

CENTRE FOR POLICY ANALYSIS (CEPA)

**SEMINAR SERIES ON MACROECONOMIC
MODELLING AND PUBLIC ACCOUNTS
MANAGEMENT**

Overview of the Budgetary Process

GOVERNMENT OF GHANA BUDGET CYCLE

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THE BUDGET CYCLE - PERSPECTIVE AND CONTEXT

WHAT IS A BUDGET?

- **an intricate and complex process that is used as a tool of accountability and management.**
- **also an instrument of economic policy**
- **the Budget as an operational document, spells out the cost and the nature of expected results.**

THE BUDGET CYCLE - PERSPECTIVE AND CONTEXT

The budget is an important instrument of economic management.

- **Annual decisions taken in the budget process, both within and outside government relate to either an amount of stimulus or restraint to be exercised in the economy.**
- **The budget is the standard by which the actual achievements of government and its departments are measured in a given time period.**

THE BUDGET CYCLE - PERSPECTIVE AND CONTEXT

- **It sets out explicitly the government's fiscal and monetary objectives on an annual basis.**

It is used as the central reference point for the implementation of economic management.

- **The government formulates its goals and objectives for a fiscal year;**
- **establishes priorities for the use of scarce resources;**

THE BUDGET CYCLE - PERSPECTIVE AND CONTEXT

- **mobilises and allocates resources among specific programmes and activities;**
- **identifies policies and operational modalities to implement programmes and projects efficiently; and**
- **provides for the evaluation of results in relation to objectives, targets and utilisation of resources.**

THE BUDGET CYCLE - PERSPECTIVE AND CONTEXT

The budget serves as a strategy that continues action on three fronts:

- **maintaining sound economic and financial management;**
- **investing in key economic and social priorities; and**
- **providing tax relief and improving tax fairness.**

Legal Bases that Underpin the Budget Process

- **The Constitution – the President shall cause to be prepared and laid before Parliament at least one month before the end of the financial year, estimates of the revenues and expenditure of the Government of Ghana for the following financial year. – Chapter 13, 179(1).**
- **Appropriations Bill/Act – Passes every fiscal year.**
- **Financial Administration Act (FAA)**
- **Financial Administration Regulations (FAR)**

Legal Bases that Underpin the Budget Process

- In Ghana, the Ministry of Finance and Economic Planning provides a vigilant supervision of all the MDAs through the provision of quarterly and monthly expenditure ceilings and the institutions of sanctions to departments that exceed their ceilings. Expenditure returns from the various MDAs are submitted to the Expenditure Monitoring Unit of the Ministry of Finance, which then advises on what actions to take.**
- The performance of such duties has a legal backing to ensure that the ministries do not incur excessive obligations for government.**

The Budget Cycle in Ghana

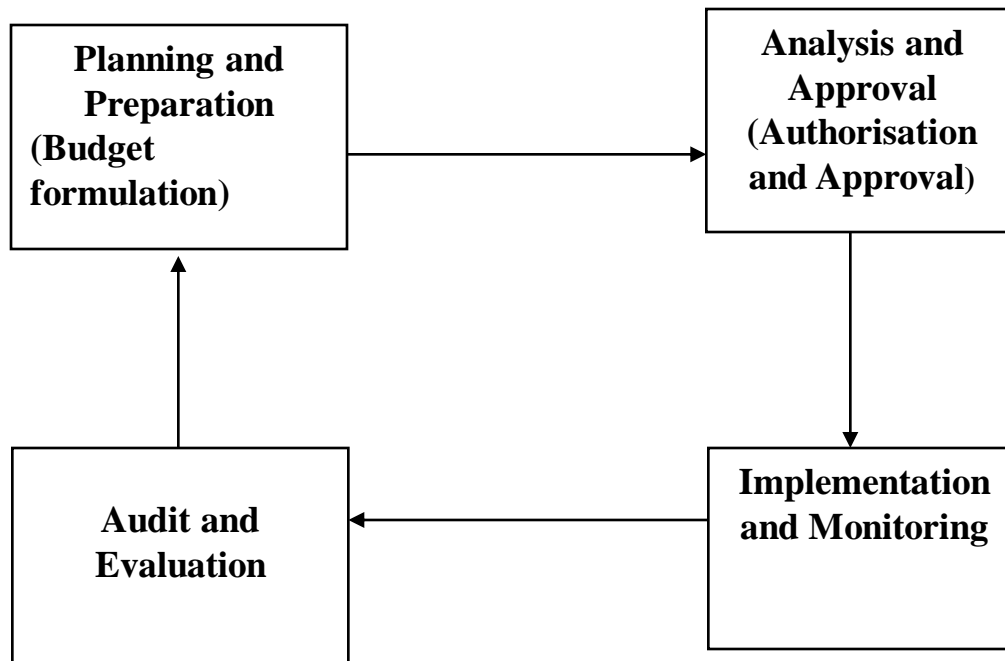
- **There are four main phases of the budgetary cycle in Ghana.**

These are:

- **Planning and Preparation (Budget Formulation)**
 - **Analysis and approval (Authorisation and Approval)**
 - **Implementation and monitoring**
 - **Auditing and evaluation**
- **At any point in time, more than one of these processes take place simultaneously.**

The Budget Cycle, cont'd

The Budget Cycle



a. Planning and Preparation (Budget Formulation) Stage

This consists initially of the determination of the macro-economic framework for the country after which budget circular on the guidelines for the preparation of sectoral budgets are formulated and distributed. MDAs are made to submit their draft estimates at budget hearings, after which the conclusions are sent to Cabinet.

a. Planning and Preparation (Budget Formulation) Stage, cont'd

- **Budget formulation targets a macroeconomic framework, so as to achieve growth in national income.**
- **It incorporates policy measures and initiatives that will lead to the attainment of the growth target**
- **Typical macroeconomic Objectives of Ghana's Budget and Economic Policies include the following:**
 - **Real GDP growth**
 - **Rate of inflation**
 - **Overall budget balance**
 - **Domestic primary budget balance**
 - **Gross official reserves**

Planning and Preparation (Budget Formulation) Stage, cont'd

- **In endeavouring to meet distributional objectives, conflicts of economic and administrative nature arise in the determination of the amount of resources that could be classified as ideal or optimal between competing needs.**
- **In Ghana, the distributional concern is the prime responsibility of MDAs, while the responsibility of allocation lies in the purview of the Ministry of Finance.**

Planning and Preparation (Budget Formulation) Stage, cont'd

- **Chief Directors or whoever is the “vote controller” of the various MDAs, use the budget (or are expected to use the budget) for effective and timely management of their programmes.**

STRUCTURAL CHANGES IN BUDGET FORMULATION IN GHANA

Budgeting and Efficiency In Management

- **many countries are moving from the traditional process of budgeting that concentrated on resource allocation and input control to budgeting for performance in economic management.**
- **The new approach in budgeting, of which Ghana is no exception aims to forge a more direct link between the allocation of resources through the budget and performance in reaching objectives.**

STRUCTURAL CHANGES IN BUDGET FORMULATION IN GHANA, cont'd

- **Revenue and expenditure budget contents may not have changed much, but the structure of budget formulation, especially with regard to the expenditure budget has changed over time.**

Weaknesses in the Old Budgeting System

Inherent problems associated with Ghana's budget Included:

- **incremental budgeting without review, whether the activities that were funded should have been continued or not.**
- **The investment budget was made up of a large number of projects, making it more difficult to link the activities funded through the development budget to the Government's own priorities.**
- **The budget preparation process did not link the achievement of objectives and meeting of targets with the financial resources required.**

Weaknesses in the Old Budgeting System, cont'd

- **There was a general emphasis on the control of inputs and less on improving performance of the sector through meeting its objectives and targets**
- **The cost implications of completed projects were not catered for in subsequent recurrent estimates.**
- **The budget was not broad-based since it looked only at domestic resource envelope.**
- **It lacked ownership on the part of MDAs;**
- **There was lack of timely reporting.**

Reforms

- **The weaknesses were formally identified initially in the 1993 Public Expenditure Review (PER) prepared by the Government of Ghana, and subsequently in the PER of 1994.**
- **Reform was deemed necessary to be able to address these weaknesses.**
- **Introduction of the Medium Term Expenditure Framework (MTEF) and, subsequently, the Budget and Public Expenditure Management System (BPEMS) as part of a Public Financial Management Reform Programme (PUFMARP), which was launched by the Ministry of Finance in July 1995.**

The MTEF

- **The MTEF is a tool for determining the available financial resources and the allocation of these resources in tandem with government priorities and macroeconomic policies.**
- **The MTEF approach is based on the premise that, financial resources are limited and unlikely to increase significantly in real terms for the medium term. There is, therefore, the need to focus on ‘value for money’ in the allocation of public resources.**

The MTEF, cont'd

The main features of the current MTEF budget structure include the following:

- **A broad-based resource envelope of central government activity, which is funded by both the Government and the Donor community;**

- **Expenditures are divided into two**
 - i) Statutory Payments**
 - **Debt service**
 - **External Interest**
 - **External amortisation**
 - **Domestic interest**

The MTEF, cont'd

Statutory transfers include

- **DACF**
- **GETF**
- **Road Fund**
- **Social Security contributions**
- **Pensions**
- **Gratuities**
- **National Health Insurance Fund**

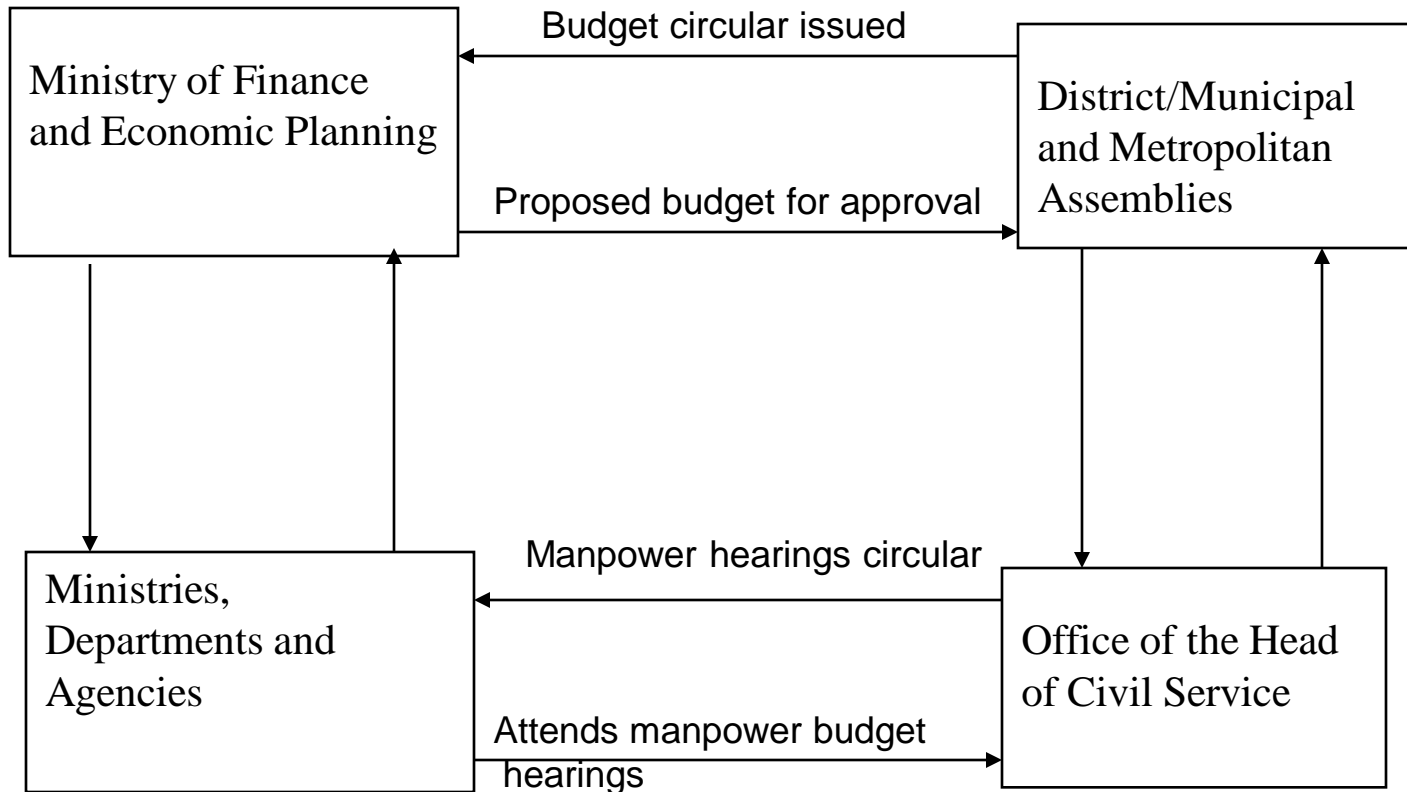
The MTEF, cont'd

■ ii) Discretionary Payments

- Item 1 - Personal Emoluments
 - Item 2 - Administration activities
 - Item 3 - Service activities
 - Item 4 - Investment activities
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- There are also five activity sectors under discretionary payments
 - General Administration
 - Economic Services
 - Infrastructure
 - Social Services
 - Public Safety

Budget Planning and Preparation (Budget Formulation) Stage

- a)



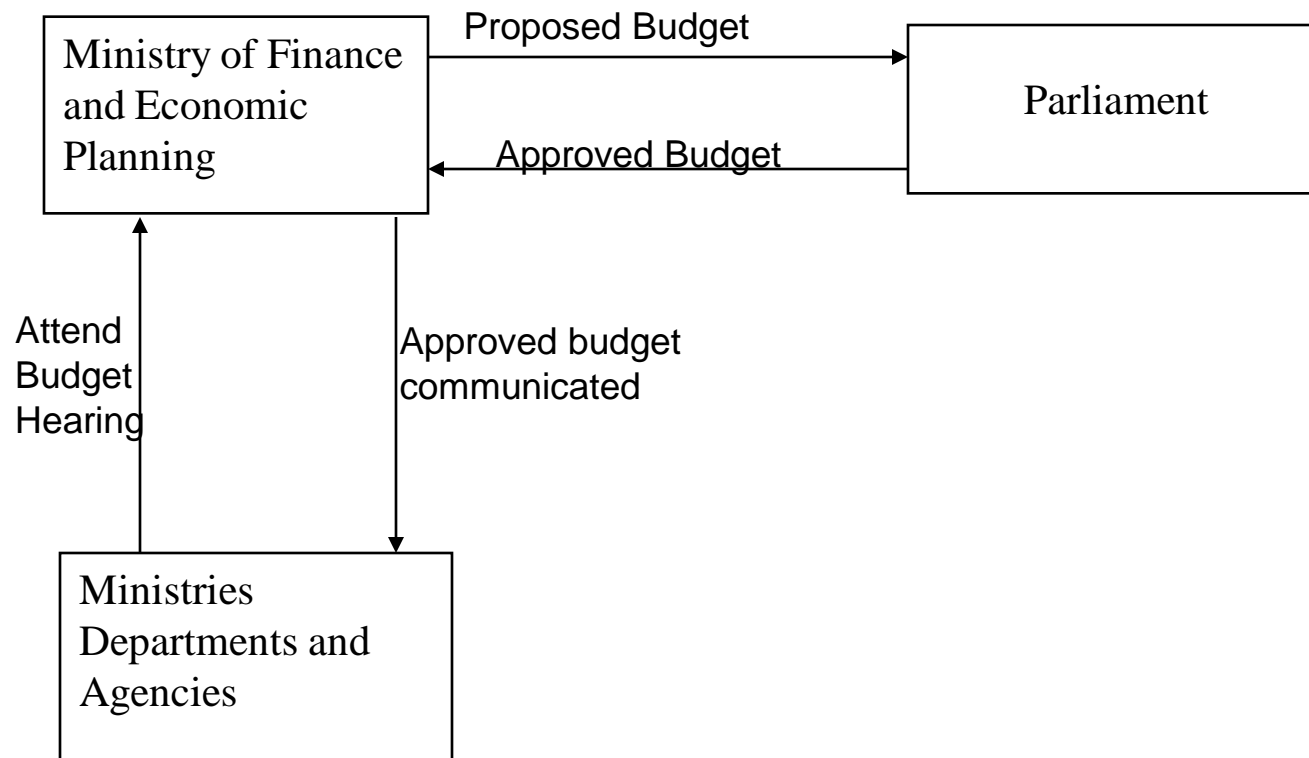
b. Analysis and Approval (Authorisation and Approval)

After Cabinet have discussed the draft estimates, it is forwarded to parliamentary select committee for examination and concluded with an approval by Parliament of the Appropriation Bill

(The role of Parliament to be presented)

Budget Analysis and Approval (Authorisation and Approval) Stage

- b)



c) The Implementation and Monitoring

This phase proceeds with the issue of a General warrant/Specific warrants to the Controller and Accountant General's Department (CAGD) by the Minister of Finance, followed by the CAGs issuance of instruction to the Treasuries.

Implementation and Monitoring

- At the macro level, the Minister of Finance has to authorise releases. There are limits to which releases can be effected by
 - The Minister
 - Deputy Minister
 - The Chief Director
 - Director of Budget
- They ensure that cash is available before releases are effected.
- At the Micro/MDA level, the Vote Controller is responsible for releases. Treasury officers from CAGD are posted to various MDAs.

Implementation and Monitoring

- **In order to ensure that budgetary spending is kept in balance with available revenues and is devoted to the most urgent priorities, a cash and commitment control system based on realistic cash flow forecasts has been instituted.**
- **A Cash Management Unit in the Ministry of Finance prepares a plan of projected cash inflows and, hence, cash availability.**
- **Against this revenue plan, expenditure requirements are set**
- **Statutory payments – interest payments; amortisation of external debt; etc**
- **Priority needs of MDAs presented through expenditure plans prepared by the MDAs**

Implementation and Monitoring

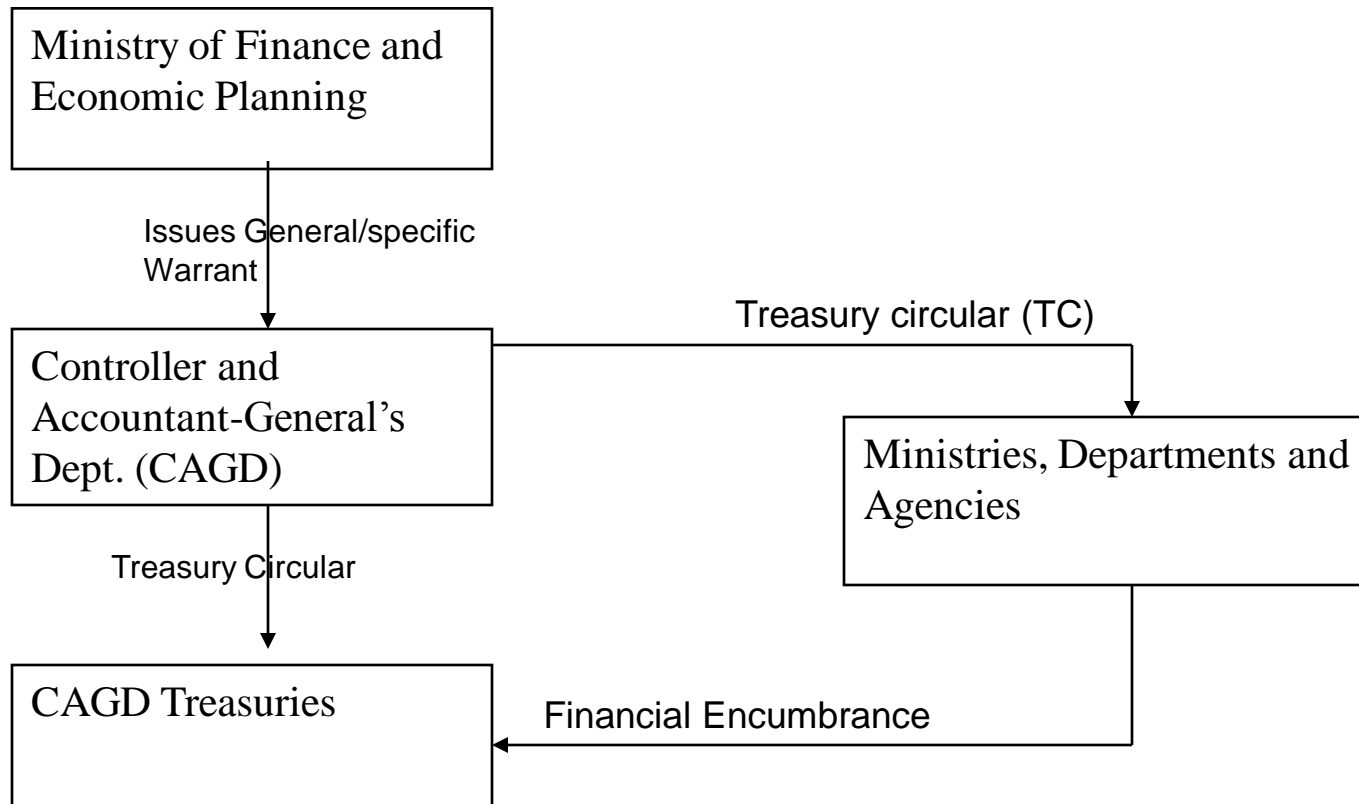
- **Cash management is important in budgeting for the attainment of effective economic reasons, these include ensuring that borrowing is within specified limits and to minimise interest on national debt.**
- **also significant for general economic policy in the wider context of public sector borrowing requirement.**
- **Implications on fiscal and monetary policy of build up by public agencies of cash balances in banking system (that is, lend to commercial banks), especially if due to transfers from the budget to public enterprises/MDAs**

Implementation and Monitoring

- **In Ghana a directive had to be issued in 1998 for all state agencies to transfer their deposits from deposit money banks to the central bank.**
- **A cash management committee has been formed and a unit created to coordinate cash management in Ghana.**
- **PSBR is computed and used at the T'bill auction conducted by the Bank of Ghana**

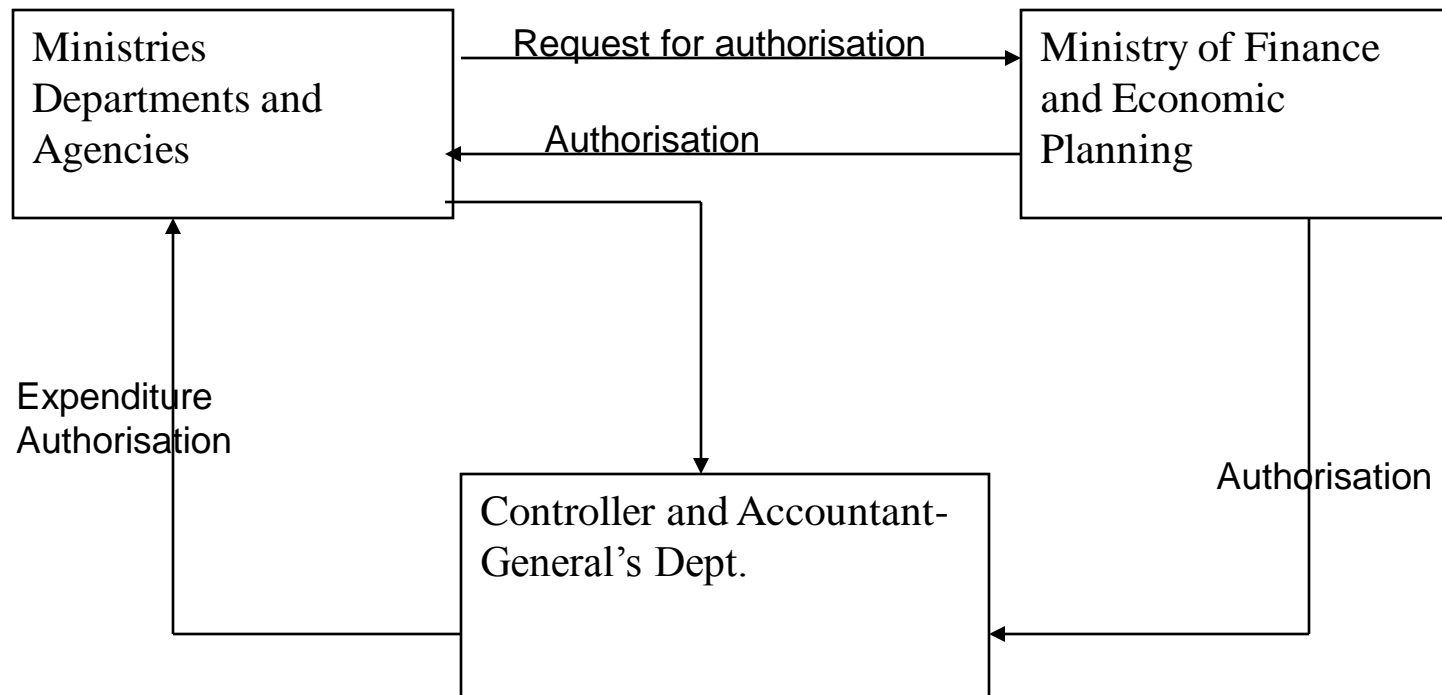
Budget Implementation and Monitoring Stage

- Recurrent Expenditure



Budget Implementation and Monitoring Stage Cont'd.

- Development Expenditure



d) Audit and Evaluation-

This phase involves the assessment of performance and determination of the variances between programmed targets and what was actually achieved.

Evaluation of policy and the year's performance provides basis for appropriate corrective measures in the ensuing year.

Some auditing and evaluation outcomes

PERSONAL EMOLUMENTS

- **Personal emoluments are controlled centrally, but appropriations are made to subvented organisations that operate their own salary payment systems, and this is a source of major leakage in the cash management system. There are usually excessive payments for wages and salaries, and it is difficult to check these, as the organisations do not return any excess releases to government chest.**

MEASURES

- **In order to rectify this anomaly, it is intended to bring payments of emoluments of subvented agencies within the centralised IPPD system operated by CAGD.**

Some auditing and evaluation outcomes

REVENUE REPORTING

- **Revenue collections by the revenue agencies and deposited in commercial banks are expected to be transferred to the central bank without delay. However, in some instances, revenues could linger in commercial banks for weeks before being transferred, thus jeopardising the projected cash flow.**

MEASURES

- **A CAG/BOG accounts have been opened in commercial banks and considered as part of the Government account with the Bank of Ghana. Revenues collected and deposited in these accounts can, therefore, be accessed immediately by the bank of Ghana and counted as part of Government account.**

Some auditing and evaluation outcomes

UTILITY BILLS

- **Recent experience has shown that MDAs severely constrained for funding have been inclined not to settle their utility bills, in the knowledge that it is unlikely that supplies will be cut off.**

MEASURES

- **Utility bills are, therefore, being settled centrally, and MDAs are required to validate their bills before these are passed on for payment.**

Some auditing and evaluation outcomes

- **Also, an electronic collection system for customs, the GC-Net has been established, thus allowing CEPS revenue collections to be accessed immediately.**

Some auditing and evaluation outcomes

- If strict cash ceilings are to operate successfully, a robust system for controlling commitments to incur spending is necessary. This entails monitoring actual releases against the ceilings, and implementing corrective action where required.**
- Sometimes there are over-commitments in relation to cash available and, hence, build up of arrears.**

MEASURES

- In order to prevent commitments for which expenditure provision does not exist within the QEC system and prevent accumulation of arrears, the following mechanism will be necessary:**

Some auditing and evaluation outcomes

- **Each MDA's vote controller should have a personal responsibility for managing the system, with the possibility of sanctions if commitments are not contained within the cash ceilings;**
- **Particular emphasis on the importance of the authorisation stage before orders are placed, with appropriate clearance procedures to ensure that funds are available and new commitments are properly recorded;**

Some auditing and evaluation outcomes

- Payments are to be made only if commitments have been properly authorised and recorded;**
- There should be regular monitoring arrangements, with monthly reporting on outstanding commitments by CAGD to the EPCC.**

The Role of Internal and External Audits

- Internal Audit is a management function and is currently the responsibility of the Controller and Accountant-General's Department. MDAs have their internal auditors who certify the appropriateness of expenditures before they are incurred
- External auditing is carried out by the Auditor-General who is independent of the CAGD. This function is basically ex-post.
- All appropriations are copied to the Auditor-General.

Major Impediments to Efficient Budget Management

- **Lack of Ownership of MDAs' budget**
- **Weaknesses in expenditure management**
 - **Extra-budgetary expenditures**
 - **Quasi-fiscal operations**
 - **Over-expenditure in wages and salaries**
 - **Commitments and arrears build-up**
 - **Lack of routine reconciliation of expenditures**

Major Impediments to Efficient Budget Management

- **Non-implementation or delays in the implementation of policy measures incorporated in the budget, especially with regard to revenue measures**
- **Terms of trade shocks**
 - **High prices of Crude oil imports**
 - **Low and volatile export earnings**

Major Impediments to Efficient Budget Management, cont'd

- **Laxed tax administration**
 - **Lack of logistics**
 - **Corruption at the revenue agencies**

- **Perennial shortfalls in external inflows – both loans and grants**

- **Weak Statistical data**
 - **Unreliable and untimely reporting on the budget outturn**

Some Solutions

- Need for strong mobilisation of domestic resources to support the budget – not necessarily through increased taxes, but through improved administrative efficiency.
- Need for strong implementation of the budget- the operationalisation of the BPEMS

THE END

THANK YOU