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BUDGET DISCIPLINE SHOULD BE ENTRENCHED IN GHANA AS A POLICY PRIORITY

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Summary

Perennial fiscal deficit overruns in Ghana and their adverse effects on the economy have attracted widespread concern. Motivated by this concern, IEA carried out research to assess the processes, arrangements and the legal framework for budget preparation, implementation and oversight. The study included a survey of selected MDAs and relevant Parliamentary Committees. The study found that budget preparation is largely in conformity with international practice. However, there are severe implementation and monitoring deficiencies, including laxities in managing control systems and weak parliamentary oversight, leading to impunity in spending overruns with no sanctions. The paper makes wide-ranging recommendations for entrenching budget discipline in Ghana.

IEA Ghana

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Budget implementation in Ghana has long faced challenges, with outcomes often deviating from estimates. Typically, revenue estimates tend to be underachieved while expenditure overruns often occur. This leads to deficit overruns, which escalate in election years. Deficit overruns drive up the public debt and destabilize the economy through inflation, external deficits, exchange rate depreciation and high borrowing costs. Economic instability in turn stifles savings, investment and growth. Persisting lapses in fiscal management have generated concerns both internally and externally. Internally, several constituencies have voiced concerns about the adverse effects of deficit overruns on the economy. Externally, donors have expressed similar concerns while credit rating agencies have downgraded Ghana's sovereign rating, leading to widening of Ghana's borrowing spreads.

Motivated by the foregoing concerns, IEA has conducted research to assess Ghana's budget preparation, implementation and oversight based on available information and on a survey of Ministries, Departments and Agencies (MDAs) and Parliamentary committees and individuals.[2] The major findings and policy recommendations of the research are presented in this abridged version of the paper.

BUDGET PREPARATION

The international standards for budget preparation include: use of a macro-framework, fiscal rules, multi-year planning, unification of recurrent and capital budgets, universality in terms of consolidation of revenues, top-bottom approach, prioritization and provision for reserves.

Ghana's budget meets **the macro-framework** criterion in the sense that it is normally linked to the government's medium-term development framework. The budget also usually forms part of a general macroeconomic framework with other targets, including economic growth, inflation and the balance-of payments. The budget is, however, not based on any **"fiscal rules**," like "cash-budgeting," "budget balance" or "debt ceilings." In general, fiscal rules promote fiscal sustainability and macroeconomic stability. The annual budget is usually located within a medium-term macroeconomic plan that spans three years typically. In that sense, it meets the **"multi-year planning"** criterion. The projections for the outer years

[2] For the full report, see Kwakye, J. K., and Nkechi Owoo, 2014, *"Assessment of budget preparation, implementation and oversight in Ghana,"* IEA Monograph No. 39

may not, however, be sufficiently firm or robust. Moreover, in the course of implementation of the plan, it is common for large deviations to occur from original macroeconomic targets; these have serious implications for fiscal and macroeconomic sustainability.

The budget is prepared by a single ministry, the Ministry of Finance (MoF), and combines both recurrent and capital spending. In that sense, it meets the **"unified budget"** criterion. In principle, a unified budget should make it easier to enforce spending limits. But, in practice, unification is not a sufficient condition to avoid out-of-control expenditures. The budget is **"universal"** to the extent that all revenues go into one fund, the Contingency Fund (CF). In principle, universality should prevent diversion of funds to "extra-budgetary" or "off-budget" expenditures. The contrary may, however, happen in the absence of strict control and monitoring systems. The budget preparation is **"top-bottom"** in the sense that the MoF issues comprehensive guidelines to individual MDAs. In principle, the top-down approach reduces the possibility of line ministries exceeding their spending limits. However, this alone is not enough to keep spending in line and requires other equally important control systems. The budget preparation goes through a back-and-forth process of **"prioritization"** of projects and programs. While, in principle, prioritization should avoid overspending relative to budget, MDAs often exceed their allocations. This is due to control and monitoring lapses. Both the 1992 Constitution (NC-1992) and Financial Administration Act (AAA) provide for a CF, which is equivalent to **"reserves,"** to be funded by moneys voted for the purpose by Parliament. Advances from the CF are permitted to finance urgent or unforeseen expenditures for which no other provision exists.

Almost invariably, MDA budget requests are trimmed by MoF, often by wide margins, before final approval. Thus, *ab initio*, ministries budgets are under-funded. This deviation has the potential to increase the incidence of "expenditure commitments" and "extra-budgetary spending." After Cabinet consideration and endorsement, the budget goes through parliamentary committees and the full House for debate and final approval. After the budget is approved, Parliament passes an Appropriations Act (AA) that approves the total spending amount from the CF. This process is in line with international practice. However, some of the parliamentary respondents expressed concerns about the lack of provision for members of parliament to make an input into the budget at the preparation stage. They argued that as representatives of the people, they were best placed to suggest suitable projects and programs for the Minister's consideration. These concerns seem legitimate and are worth looking into.

BUDGET IMPLEMENTATION AND MONITORING

In terms of budget implementation, the MoF releases funds to MDAs through the Controller and Accountant General's Department (CAGD) based on their approved budget allocations. Releases are generally made in installments, in line with payments for expenditures like salaries. For salaries and other statutory payments, normally no conditions are necessary for releases. Capital expenditures, on the other hand, normally have to go through a procurement process whereby the MDAs have to obtain commencement certificates from MoF before funds are released. However, MDAs invariably receive less funds than they need. As a result, they have to resort to prioritization of their projects and programs. The MDAs also do apply for extra budgetary support in the course of the year. This informs the supplementary budget submitted by the Minister to Parliament around the middle of the year. However, in spite of the supplementary budget, the MDAs more often than not exceed their spending allocations by the end of the year. This suggests weaknesses in budget implementation and monitoring.

Expenditure control and monitoring are performed at various levels—the MDA level, the MoF level and the Controller and Accountant General's Department (CAGD) level. The Auditor General's Department (AGD) is also mandated to monitor government spending and to ensure proper book of accounts for public funds, but its role is normally dispensed ex post. In theory, these systems should prevent MDAs from spending above their budget ceilings. However, almost invariably, they exceed their ceilings by the close of the year. Remuneration tends to be the main source of the excess. This often results from either inadequacy of the original allocation by MoF or subsequent award by government of unbudgeted salary increases. For goods & services and capital spending, however, MDAs, reportedly, barely exceed budget allocations. This does not, however, mean that they do not make purchases without paying for them, which give rise to "expenditure commitments" and payment arrears. Some of the MDAs complained that the budget and the allocations are unrealistic in the first place and are therefore prone to overruns.

Expenditure management and control by MoF has gone through many reforms culminating in the Ghana Integrated Financial Management Information System (GIFMIS). In theory, the system allows only approved payments to be processed and should therefore avoid expenditure overruns. However, in practice, expenditure overruns do occur as officials tend to intervene to authorize previously-unapproved payments, with compensation of public employees being the main culprit. GIFMIS has reportedly introduced efficiency into budget management, especially by cutting down paper use and even allowing on-line requests for releases. However, in spite of the substantial capital invested in the GIFMIS, it is still not an effective mechanism for controlling expenditure. Further, the frequent occurrence of spending overruns belies the whole elaborate and time-consuming exercise of imposing spending ceilings on MDAs by MoF in the first place.

The NC-1992, FAA, and AA vest in Parliament the authority to ensure that Government expenditure is in conformity with budget estimates. However, this mandate is rarely exercised; and from financial year to financial year, expenditure overruns occur. Respondents from Parliament indicated their inability to prevent overruns especially in respect of compensation of employees. Thus, the dilemma is that GIFMIS cannot control this item and neither can Parliament. One snag also is that while Parliament is mandated to enforce spending ceilings, the relevant laws do not specify sanctions for breaches of the ceilings. Parliament has failed to pass the necessary legislations or regulations to that effect. For political expediency, political parties do not seem to give this matter the attention it deserves. As is with many other key governance issues begging for solutions—including the Right to Information Legislation, partisan Local Government elections, Winner-takes-All system and important electoral reforms—the tradition is for the party in power to favour the status quo and to call for change only when they are out of power.

Parliamentary oversight of the budget in general was found to be very weak. This is attributed to capacity, time or resource limitations.

It was widely suggested that resources be provided to Parliament to engage experts and consultants to partner the relevant parliamentary committees. Parliamentary oversight is also weakened by the constitutional provision that majority of ministers should be appointed from Parliament. This puts several parliamentarians on the side of the executive and thereby compromises their ability to oppose spending overruns. This is an issue that came up strongly during the constitution review process, but it appears no consensus was reached on it. To strengthen parliamentary budgetary oversight and stem perennial spending overruns, some people have proposed the formation of an independent Parliamentary Budget Office (PBO). Regarding composition of the PBO, however, there seemed a strong preference for independent professionals or technocrats outside Parliament "with no political coloration" and "with a high sense of integrity." It was suggested that parliamentarians would be biased and would still face capacity and time constraints. Some people have also suggested a more permanent civil service-type office devoid of politics.

Civil society organizations (CSOs) have been advocating for some kind of "Fiscal Responsibility Act" to tie government down to disciplined budget management. The advocacy provoked some initial debate in Parliament. However, it appears to have been sacrificed on the altar of political expediency. The suggestion seems to have merit and the debate is worth reviving.

CONCLUSION AND POLICY RECOMMENDATIONS

The paper finds budget preparation to be fairly in line with international standards. It finds that shortfalls in budget allocations vis-à-vis requests by line ministries is a recipe for subsequent spending overruns. A bigger problem is the presence of severe budget implementation and monitoring lapses. Despite apparently elaborate monitoring and control systems, spending overruns often occur due to laxities in managing the systems. Meanwhile, parliamentary oversight of expenditure is very weak. The expenditure ceiling set in the Appropriations Bill is invariably exceeded with impunity without any sanctions.

The paper makes the following recommendations for the attention of the appropriate authorities to entrench budget discipline in Ghana:

- Reinforce budget control systems to ensure that MDAs operate within their annual budgetary allocations;

- Adopt some kind of fiscal rule such as cash-budgeting or budgetary balance, in terms of matching expenditures and revenues, or debt rule, in terms of targeting medium-to-long-term debt ratios. The rule may include some flexibility to deal with contingencies and it may be in place for an interim period until fiscal discipline has been firmly entrenched;

- Take the fiscal rule possibly a step further by legislating fiscal discipline in the form of a Fiscal Responsibility Law. The Law should define strict rules for fiscal policy devoid of undue use of discretion. Again, the Law may build in some flexibility to respond to contingencies. The Law may also be time-bound as necessary;

- Form a Parliamentary Budget Office manned by independent experts to monitor expenditure and to provide credible information to the public; and

- Make the Parliamentary Appropriations Bill legally binding with appropriate sanctions for infringement of expenditure ceilings.

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