Country Case Study 4:
Assessment of the MTEF in Ghana

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This study forms part of a multi-country study assessing the design and application of the medium-term expenditure framework (MTEF) as a tool for poverty reduction in selected African countries.

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1. Background

The Government of Ghana (GoG) implemented an integrated public financial management reform programme (PUFMARP) in mid 1996 which also included a Budget and Public Expenditure Management System (BPEMS) component to computerise the whole public expenditure management cycle. The Medium Term Expenditure Framework (MTEF) is one component of PUFMARP. Various PUFMARP components aim to improve macroeconomic planning, resources allocation and budgeting, revenue collection, expenditure control and accounting, cash management, aid and debt management, audit and procurement.

The initial rationale for such reform was derived from the overall shift in Ghana from a planned control economy to a liberal market based economy. With respect to the MTEF, weakness in budget preparation was identified in the 1993 Public Expenditure Review. These weaknesses typically were those to be associated with an incremental budget. The 1995 Public Expenditure Review expressed the intention of institutionalising a MTEF as part of the normal budget process. In October 1996, the World Bank agreed a Public Financial Management Technical Assistance Project, one of whose components was the MTEF. Donor financial and technical assistance support to PUFMARP was provided by the World Bank, CIDA, European Union and DFID who assisted the MTEF in particular with consultancy support. The MTEF commenced in September 1997 with the arrival of the DFID funded consultants.

The introduction of the MTEF was initially planned on a pilot basis in three Ministries, Departments Agencies (MDAs) only, but was quickly extended to all MDAs. PUFMARP itself forms one part of a wider transformation process in the public service, which is being implemented by GoG as part of its National Institutional Renewal Programme (NIRP). There are parallel and complementary reform efforts under the NIRP umbrella, with Civil Service Performance Improvement Programme (CSPIP), having the greatest interdependency with PUFMARP.

The MTEF approach to budgeting was introduced into the 1999 Budget. Support for the process was widespread ranging from mention of the wider reform process in speeches by the then President to participation in workshops by the Minister and Deputy Minister of Finance and senior officials, as well as their counterparts in line ministries.

2. The MTEF Process and Organisational Framework

The main player in the preparation of the MTEF has been the MTEF project unit supporting the Ministry of Finance. Within the Ministry of Finance, the Deputy Minister has been the principal proponent along with the Budget Department and Research Department (responsible for macroeconomic policy and analysis). Within the MDAs, Budget Committees have been established to prepare individual MDA's inputs and liase with the Ministry of Finance. Other stakeholders are the National Development Planning Commission, the Controller and Accountant General Department, the Head of the Civil Service, the Bank of Ghana.

The preparation of the MTEF and the annual budget has been the same process without any real separation of effort or function. One is indistinguishable from the other. The budget guidelines for the 2002 budget are entitled Guidelines for the Preparation of the 2002 – 2004 Budget (similarly for earlier years) and ceilings are given for three years. The budget documentation only provides details for the year that the budget is being presented.

The PRS process started after the MTEF. The Ministry of Economic Planning and Regional Co-operation (MEPRC),[1] supported by the National Development Planning Commission, is the main player in the PRS process. The Ghana Poverty Reduction Strategy (GPRS) outlines the consultations that took place linking the GPRS into the MTEF and the budget process, viz.

- Separate GPRS/MTEF/Budget Policy Review workshops for Functional sectors (Administration. Public Safety, Economic Services, Infrastructure, and Social services).
- Separate GPRS/MTEF/Budget Cross Sectoral meetings for Functional sectors.
- Separate GPRS/MTEF/Budget Policy Hearings/Strategy Plans for MDA by Functional Sectors.
- Separate GPRS/MTEF/Budget for MDAs.

Draft estimates by MDAs were scrutinised by Ministry of Finance and by NDPC and was completed and reviewed by Cabinet and Parliament. In this regard, the expenditure component of the PRS has been integrated into the MTEF and Budget. Parliament has to approve the budget, which must by law be presented by 30 November, though the actual budget speech is presented to Parliament much later. The budget is generally revised mainly due to overoptimistic resource envelope estimation.

Ghana holds a Consultative Group meeting with Donors where the Government discusses the budget. This meeting is usually held in the March- April period. Ghana has an IMF programme. A normal feature of IMF (ESAF or PGRF) programmes is IMF vetting of the proposed budget. While this may take place in Ghana, the IMF appears to be concerned more with quarterly cash controls rather than the substance of the budget.[2]

The budget timetable for the preparation of the 2002 budget was woefully truncated.[3] As set out in the Guidelines, the timetable can be found in Table 1.

Table 1: Budget Timetable for the Preparation of the 2003 Budget

Activity	2002
1. Policy Review Workshop	17th –29th Sept., 2001
2. Submission of Policy Review Reports	27th Sept.
3. Strategic Plan Review and Costing	10th –12th Oct.
4. Budget Guidelines Issued with Ceilings	12th Oct.
5. Submission of Draft Estimates by MDAs to MoF	22nd Oct.
6. Policy and Budget Hearings for MDAs	29th Oct – 2nd Nov.
7. MDAs submit final Draft Estimates to MoF	12th Nov.
8. MoF finalises Draft Estimates	13th-18th Nov.
9. Submission of Draft Estimates to Cabinet	19th Nov.
10. Submission of Final Draft Estimates to Parliament	30th Nov.

This table is not consistent with the timetable presented in the MTEF Handbook in the chart below. The date of 30th November is a constitutional requirement for the budget. The 2002 budget speech was not made until 21 February 2002 and it was after the President's State of the Nation Address. It is inconceivable that the type of budget preparation required to fulfil the MTEF approach can be incorporated in this timeframe.

[1] MEPRC is a new ministry created by the incoming government. Prior to its creation NDPC took the lead on the PRS process.
[2] Compared to Rwanda for example.
[3] The timetable for the 2000 budget was slightly less truncated starting with MDA policy reviews and cross-sectoral meetings on 31 July 1999. Budget ceilings were circulated on 17 Sept. The budget statement was on 9 Feb. 2000.

Chart 1: MTEF Process for Preparation of 2000-2002 Estimates

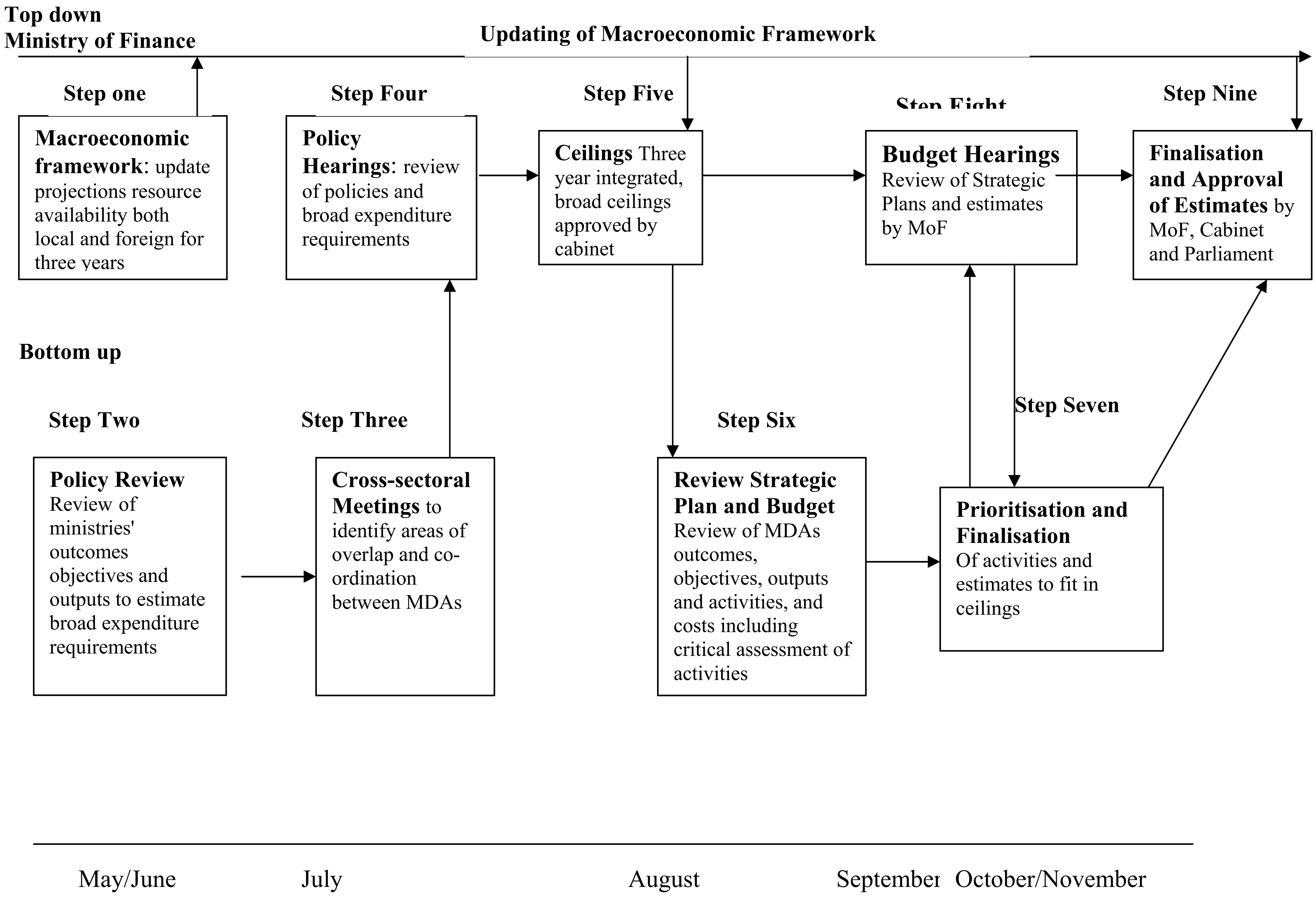


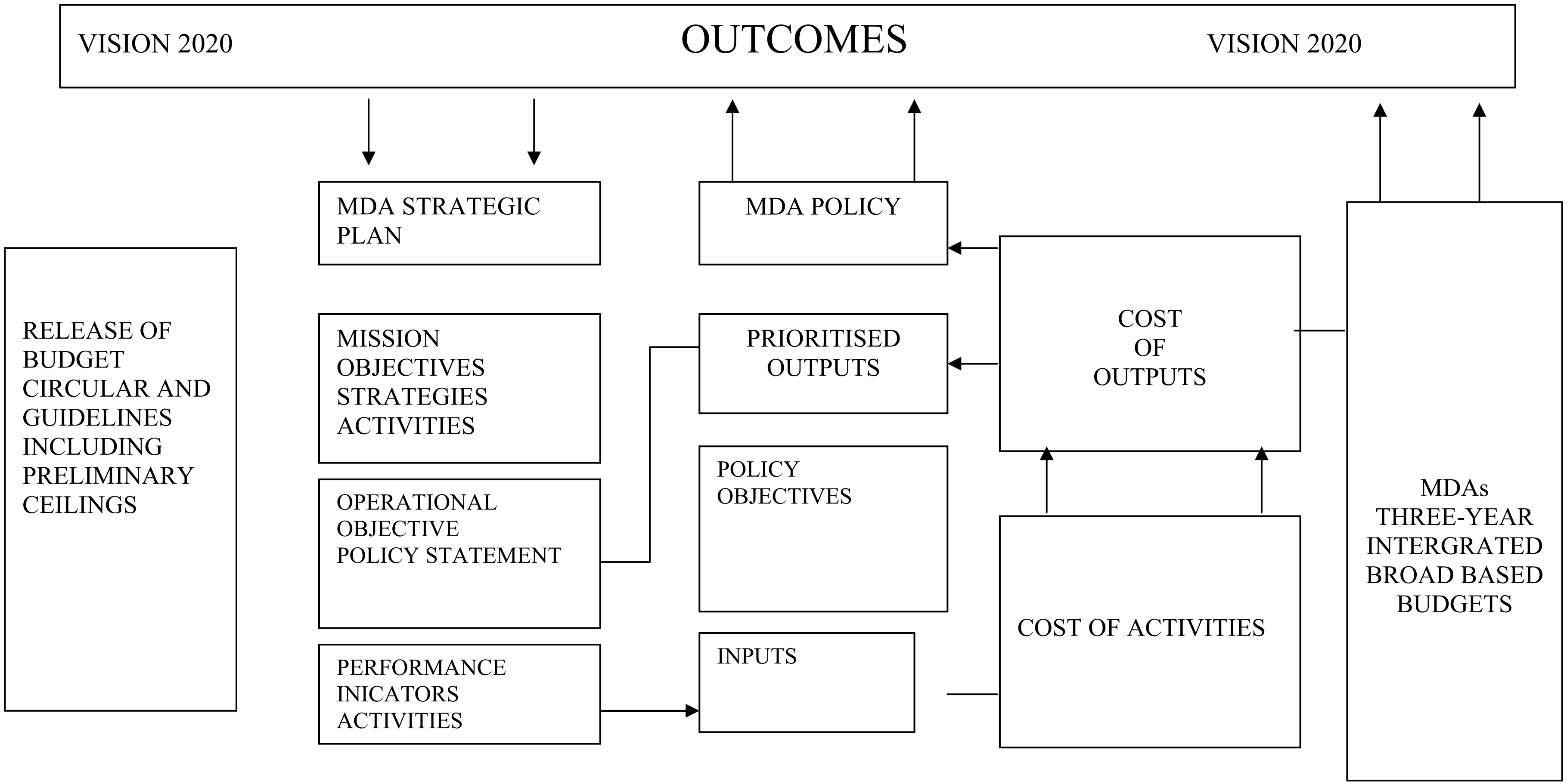
Chart 2: Strategic Planning and Budget Preparation System

I. STRATEGIC PLANNING
Past performance
Planning process
Policy Setting & Costing

II.POLICY HEARING
Evaluation of options
Assessment of policy costs
Stetting of final ceilings

III. BUDGET HEARING
Prioritisation of outputs/activities
Allocation of resources
Preparation of Estimates

IV.BUDGET APPROVAL
Presentation to Cabinet and
Parliament's Approval of budget



3. MTEF Structure and Coverage

The MTEF covers a three-year time horizon. The 2000 Budget Guidelines for the 2000 budget states that out years are indicative. However, it also states that 'guidelines issued last year (1999) included indicative expenditure ceilings for MDAs for 2002 and 2001. It is therefore expected that MDAs have already used these indicative ceilings in planning their expenditure for 2000-2001. Included in these guidelines are indicative ceilings for the year 2002 budget……..The preparation of the 2000-2002 budget estimates is again to be based on the costing of the agreed outputs and activities as defined in each MDA's Strategic Plan.'

The 2002 Budget Guidelines states that 'in preparing the 2002-2004 Estimates, MDAs are to take note of the outputs and activities in the 2001-2003 estimates. In this regard, MDAs are advised to roll over relevant outputs and activities which could not be implemented in year 2001 into 2002-2004 Estimates, if consistent with the GPRS.'

The out years in reality can only be used to examine what the future expenditure consequence of existing policy is likely to be. During the years of the implementation of the MTEF, inflation has been high so the out year figures have to be revised in this light when the annual budget relating to these out years is formulated.

The guideline instructions request that MDAs prepare cash flows which should include revenues (GoG, donor and internally generated (IG), such as fees and changes) so that the Ministry of Finance could determine the financing gap and thus enable the ministry to arrange well in advance for the shortfall to ensure the timely release of funds to the MDA. The detailed budget includes GoG, donor and IG revenues.

The budget and the MTEF structure and system have been reformed, revised and developed hand in hand and are fully compatible. The format is based on 5 broad functional groupings (administration, economic services, infrastructure, social services and public safety, within which there are 37 Votes (ministries, e.g. Ministry of Food and Agriculture) plus contingency. With each vote there is a multiplicity of sub-programmes (extension services), objectives (to formulate sound policies that will promote increased agricultural productivity and reduce poverty in a gender friendly environment.) and output (extension information centre established (EIC) in 10 markets in 10 regions by Dec. 2003). There are activities within objective-programme (furnish the 10 EIC by Dec. 2003), each with its economic classifications (personal emoluments). There is only one budget, which covers four economic classification groups (items): Personnel Emoluments (item 1), Administrative Expenses (item 2) Service Expenses (item 3) and Investment Expenses (item 4). Each of these items has many sub items and sub sub items. The significance of this is that the recurrent and development budget distinction has been removed. The source of financing is linked to the item (GoG, direct donor, IGF).

Nevertheless, within education, the MTEF, as the means to allocate expenditure to priorities, is not comprehensive. The existence of the Educational Trust Fund (amounting to 2.5 percentage points of the 12.5% VAT rate) in Statutory Expenditures and wholly outside the MTEF approach means that some 20% of education spending by central government is not necessarily subjected to the same rigorous prioritisation process as the other 80% in the Discretionary Budget (and therefore within the MTEF criteria.

Table 2:

	Health	Education	Agriculture	Defence
Objective	Increasing access to basic health services	Increase access to and participation in education and training and extend functional literacy opportunities	To ensure the availability of timely, reliable and relevant data on agriculture and information flow of efficient management.	Improve the professional and administrative capacity of the Ghana Armed Forces
Output	Rehabilitation of health facilities	Gross enrolment ratio in basic schools increased to 70% in 2003	Access to quality tools/equipment by farmers	Improved slipway to maintain ships locally
Activity	Work on facilities	Provision of infrastructure by State and encouragement of private sector	Publish 500 resource information manuals annually	civil works on the Naval Dockyard at Sekondi

4. Basis and Process of Setting Resource Projections

The forward projections of macroeconomic performance (the macro framework) is based on projecting key drivers (such as GDP) and deriving fiscal aggregates from them based on historical achievements and targets. The MoF does not operate a macro model of the economy. An attempt was made to build such a model during the MTEF TA supplied by DFID, but this was curtailed due to contractual issues. It is proposed that a macro model be part of the next phase of DFID support. Once operational, it is planned that the IMF programme and the GoG budget be informed by the macro projections emanating from the model and endorsed by Cabinet.

The aggregate fiscal constraint for the budget is derived from the macro framework. However, due to uncertainty and inflationary pressures, the fiscal constraint i.e. total expenditure is different in the Budget from the Budget Guidelines. In the 2002 Budget total expenditure is Cedis 16,358 billion while the Budget Guidelines document has a figure of Cedis 14,003 billion. For revenue and grants, the Budget has Cedis 10,768 while the Budget Guidelines have a figure of Cedis 11,599. These figures would also inform the GPRS.

Given the recent high levels of inflation (a peak of 41.9 per cent in March 2001) comparison of nominal MTEF forecasts with the eventual actual is not meaningful. Indeed, this fact points to an inherent pre condition for the successful implementation of an MTEF – that inflation needs to be forecast accurately. The obvious conclusion of this is that macro policy needs to consistent with low and stable levels of inflation. When inflation is high it tend to be unstable. This means that revenue (and expenditure) are also unstable and difficult to forecast which undermines the MTEF.

Another factor that makes even medium term forecasting difficult is a rapidly changing exchange rate. In the case of Ghana, it has been depreciating at a rapid rate. For a country such as Ghana that receives revenues from trade taxes, a depreciating currency means that *ceteris paribus* there will be an increase in revenue emanating from this source. In reality the Government reduces its percentage share of the cocoa export duty in this period when the international price expressed in dollars was falling. The position in 2002 shows that domestic revenue was above expectation due to the buoyancy of international trade taxes caused by the depreciation of the Cedi. As well, the *ad valorem* nature of indirect taxes means that the impact of inflation will be reflected in the revenue effort compensating for decreases in volume.

Table 3:

Billion cedis	Budget 2001	Rev. Budget 2001	Prov. Act. 2001
Tax revenue	5,932.9	6,255.2	6,556.9
Direct taxes	2,128.2	2,246.2	2,123.7
Personal	726.5	676.5	677.4
Self employed	105.5	145.5	113.8
Companies	975.4	993.4	966.6
Other direct taxes	320.8	430.8	366.0
Indirect taxes	,422.7	2,667.7	2,864.6
Value Added Tax	1,739.7	1,744.7	1,964.1
Domestic	545.3	545.3	508.8
Imports	1,194.4	1,199.4	1,455.3
Petroleum	436.3	676.3	646.6
Other indirect taxes (excise)	246.7	246.7	254.0
International trade taxes	1,382.0	1,341.3	1,568.5
Import duties	1,010.2	1,086.2	1,268.5
Cocoa export duty	371.8	255.1	300.0
Other Revenue Measures	0.0	0.0	0.0
Non-tax revenue	350.0	350.0	347.7

Source: 2002 Budget Speech

Comparison of forecast and actual for percentages of GDP for the 1999 and 2020 Guidelines are presented below.

Table 4: Comparison of forecast and actual for percentages of GDP for the 1999 and 2020 Guidelines

As % of GDP	2000	2001	2002	2003	2004
Total Receipts					
Budget Guidelines 1999	28.30	27.10	21.90		
Budget Guidelines 2002			24.12	23.24	23.18
Actual	36.50	30.70			
Domestic Revenue					
Budget Guidelines 1999	18.80	19.80			
Budget Guidelines 2002			19.63	19.47	19.92
Actual	17.70	18.20			
Total Expenditure					
Budget Guidelines 1999	28.30	27.10	21.90		
Budget Guidelines 2002			29.11	27.50	26.29
Actual	36.5	30.70			

There is some explanation for the deviation contained in the Budget Speech under the review of the previous year, which compares the provisional outturn with the revised budget.

The 2001 Budget, Revised Budget and Provision Actual are presented below. The most notable observation is that the Budget has a financing gap, which disappears in the Revised Budget. Consequent downward revision of expenditures in the Provisional Actual is met with a reduction in Other Receipts (borrowing).

Table 5: 2001 Budget, Revised Budget and Provision Actual

Billion Cedis	Budget 2001	Rev. Budget 2001	Prov. Act. 2001
Total Receipts	13,826.7	13,073.8	11,680.8
Total revenue & grant	8,154.9	8,524.7	8,476.8
Total revenue	6,282.9	6,605.2	6,904.5
Tax revenue	5,932.9	6,255.2	6,556.9
Non-tax revenue	350.0	350.0	347.7
Grants	1,872.0	1,919.5	1,572.3
Project	884.1	707.3	511.0
Programme	987.9	1,212.2	1,061.3
Other receipts	5,671.7	4,549.1	3,206.3
Financing gap	2,607.7	0.0	0.0
Net Domestic financing	760.3	686.0	862.5
Total Payments	13,826.7	13,073.8	11,680.8
Statutory payments	7,770.1	5,574.8	5,474.5
Discretionary payments	6,056.6	7,498.7	6,206.3
Personal emoluments	2,615.1	2,620.0	3,036.5
Administration & Service	799.9	898.1	717.3
VAT refunds		87.2	26.8
Total Investments	2,641.6	3,434.3	1,859.4
Domestic financed (excl. DACF)	915.0	480.0	214.6
Other cash expenditure	480.0	480.0	210.6
Net lending			4.1
Foreign financed	1,726.6	2,954.3	1,644.8
Arrears clearance (Roads)	235.0	259.1	224.1
Non-road arrears clearance	200.0	200.0	442.4
Divestiture liabilities	…	…	143.6
Items in transit/ float	0.0	0.0	-243.8

Source: 2002 Budget Speech

5. Basis and Process of Setting Aggregate Limits and Broad Allocations

The Budget Guidelines sets out allocations by Vote (spending agency grouped by 5 functions) in detail for the budget year by items 1 to 4 for GoG funding, and total for donor funding. For the two out-years total GoG funded and Donor funded ceilings are also given.

The out years, though expressed in monetary terms, reflect the roll over of 'relevant outputs and activities which could not be implemented in year 2001 into 2002 – 2004 Estimates, if consistent with the GPRS.'

The Budget is a unified budget where the distinction is between current and capital spending rather than recurrent and development. There is one overall expenditure limit, which is set with reference to the macro framework established by MoF. The MTEF macro projections provides the budget fiscal scenario as the budget is the first year of the MTEF on a roll over basis. Cabinet reviews the draft budget when MDA submissions have been agreed with MoF. The 2002 Guidelines set the limits that MDAs have for each of the items 1 to 4 with an element of flexibility with respect to sub items within the total set for items 3 and 4. However, the level of PE for each Vote in both the Budget and Budget Ceilings do not include any salary increases that may be anticipated during the year. These are allocated to a General Government services category and reallocated when a pay award is made. The budget is revised during the year primarily to take account of revenue shortfalls.

In the 2000 Budget Guidelines explanation of how the broad sectoral shares is estimated is documented. Historical averages provided the basis for the sectoral allocation 2000-2002, which are then modified by government priorities and policies to generate indicative sectoral shares. The 2002 Budget Guidelines presents the broad sectoral shares without any such explanation and gives the source as MoF and NDPC.

Both sets of Guidelines provided detailed instructions to the MDA on preparing their estimates at the cost centre level with a focus on strategic plans detailing mission statement, objective, outputs and activities (with the 2002 version including poverty reduction activities). Changing objectives or activities related to policy should change expenditure allocation. In reality there are very few degrees of freedom for an individual MDA to alter its expenditure distribution as items 1 and 2 are quasi fixed costs and items 3 and 4 are subject to cuts resulting from revenue shortfalls.

Performance targets are not set even though there is specified relationship between inputs to outputs through specific activities. The Budget and the MTEF are strongly linked with the budget having much more importance. At present the MTEF documentation serves the annual budget process. Cash budgeting process effectively undermines the MTEF as it generates the element of uncertainty that the MTEF is meant to eliminate. Outputs, but not outcomes, are set in the strategic planning model that underpins the budget and the MTEF. Each programme has an objective and a related output with activities and inputs specified to achieving this output.

Sector	Output
Education	Literacy rate increased to 60%
Agriculture	Extension Officers trained in gender and HIV/AIDS related issues annually
Health	Promote traditional medicine

The outputs and targets are set within each MDAs strategic plan developed under the MTEF. The GPRS forces MDAs to place a greater poverty focus on objectives and policies. This will change the initial targets that each MDA has formulated in the development of the MTEF.

The First Medium Term Development Plan (1997-2002) elaborated on the Vision 2000, but was not effectively linked to the budget (and therefore) the MTEF process. A separate Public Investment Plan (PIP) has not been developed.

Donor involvement is the budget is related to specific funding for sectors and the budget indicates where donor resources fund an activity. For programme support to the budget, conditionality exists that directs budgetary resources to certain areas (EU SASP has conditions that ensures that health care and basic education should increase). IMF and World Bank conditionality tends to b centred on policy reform in general though the IMF had an increase in health expenditure as a percent of domestic primary expenditure within the policy matrix or the 1999-2001 ESAF.

6. Policy, Planning, the MTEF and Budgeting

The Budget Guidelines give clear instructions on how policy (and policy changes) is incorporated into the MTEF and budget. 'For 2002-2004 MTEF, MDAs should incorporate the **poverty reduction policies of the GPRS** (the Guidelines emphasis) into their Strategic Plans which will involve a further review of existing policies and strategies of MDAs. as well as the introduction of new policies'

Later on the Guidelines state that 'All MDAs should accompany the draft estimates with the following documents:

- The Revised Strategic Plan detailing the mission statement., objectives, outputs and activities including relevant poverty reduction activities;
- The revised list of outputs and activities in order of priority;
- An explanation of the impact of the preliminary ceilings on the level of outputs and activities for the three year periods (2002-2004);
- A justification for the 2002 estimates for each cost centre. This should include a description of the Objectives, Outputs and Activities for each cost centre and the related expenditure for the activities. The MDA expenditures should be justified including the recurrent implications of investment expenditure.

Each MDA will be required to determine whether the implementation of the Strategic Plan will result in:

- changing its objectives or activities
- increasing or reducing its responsibilities and activities
- changing the shares of expenditures between outputs, e.g. shifting resources between research and extension
- changing the balance between capital and operational costs over the three-year period, taking into account the resources available. It should be possible to assess whether additional funds are required for the activities under the Revised Strategic Plan and whether these are affordable within the Preliminary Ceilings.'

The GPRS sets the broad policy agenda and has sectoral policies. The MDAs are then tasked with incorporating them into their Strategic Plan and linking them to the MTEF and the Budget. These will be subject to Cabinet review as part of the budget process.

Government and donor support to Health and Education is organised on the basis of a SWAp. There is also the possibility that recent work in the agriculture sector may move donor assistance towards the SWAP process. For example, as part of its response to the GPRS the Ministry of Food and Agriculture (MOFA) has carried out a strategic review of its policies and programmes resulting in the draft *Food and Agriculture Sector Development Plan (FASDEP)*. This is a significant milestone in terms of taking control of the strategic agenda and rationalising the plethora of donor-led programmes and projects that has characterised the sector.

Policy stems from the President's Inaugural State of the Nation speech, which gives the broad direction that the Government will take with respect to policy areas. This speech set the overall policy frame of the Government for its term of office and is the most important source of policy. Everything emanates from this speech.

The 2002 Budget Speech states that 'in the context of the GPRS, Government development priorities in the medium term, as outlined by the President are:

- infrastructural development;
- agriculture and rural development;
- enhanced social services with emphasis on education and health;
- good governance; and
- private sector development.

These areas underpin Government development programmes for 2002 and are prioritised in budgetary allocations within their broad sectoral groupings.'

Within agriculture, MOFA's response to the broad goals set in the President's speech (and the GPRS) has been to produce a policy document (FASDEP) to produce a holistic policy framework. Under FASDEP, MOFA intends to collaborate with other relevant MDAs such as the Ministry of Trade. What is not clear from the document is whether this is an initiative of MOFA that has engaged the rest of Government or is something that has not been discussed in detail prior to dissemination.

7. Basis and Process of Organisational Expenditure Planning

Expenditure estimates are prepared at the cost centre at each MDA and aggregated to the MDA for presentation of the Ministry of Finance. Each MDA has a Policy Planning Monitoring and Evaluation Division (PPMED) and has developed a Strategic Plan under the MTEF. Expenditure estimates are linked to this. ACTIVTE software is used to present the budget. Under the MTEF, a Budget Committee was established in each MDA to prepare the budget according to the MTEF handbook

As part of the budget process under the MTEF, each MDA sets out its mission statement, objectives and outputs. It also allocates its expenditure in terms of its objectives within each department. However only item 3 (Services Expenses) and 4 (Investment Expenses) are allocated to objectives that a MDA sets. Item 1 (Personnel Emoluments and item 2 (Administrative Expenses) are not as yet allocated to objectives under the resource allocation process developed under MTEF. The individual expenditure line is identified as having a poverty focus or ordinary (by default).

In the 2002 Budget, the Ministry of Finance allocated items 1 and 2 in full. While the totals for items 3 and 4 were also set by the Ministry of Finance, MDAs could in theory, allocate these totals to sub items according to its own strategic plan.

If the original internally developed estimates of an MDA exceed the MoF ceilings for the MDA, the MoF requests a review of the estimates making use of the prioritisation criteria to scale down the outputs, activities and expenditures to fit within the ceilings. These estimates are the basis for the budget hearings. Internal allocations are not subject to performance indicators.

Costing Forms are included in the Budget Guidelines and are sent under separate cover to the MDAs from the MoF. Costs are prepared at the level of the MDA Cost Centre by activity. For item 1 (personnel emoluments) the number in post and the salaries as approved by the Ghana Universal Salary Scheme are used. For items 2, 3 and 4, the quantities of each sub item required and the unit cost forms the basis of the calculation. The ACTIVTE software is designed to handle this cost procedure.

8. The MTEF and the Budget Execution

There are at least two revisions to the original budget. The first deals with the allocation of the amount set aside in General Government Services Vote for any salary increases during the year. The second is based on a clearer understanding of the resource envelope that may be available during the year.

The Budget Speech is the repository of fiscal data. In the 2002 Budget Speech, this however only extends to the years 2000 actual, 2001 provision and 2002 budget and only for revenue and expenditure in aggregate. It is only for the actual budget year that expenditure by Vote (i.e. by use in delivering services) is given. Comparing actual expenditure with budgets (revised or otherwise) is not possible.

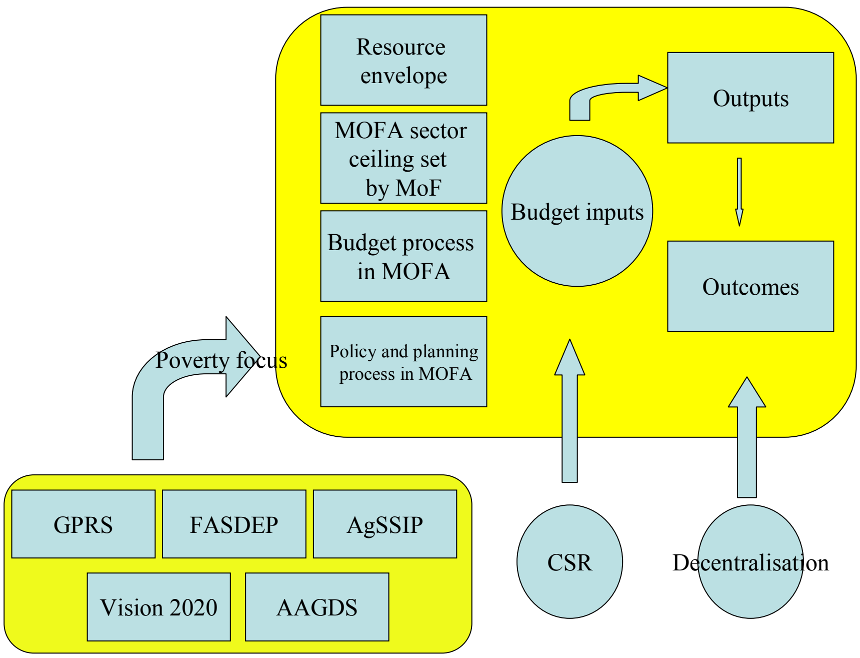
This is an area that is receiving attention. It is proposed that expenditure monitoring and reporting will be strengthened through the upgrading of the Controller and Accountant General's Department. As well there is the Budget and Public Expenditure Management Systems (BPEMS) which seeks to computerise the whole budget and expenditure systems. These are part of the PUFMARP project.

9. The MTEF and the Poverty Reduction Strategy

The budget (and by default the MTEF) includes a poverty focus. The budget guidelines give clear instructions that MDAs should incorporate the poverty reduction policies of the GPRS into their Strategic Plans detailing the mission statement, objectives, outputs and activities including relevant poverty reduction activities.

The chart shows the MTEF/budget process in the context of MOFA and how the poverty focus is incorporated from the GPRS and the various agriculture related policy documents. While the diagram portrays a smooth flow between the various elements, there are a series of disconnects between the pieces – with various elements changing at different paces, being at different stages of implementation, and facing different timeframes.

Chart 3: MTEF/budget Process in the Context of the MOFA



The 2002 budget speech has tables that show Planned Poverty Reduction Expenditure by Source, 2002 (GOG and Donor) and by Sub-Sector, 2001-2002 (GOG only).

Table 6 : Planned Poverty Reduction Expenditure by Sub-Sector, 2001-2002 (GOG only) (in billion cedis)

SECTOR	2001	2002
TOTAL GOVERNMENT EXPENDITURE	8,908.1	9,796.1
TOTAL POVERTY REDUCTION EXPENDITURE	1,525.4	2,128.2
Total Poverty Reduction Exp./Total Govt. Exp. (%)	17.1%	21.7%
EDUCATION SECTOR	1,504.2	1,955.9
BASIC EDUCATION	789.6	1,094.7
Basic Education/Total Educ. Exp. (%)	52.5%	56.0%
Basic Education/Total Govt. Exp. (%)	8.9%	11.2%
HEALTH SECTOR	427.0	488.9
PRIMARY HEALTH CARE	301.2	380.4
Primary Health Care/Total Health Exp. (%)	70.5%	77.8%
Primary Health Care/Total Govt. Exp. (%)	3.4%	3.9%
AGRICULTURE	55.6	102.7
POVERTY FOCUSED AGRICULTURE	43.7	82.7
Poverty Focused Agriculture/Total Agric Exp. (%)	78.6%	80.6%
WORKS AND HOUSING	54.3	59.4
RURAL WATER	11.4	17.8
Rural Water/Total Works and Housing (%)	21.0%	30.0%
ROADS AND HIGHWAYS	302.9	571.9
FEEDER ROADS	85.3	203.8
Feeder Roads/Total Roads and Highways (%)	28.1%	35.6%
ENERGY SECTOR	24.2	44.75
RURAL ELECTRIFICATION	18.0	33.9
Rural Electrification/Total Energy Exp. (%)	74.2%	75.7%
OTHER POVERTY	276.2	314.9
Other Poverty/Total Got Exp. (%)	3.1%	3.2%

Source: Budget and MDA Annual Estimates, 2001-2002

1/ The 2001 figures are based on the Revised Budget

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- Separate GPRS/MTEF/Budget Policy Hearings/Strategy Plans for MDA by Functional Sectors.
- Separate GPRS/MTEF/Budget for MDAs.

The GRSP is very clear on the link between the GPRS and the MTEF and budget. 'Poverty focused expenditure priorities in the GPRS can only be implemented if they find expression in the annual budgets of the MDAs. The MTEF provides the budgetary framework for MDAs to incorporate into their respective budget, aspects of the GPRS that are relevant to their mission. To ensure that MDAs do indeed reflect the GPRS in their budgets, the MoF and the relevant planning agencies (i.e. MEPRC and NDPC) will work in close collaboration' (page 46).

Draft estimates by MDAs are scrutinised by Ministry of Finance and by NDPC and was completed and reviewed by Cabinet and Parliament. In this regard, the expenditure component of the PRS has been integrated into the MTEF and Budget. Parliament has to approve the budget, which must by law be presented by 30 November.

The GPRS's horizon extends to 2004. The GPRS documents states that 'Funds from on-going poverty related projects, HIPC savings, GoG sources, additional donor support, as well as other non traditional sources of funding will be used to finance the programmes, projects and activities under the GPRS. In some cases expenditure will have to be shifted to priority sectors to achieve poverty reduction targets…….. The implementation of the three-year rolling programme for poverty reduction and growth is framed to result in realistic but significant improvements in poverty reduction and growth.'

Volume 2 of the GPRS is set to comprise:

- An analysis of expenditures for poverty reduction and growth within the budget ceilings for 2002-2004.
- Costed programmes within the budget ceilings for 2002-2004.
- Costed programmes to achieve the GPRS unconstrained by the budget ceilings.

The costing methodology reflects that used for the MTEF.

In March 2001, the Government took advantage of the Enhanced HIPC initiative. Once the eligibility of Ghana to apply for HIPC relief had been established, debt service payments to bilateral donors was suspended which brought budgetary savings of about US$190.0 million (¢1,368.0 billion in FY 2001). As part of the HIPC initiative, Government set up a monitoring system under the IMF funded budget advisor to track the identified poverty related expenditures by ensuring that these are reported on monthly through the cycle of budget releases, expenditure authorisation, commitment and expenditure.

The planning/policy/budgeting process at the district level is inchoate despite proposals for decentralisation being made in the 1980s.

10. The MTEF and Local Government

The first steps towards decentralisation and the devolution of power began in the 1980s. By 1988, 110 District Planning Authorities had been established to begin the process of transferring planning responsibility, including rural development, to the Districts and local authorities. Other laws such as the Local Government Act 1993 began to operationalise the concept further. Eleven departments (including agriculture) were established at the District level; 13 for municipal authorities. The intention of decentralisation was that District Assemblies (DAs) would become the agents for the provision of physical infrastructure and services. These would be partially or totally funded through revenue transfers from the central government. Decisions regarding priorities would lie with the District Assemblies.

The process to date has been described as being more like deconcentration than devolution or decentralisation. Despite the fact that a number of reforms had been implemented up to the late 1990s, the momentum has slowed considerably in recent years. The central agencies and ministries remain reluctant to devolve responsibilities and, in many cases, have done little to facilitate or implement the process. Limited political pressure is being exerted by the GoG on these groups to push through with the reforms. The Districts want the responsibilities but are not willing to take them on without the requisite staff and resources to effectively implement them. In a number of cases, such as the water sector, responsibility was transferred, but not the staff nor funding to support it. This placed the Districts in an untenable position in terms of service delivery and accountability to the community.

Indicative of this slowdown is the fact that two key pieces of the decentralisation-enabling environment remain absent:

- Work on a Local Government Service Bill was first started in 1997, and has been extremely slow to progress through the system. It is now finally being introduced into Parliament and the earliest date for passage is October 2002. However, the Bill still faces some constitutional issues regarding the health and education sectors. It has also come under some criticism for not making provision for the full control over District business by the Assemblies, including staff matters and may be further revised before passage. If passed, it will establish a Local Government Service and clarify further the roles of the respective levels. This Law will also set the guidelines for devolution of staff and functions.
- Fiscal decentralisation has not been implemented (it is part of the PUFMARP programme). It is now projected that an interim arrangement will be in place by the end of 2004, which will move the system towards complete fiscal decentralisation. This measure will see the District Assemblies having access to a composite budget. Under this scheme the Districts will develop programmes and will place a budget request with the central government. The various sector Ministries will approve or change the allocations of their sectors, in consultation with MoF. The sum of all of these sectoral approvals will then represent the financial flows to the District. There will be no flexibility by the Districts, however, to reallocate budgets between sectors. Nor is there any guarantee that the priority areas of the District will be funded. The eventual implementation of block grants (either conditional or unconditional) will be done at a later date. It will only be under this latter system that Districts will be given the ability to truly set priorities across sectors and programmes and plan effectively.

11. Quality of Information

Until the programme for strengthening the CAGD is operational and BPEMs functional, the quality of information is insufficient to maintain a functioning MTEF. The pressures from the GPRS to improve this situation is considerable and the document is littered with reference to the need to ‘ introduce reforms to the budget and public expenditure management system as a matter of urgency’ page 34… ‘The annual budget as a public expenditure management and planning tool must be considerably strengthened at all levels’ page 129.

Ghana has a Living Standard Survey (now in its fourth round as GLSS 4) which provides detailed information of poverty *inter alia*. A computerised monitoring and evaluation system has been set up under the GPRS and has been piloted and tested in 4 districts and is being manually implemented in the remaining districts. The M&E system will be used to facilitate monitoring and evaluation of:

- Implementation of policies and measures in the GPRS
- Outcomes and outputs as defined in the MTEF and the budget using the GPRS as the main guideline
- Impact of policies and programmes on levels of poverty in Ghana.

Impact evaluation will be established through the use of surveys such as GLSS, Core Welfare Indicator Questionnaire (CWIQ) and the Ghana Demographic Health Survey (GDHS).

These various surveys are set up to measure output. What is needed is an improvement in the measurement of financial flows relating to Government expenditure so that the link can be made. The HIPC monitoring system has been set up to improve this, but this needs to be done across the whole of Government.

The ability to monitor performance is likely to be an important feature in Civil service Reform as it will allow the development of contacts based on achievement and results.

12. Conclusions

The first review of the MTEF was held in March 1999. This review concluded that 'so far what was achieved was extraordinary. The first year budget under the MTEF has produced a change, which has not been seen in any other country, in such a short period. The first clear message is that it has been an extraordinary process already, but success is not guaranteed. There is a lot that has to be done.'[4] Yet by 2002 the message is one of relative failure in the GPRS. GoG had prepared a Comprehensive Financial Management Reform Action Plan, which aims to revitalise the MTEF *inter alia*. Donors such as DFID have prepared projects to revitalise the MTEF. Clearly, some thing has gone wrong between the first review and the time the GPRS was drafted.

An examination of the MTEF shows some admirable achievements that were reflected in the quotes above, notably the development of the strategic planning model at the level of the MDA supported by a Handbook which details all the steps in preparing the budget and MTEF, the unification of the recurrent and development budget into one budget reflecting current and capital components, and the ACTIVTE software to develop the budget linking expenditures to activities and outputs.[5] As well there was an impressive newsletter (PUFMARP News) that disseminated what was happening in MTEF within the overall PURMARP programme. Judging from the reporting there, the MTEF team carried out many successful workshops with MDAs on the various element of the MTEF.

Why the hiatus in achievement and need to kick-start the MTEF?

There are many reasons for this present situation, which require immediate attention of the MTEF is to become a respected tool of resource allocation in Ghana.

One, the Medium Term Expenditure Framework is but one component of PUFMARP which itself forms one part of a wider transformation process in the public service, which is being implemented by GoG as part of its National Institutional Renewal Programme (NIRP). There are parallel and complementary reform efforts under the NIRP umbrella, with the Civil Service Performance Improvement Programme (CSPIP), having the greatest interdependency with PUFMARP and the MTEF.

The MTEF approach to budgeting was introduced into the 1999 Budget. The successful introduction of a radical change to the budgeting system from an incremental budget to an output-oriented budget does not happen in a short period of time. The GPRS is quite critical in the lack of progress in implementing the MTEF, perhaps unfairly given the timeframe, but it is correct to state that any constraints in implementation should be removed. It is also important that the output of the complementary reforms, particularly Civil Service Reform, can be fed into the MTEF process.

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[4] PURMARP News March 1999.

[5] This does not mean that ACTIVTE was used optimally.

A key feature of the MTEF is flexibility in the use of inputs to deliver public services: manpower is one of the biggest inputs in the public sector. If there is rigidity in the public service that hinders the optimal use of inputs to achieve outputs then the budgeting system cannot operate efficiently. In this sense the MTEF and Civil Service Reform are like the sides of a coin, both critical components – one without the other is meaningless. The implementation Civil Service Reform is not proceeding as fast as anticipated and as a result will hinder the revitalisation of MTEF. Indeed the GRSP recommends an urgent increase in the capacity of an appropriately sized public service with radically improved conditions of service.

Two, while the MTEF introduced the strategic planning model, nothing has been done with respect to the budget timetable and the supporting budget documentation that is essential to the introduction of the MTEF. The format of the budget timetable and the budget speech has not changed with the introduction of the MTEF process. As a result the MTEF process has been parachuted into a budget formulation structure that is unsuited to the MTEF. Much more should have been done in developing the timetable by starting it earlier in the year, thus making it much longer.[6] This could ensure that the budget speech took place before the start of the financial year. In this regard, the revised budget could become the actual budget. As well, ensuring that any wages increases are budgeted within the sectoral allocations will allow comparison of the budget with actual expenditures. Much more should have been done in developing documentation (Background to the Budget, Budget Framework Paper, for example) to support the Guidelines to the Budget and the Budget Speech. The Budget Speech could then focus on broad fiscal issues rather spending on projects in detail.

Three, the process of development of the timetable and associated documentation could have generated a greater degree of ownership of the MTEF. Ownership has also been impaired by not fully integrating the MTEF support unit within the Budget Division of the MoF. It is likely that the MTEF was implemented as a 'project' rather than as a fundamental reform within the Ministry and owned by it.

Four, while the MTEF in Ghana nominally uses a three-year planning horizon, it is really only a part of the annual budget cycle. As the MTEF approach was mooted to be the basis of the 1999 and the subsequent two years' budgets, a second MTEF cycle should have started for the 2002 budget, but this did not happen. Each cycle needs to be preceded with a review of policies and programmes and related activities so that redundant policies and programmes can be removed and new policies accommodated. There is no evidence of the detailed sector expenditure review process having taken place at the start of each of the two MTEF cycles so far, although in the agriculture sector, AgSSIP, could be seen as a partial review. What does take place is an annual update of the Strategic Plan, but this is not a substitute for a fully focused sector review. Within education, the MTEF, as the means to allocate expenditure to priorities, is not comprehensive. The existence of the Educational Trust Fund in Statutory Expenditures and wholly outside the MTEF approach means that some 20% of education spending by central government is not necessarily subjected to the same rigorous prioritisation process as the other 80%. A fully comprehensive sector review would address these issues.

Five, the GoG authorities acknowledge that revenue forecasting and macroeconomic planning has been a fundamental weakness in the application of the MTEF. However, analysis of the budget, revised budget and provisional actual indicates that annual budgets have been wholly unrealistic on the expenditure side rather than on the tax and grant component of revenue, which has been forecasted reasonably accurately (albeit due to the impact of a depreciating exchange rate and the capture of inflation through *ad valorem* indirect taxes). While revenue forecasting may need to be

[6] The proposed timetable in the MTEF Draft Handbook provides four more months than the practice.

improved, realistic budgeting of this revenue on the expenditure side is more of a problem. In essence, government has planned to spend more than it has available from the various revenue sources, necessitating downward revisions within the budget execution cycle. This reflects certain lack of fiscal discipline even at the planning stage.

Budgeting in the aggregate needs to be addressed critically from both the expenditure and revenue sides. From the expenditure side, a clear understanding of what is affordable in the aggregate is needed. On the revenue side, an estimation of what the amount of sustainable funding (domestic tax and non-tax revenues and borrowing) that the economy can support is required along with external donor resources. These then will generate an aggregate figure for prudent public expenditure that can be used in the budget call circular to guide MDAs in their budget preparation.

It is true that Ghana experienced external shocks during the MTEF period under review (significant fall in the international price of cocoa[7] and gold, which generated revenue losses, compensated by currency depreciation gains, and increases in oil prices, which increased expenditure costs). These impacted both on expenditure and revenue and reduced predictability. Nevertheless, the type of adjustment (e.g. increase in VAT rate to raise additional revenue to meet expenditure needs) was not undertaken to ensure that the resource envelope could match the expenditure needs. Downward revision of expenditures was the response, which made planning and budget execution difficult for MDAs.

Six, one strength of the MTEF as applied in Ghana is the emphasis on defining objectives and activities, and the focus on outputs and outcomes. The MTEF manual and detailed budget documents (detailed ministerial votes) have a clear focus on these. However, it is not all that evident that they are linked to expenditures that are required to deliver the outcomes and outputs. It may be that the development and implementation of the model was over too short a period and suffered from being overly technocratic in its introduction. A longer and slower implementation period at a pace that allowed other key reforms to take place also may have led to greater acceptance and ownership.[8] One of the consequences of this is that information may have been generated to supply the system (e.g. ACTIVTE) at a pace that could not be matched by the quality of the information at both the Centre and the MDAs.

In a fully functioning MTEF budget, the allocation of inputs would be determined at the sector level to deliver the sectoral activities to achieve the targeted outputs and associated outcomes. This is the bottom up approach to budgeting. Yet the Guidelines for the Preparation of the 2002-2004 Budget provide expenditure ceilings for categories 1 (Personal Emoluments, PE), 2 (Administrative Activity Expenses), 3 (Service Activity Expenses) and 4 (Investment Activity Expenses) given by the Ministry of Finance.

This suggests that the true bottom up approach to budgeting is lacking. Indeed the process of allocating financial resources to expenditure heads is dictated at the Centre with an explicit instruction that items 1 and 2 are outside the MTEF process and whatever capacity there is to allocate resources to expenditure categories strategically is confined to items 3 and 4. This in effect means that 1 and 2 are effectively fixed expenditures. Categories 3 and 4 are those that are prone to revision if there is a revenue shortfall, as is generally the case because of overestimation of aggregate expenditure in the first place. As a result of this MDAs may be unable to deliver services, as they do not have the funds for essential input components.

Moreover, items 1 and 2 are not allocated to activities in the detailed MDA budget but aggregated into two separate ‘overhead’ headings with items 3 and 4 allocated to activities. In reality, this

[7] At a time when the Government price to farmers was significantly increased.

[8] It would also be fair to say that these other reforms should have been at a pace amenable to the MTEF.

means that it is impossible to examine what is allocated to each activity, and therefore relate funding to inputs, outputs and outcome – a key aspect of the raison d'être of a MTEF.

What has happened is that the Centre was unable to be sure of its resource envelope estimates. At the same time the MDAs implemented a model that required considerable detail (objectives, activities and outputs) and the allocation of financial resources linked to that level of detail. The Centre was unwilling/unable to allocate sector ceilings in a meaningful way, but the MDAs applied the model irrespective of the incompleteness of the financial flows to operate the model as well as greater ability and certainty in the setting of objectives etc.

Seven, implementation of the MTEF cannot de carried out in isolation of other necessary reforms because these components are needed for its implementation. For example, the work undertaken in the National Institutional Renewal Programme relating to Civil Service Reform must be integrated into the MTEF budget formulation process as the manpower budget is the single biggest components of most MDAs' budget. The inability to be flexible in preparing budgets at various levels will continue to hinder the implementation of the MTEF. This is not to deny that this will be difficult and require time and considerable effort, but without it the MTEF will not materialise, as GPRS says it should.

At present the budget preparation process has more of an 'incremental budget' (albeit relatively sophisticated) structure rather than that of an MTEF process. Resources are allocated based on what was received in previous years rather than on any rational allocation based on the policy and planning process. Any changes in priority are accommodated at the margin rather than through a revision to the allocation of the available financial resources.

The success of the MTEF requires good planning and budget capacity at the sectoral level for the bottom up budget approach to fully play its part in the MTEF process. The lack, so far, of the sector review process through a well-focused sector public expenditure review has meant that the work on linking inputs to activity, outputs and outcomes has not had an expenditure focus. This is particularly so that items 1 and 2 have not been factored into the budget making process within the MDA. MDAs cannot be expected to deliver services optimally in this context.

Institutionally the carrying out of a sector public expenditure review can address weakness in the planning process and capacities at the sectoral MDA level. In addition, the estimation of resource envelope and the provision of the sector ceilings already broken down into categories and resultant inflexibility require addressing if the MTEF is going to work.