicitly linked value-added tax (VAT) increases in 2000 and 2003 to the health and education sectors, confirms that public commitment to financing social services has existed in the country. However, political promises made in the last election cycle to expand free access to secondary education, and the reluctance to limit exemption policies or benefits under the NHIS, suggest that the prospect of “free” services still resonates with the electorate.

Political competition has also contributed to biases in policy and resource allocation practices. One such example is a clear bias to emoluments, reflecting the strong influence of professional groups and the limited effectiveness of efforts to control the public sector wage bill. Initial biases in the approved budget are often exacerbated, as salaries are often under-budgeted and crowd out other types of expenditures during budget execution. A second example is a preference for visible outputs like schools, clinics, and roads. While this indicates a certain type of responsiveness and democratic accountability, it does not drive efficient and effective spending (particularly given the prevalence of unfinished projects). In practice, this preference for visibility and measurability reinforces tendencies towards access and away from quality in social sectors.

These practices are inextricably bound to Ghana's economic and fiscal fortunes. Over the past decade, Ghana has experienced economic growth followed by rapidly rising debt and worrisome annual budget deficits, affecting the potential of domestic revenues for the health and education sectors. This is due in part to the presence and impact of politically-driven deficit spending tied to elections.¹ Since the 1990s, Ghana has experienced cyclical fiscal deficits where the government runs large budget deficits due to excessive spending during election years, followed by two to three years of consolidating the budget and reducing the deficit. Unchecked executive power over legislative agendas and financial matters also contributes to these cycles of budget excess, corruption, and weak accountability.

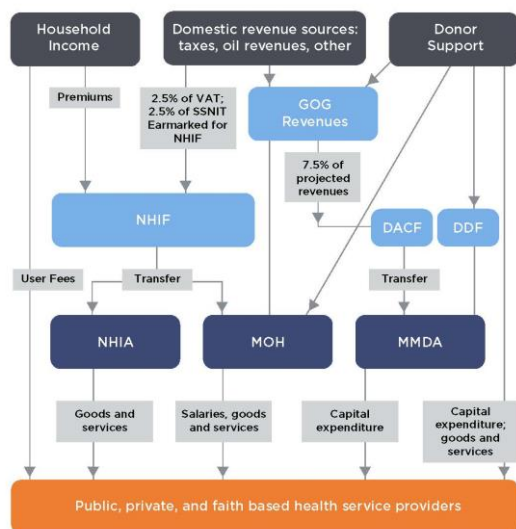
¹ Other major proximate causes of Ghana's debt and deficits identified in the study include: the continuing negative effects of Ghana's electricity crisis, which has undermined economic activity and tax revenue; the contribution of the state-owned enterprise (SOE) debt crisis; severe and continued fiscal pressure as a consequence of the move to the Single Spine Pay Structure in 2012 (itself

influenced by the pressures of the electoral cycle); and the collapse in the price of gold, cocoa, and oil – Ghana's top three exports and key contributors to its revenue – in 2012/13.

Political Economy of Sector Allocation and Expenditure

In this context, there is a need to address the financial sustainability of Ghana's health sector, especially given the recent threats of insolvency facing the NHIS and declining donor support following Ghana's achievement of lower-middle income country status.

Key Financing Challenges in the Health Sector



Ghana's health financing landscape is complex, making it difficult to track the flow of funds and estimate the full magnitude of existing resource gaps. Resources flow from a mix of public and private funds, donors, and individual households to several actors at the central and sub-national level. Many allocative processes also take place outside of the formal budget process (e.g.

facility-level discretion over the use of internally generated funds²). This fragmentation, along with a lack of consistent and accurate resource tracking, contribute to challenges with planning, coordination and accountability. In addition, sizable resource gaps exist – the Health Sector Medium Term Development Plan 2014-17 estimated that an additional 5.5 million GHc (1.7 million USD) would be required between 2014 and 2017 to meet the medium-term health sector goals. The NHIS has also run a consistent deficit since 2009. These resource gaps can be addressed by 1) raising additional resources and/or 2) spending existing resources more effectively and efficiently.

With regards to mobilizing additional domestic resources for health, Ghana faces structural and economic challenges. Given Ghana's recent macroeconomic challenges, finding new sources for domestic revenue for health may be difficult. Tax-based revenue streams, like the National Health Insurance Levy (NHIL)³ are reliant on economic growth. Reprioritizing health within the government budget may also be challenging because most of Ghana's national budget is pre-programmed for specific purposes, leaving little flexibility for changes. Revisions to policies that determine the NHIS' user contributions (i.e. premiums) may generate additional domestic revenue, though premiums have intentionally been set low for political reasons. Moreover, only informal workers pay premiums and while enrollment is mandatory, it is not enforceable in practice, so it is uncertain how much additional revenue could be raised without a significant policy change.

While the prospects for generating additional resources for health may not be promising, there are several opportunities to contain health spending (and thereby

² Internally generated funds (IGF) comprise of: "payments for services delivered under the NHIS; out-of-pocket payments; and other sources, such as private insurance payments or grants from international agencies or local government. IGF are treated as supplemental income to the facilities to cover the recurrent costs associated with service delivery", see World Bank (2012) *Health Financing in Ghana at a Crossroads*. Washington DC: World Bank. IGF is

reported as part of the total public resource envelop for health by the Government of Ghana.

³ The NHIL is one of the earmarked sources that funds the NHIS. It accounts for 2.5 percent of the value-added tax (VAT) levied on selected goods and services.

increase the amount of money available to spend on health) through the introduction of efficiency measures. For example, continued efforts to encourage the NHIS to become a strategic purchaser of services may prevent unnecessary expenditures. Strategic purchasing involves approaches such as rational benefits package design, implementation of provider payment systems that discourage excessive spending, and effective negotiation of drug prices. Other efficiency measures include introducing more effective regulations of policies that govern referrals from lower to higher levels of care. The health sector will also need to grapple with the disproportionately high personnel costs, the inefficiencies resulting from an unclear division of roles and responsibilities between the central and sub-national levels of the health system (i.e. impartial decentralization), high administrative spending, and issues with fraud and corruption.

Political Appetite for Health Reform

Politics has historically influenced health financing decisions in Ghana, not just in implying a generalized commitment to universal health care, but in the actual design and implementation of health financing initiatives as well. The establishment of the NHIS itself has roots in the NPP's 2000 election campaign, following widespread discontent over the "cash and carry" system, which required patients to pay at the point of service before receiving care. Many design choices of the NHIS, such as benefits package design and the determination of NHIS user contributions, were politically driven to appeal to voter bases. Over time, the financial impact of these choices has unfolded. Politics has played an influential role in more recent initiatives as well, such as the disagreements between the NDC and NPP over the capitation⁴ pilots, and will likely continue to do so in the future.

The Akufo-Addo government, which was elected into power in 2016, could have a window of opportunity for meaningful health reform given the health sector's recent challenges. The recognized fiscal crisis (nationwide and within the health sector) and mounting public frustration with the NHIS, including the arrears owed to providers, may support an environment conducive to change. Over the past few years, several assessments of the health sector have been conducted, including the NHIS Technical Review that was commissioned by the previous NDC government to help address Ghana's health financing challenges. Stakeholders are currently discussing several avenues for reform that will likely be shaped in part to align with the NPP's more business-focused orientation and other party interests, including a vision to move 'Ghana Beyond Aid.' Governmental action to address sustainable financing of the health sector is underway, but success is by no means assured. So far, progress has been made to contain drug costs with a decision to use Framework Contracting – a method used to negotiate with drug suppliers to ensure the availability of drugs and standardized prices – to procure 55 high cost drivers on the NHIS Medicines List. This change was initiated by the previous government and completed by the current government – likely motivated in part by an agreement to excuse Ghana's existing debts to the Global Fund. There are, however, ideological and technical differences in opinion over other reforms suggested by the NHIS Technical Review Committee and others, such as the scope and design of capitation. Progress on these policy options will be influenced by political and technical feasibility.

⁴ Capitation was piloted in Ghana (in 2012) as a new method for paying providers for primary health care, where a network of providers receives a

fixed amount per year per NHIS member that chooses to receive care from that network.

Key Financing Challenges in the Education Sector

Ghana's overall commitment of financial resources for education is comparable with or exceeds its regional and global peers. However, shortfalls currently exist for key aspects of service provision and are projected to increase as the government invests in the expansion of secondary education and the shift to a more highly skilled and qualified workforce.

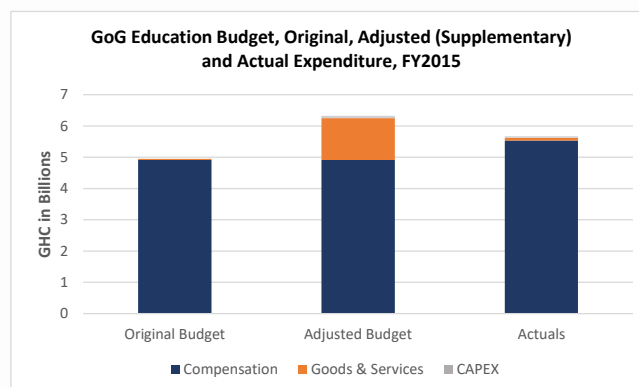
In large, this is due to the significant allocation of general government revenue for wages. In 2012, Ghana adopted the Single Spine Pay Structure to rationalize pay scales across the public sector. Since this policy was adopted in an election year, the government ceded to and approved salary increases that drove up the government's wage bill. As a result, few resources are left for goods, services and capital expenditure, which can affect the ability to address key quality and equity issues. These latter cost categories are funded largely through other sources like the GETFund, but also increasingly through internally generated funds.

This dynamic is further compounded by poor budget performance in which actual expenditures reinforce a bias to emoluments in the budget passed by Parliament. In 2015, actual spending was 115 percent of the budgeted amount, up from 112 percent in 2014. Though the final figures indicate actual expenditures at 90 percent of the adjusted supplementary budget, this was largely due to spending on goods and services with financing made available later in the year (Figure 1). Thus, in spite of the overall level of expenditure, such practices mean that the sector suffers continuous revenue shortfalls that affect the financing of frontline activities like capitation grants and school feeding programmes aimed at securing compulsory universal basic education.

Where funds are secured for capital expenditure, national and local political dynamics tend to support the use of those resources for highly visible, politically

favorable investments. Such practices range from use of district-level constituency development funds, to national prioritisation of classroom construction and the extension of access. Yet, despite the political incentives to deliver visible projects, existing data support the conclusion that a significant proportion of such investments are never completed. The best explanation for this appears to be a failure of local political actors who struggle to maintain focus and agreement in the wake of distributive demands and to sustain bargains over time, rather than corruption or clientelism.

Like health, revenue sources for education are fragmented and require negotiations among a broad set of actors that extend well beyond the bounds of the sector. Multiple channels of funding under the control of district level authorities exist entirely outside of the technical planning and reporting processes of the Ministry of Education (MoE), contributing to planning and coordination challenges, as well as "short-route" accountability challenges where unclear roles and responsibilities appears to undermine the potential for users to understand and exert pressure on providers to improve the effectiveness and efficiency of the use of resources.



Political Appetite for Education Reform

Since 2010, there have been growing calls on government to move beyond the focus on access to basic education to secondary education and improving

the quality of education services. While the NDC and NPP have fully embraced these needs, they differ in views about the pace of implementation. The NPP has campaigned on making access to Senior High School (SHS) free since 2012, while the NDC has sought to promote and argue a progressively free SHS program. A key aspect of divergence in implementation strategies lies in the cost (i.e. how will government finance a free SHS and maintain resources to address persistent quality issues in the midst of ongoing macro-economic challenges?). This politically-driven debate provides a subtext to the broader challenge of sustaining financing for the education sector in Ghana.

In the longer term, it is clear that resource allocation is closely intertwined with the long-term project of democracy building. As local reformers and development partners work to support democratic deepening in Ghana (including through decentralization), they need to continue to work to ensure that the budget process is meaningful. At present, in spite of the legal obligations laid out in the Education Act of 2008, the actual transfer of power to the district level has been slow. Local decision-makers hold relatively little discretion on the use of major resource flows and are instead tasked with implementing instructions from the central government.

The Government of Ghana has officially committed to the election of Metropolitan, Municipal, and District Chief Executives (MMDCEs). Such an undertaking has the potential of bolstering accountability at the local level and nationally. The government has also pledged support to the passage of the education sector wage bill to mitigate the growing budget for compensation. To move this process forward, the Government of Ghana must begin a steady process of engaging the unions and bureaucrats on the mechanics of decentralizing the education sector and addressing concerns of the unions. Implementation of the new proposals was pursued under the Inter-ministerial Coordinating Committee (IMCC) of the local government ministry, but it is

unlikely that the IMCC will be able to lead that process in the short- to medium-term. Rather, the MoE and the Ghana Education Service (GES) should consider engaging on this issue before facilitating a discussion with the Local Government Service and the Ministry of Local Government.

Recommendations

The challenges associated with improving social sector service delivery in Ghana, and the efficiency and effectiveness of the resource allocation processes in supporting those services, are no doubt significant. This is particularly true as the country grapples with the fiscal consequences of its current economic position. Yet the significant progress achieved in health and education in recent years provide reason for optimism. In the health sector, the new government has already introduced some important changes, such as rolling out Framework Contracting and gradually paying off the accumulated arrears owed to providers. The government has also made a commitment to a vision of ‘Ghana Beyond Aid.’ However, other much-needed efficiency reforms are necessary for strengthening the health and education sectors’ financial sustainability. Below are some suggested key next steps for the government:

Health Sector Recommendations

Introduce the redesign of the NHIS’ benefits package to focus on providing universal primary health care (PHC) to all Ghanaians and align this with provider payment methods that promote quality and efficiency. The government may want to move quickly to implement this recommendation that came out of the Ministry of Health (MoH)-sponsored workshop on NHIS reform in 2017, as it will enhance the efficiency, equity and sustainability of the NHIS. Including preventive and promotive services, as well as maternal, neonatal, and child health services, in the NHIS’ benefits package and getting the NHIA to pay providers directly for these services using strategic purchasing approaches will

increase efficiency by directing resources to lower-cost areas that yield important health benefits and may reduce future costs. However, the focus on universal PHC must be accompanied by additional reforms to contain costs, particularly at higher levels to ensure that public resources for PHC do not get diverted for overspending at higher levels of the system.

Engage proactively on the allocation of discretionary government funding to prepare for the possibility that NHIS funding from statutory sources will decline.

The statutory sources that fund 90 percent of the NHIS – NHIL and Social Security and National Insurance Trust (SSNIT) – have already suffered low-growth years. However, the Earmarked Funds Capping and Realignment Act introduced in March 2017 will now cap the total amount of all earmarked funds in any given year to 25 percent of total tax revenues. Together, this provides an impetus for the MoH to actively seek discretionary government funding. To achieve this, MoH teams involved in the budget and medium-term expenditure framework processes must demonstrate the technical and political benefits of investing in the health sector. This can be done not only through data and evidence from financial and actuarial assessments, but also through the introduction of accelerated efficiency measures to contain costs, particularly for the NHIS, which is often seen as wasteful and inefficient by the Ministry of Finance (MoF). These efforts will be an important part of a necessary dialogue between MoH and its partners in MoF and the rest of executive branch leadership.

Education Sector Recommendations

Balancing expenditure in the education sector to sustain improvements in quality.

The resource gap between compensation spending against goods and services and capital expenditure remains very wide and is set to increase with the

introduction of the Free SHS Policy to enact universal secondary education. Current efforts to close the gap focused on increasing revenues are insufficient in addressing the fundamental challenges of funding quality education. The Government of Ghana must seriously consider the medium- to long-term goal of balancing expenditure between compensation, capital expenditure (CAPEX), and goods and services to ensure sustainable financing of quality improvements in the education sector.

Clarify and simplify the financing arrangements and management to facilitate monitoring and accountability.

There are opportunities to simplify existing complex financing arrangements by absorbing the District Development Fund into the District Assembly Common Fund – an effort which is being actively pursued by donors. A complementary effort would be to regulate the discretion afforded in the application of the GETFund resources. Lastly, if financing arrangements cannot be simplified, they should at least not be further complicated (for example, through new development authorities envisaged under the Infrastructure for Poverty Eradication Programme).

Conclusion

As the Government of Ghana, its citizens, and its development partners continue to work towards improved provision of public services, reformers will have to be strategic, determined, and creative in their approaches to the issues laid out above. They will have to pursue reform in a landscape that is shifting as the politics of the budget play out, interest groups jockey for influence over allocative decisions outside the formal budget cycle, and the long-term process of democratic deepening unfolds. This complexity and dynamism means the details of reform and precise composition of reform coalitions will emerge and evolve over time.

Addressing the specific challenges of health and education resource allocation in this broader context may push sector specialists to step outside their traditional areas of focus, requiring them to link technical insights with political savvy, and to engage with a wide variety of individuals and interest groups (Box 1). If they are able to do so, the current moment may well

constitute a moment of real opportunity – not only to build support for technically sound, politically feasible reforms that address pressing health and education sector resource allocation challenges, but also to contribute to a fiscal contract that supports a sustainable relationship between citizens and the state, while providing quality public services for all Ghanaians.

Box 1: Cross-sector conflict and collaboration on resource allocation

A variety of social interests compete for scarce funds in Ghana. Competition is not always overt in the sense that arguments cast two sectors as alternatives, but given limited resources and the current fiscal constraints, hard choices must be made. Yet, opportunities for collaboration do exist. There are a limited number of policy and programmatic areas in which health and education interests overlap and associated joint interests in resource allocation exist. Examples include school feeding programs and girls' sanitation and hygiene, which often have significant benefits for both health and education objectives. Such interventions can provide model issues around which cross-sector interest coalitions can be built. Where opportunities for collaboration in pursuit of common interests are limited or there is a need to offset the costs of a proposed reform to potential spoilers, 'issue bundling' approaches may be useful. Rather than requiring common interest in a single reform issue, issue bundling links policies or programs of interest to one group with policies or programs of interest to another (e.g. by securing approval of financing for two issues in a single bill or budget). These types of *quid pro quo* arrangements, which require agreements of mutual support despite a lack of shared interests, were not highlighted in the evidence reviewed, but have been observed in other contexts as a viable political strategy and might also be effective in this context.⁵

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This brief was made possible by the generous support of the American people through USAID. The contents are the responsibility of Abt Associates and do not necessarily reflect the views of USAID or the United States Government.

⁵ See, e.g. Harrison, T. and Kostka, G. (2012) *Manoeuvres for a low carbon state: the local politics of climate change in China and India*. Development Leadership Program Research Paper 22. Birmingham: DLP