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RIGHTING THE ILLS OF BUDGET PREPARATION, IMPLEMENTATION AND OVERSIGHT IN GHANA

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RIGHTING THE ILLS OF BUDGET PREPARATION, IMPLEMENTATION AND OVERSIGHT IN GHANA

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Abstract

Perennial budget overruns and their adverse effects on the economy have attracted widespread concerns. Motivated by these concerns, this paper assesses institutional processes, arrangements and the legal framework for budget preparation, implementation and oversight in addition to carrying out a survey of relevant budget implementers and overseers. The paper finds that budget preparation is largely in conformity with international standards, with the exception of not being informed by any "fiscal rules." Also, ab initio, budget allocations often fall short of expenditure requests by line ministries, which is a recipe for spending overruns. The big problem, however, lies at the implementation and monitoring stages where there are severe deficiencies, including laxities in managing control systems and weak parliamentary oversight. The paper makes far-reaching recommendations for entrenching budget discipline in Ghana.

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Executive Summary

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, a problem that tends to 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 budget management have generated concerns both internally and externally. Several constituencies in Ghana, including political parties, labour, businesses, academia and civil society have decried the destabilizing effects of deficit overruns on the economy. While Ghana's access to concessional financing has started to decline due to its new middle-income and oil-producing status, donors have withheld promised budgetary support due to their concerns about fiscal management. International credit rating agencies have downgraded Ghana's sovereign rating and the country's borrowing spreads have widened.

This study was motivated by the need to address these concerns. The paper assesses institutional processes, arrangements and the legal framework for budget preparation, implementation and oversight. It also carries out a survey of selected government Ministries, Departments and Agencies (MDAs) and relevant committees of Parliament.

In terms of budget preparation, Ghana's system is assessed against international standards, which include: macroeconomic framework, fiscal rules, top-bottom approach, multi-year planning, unification, universality, prioritization, and provision for reserves.

The use of a macroeconomic framework in budget preparation is provided for under The Financial Administration Act (FAA). The budget 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, however, is not based on any “fiscal rules,” like “cash-budgeting,” “budget balance” or “debt ceilings.” Fiscal rules generally promote fiscal discipline and macroeconomic stability. The annual budget is usually located within a medium-term plan that typically spans three years. In that sense, it meets the “multi-year planning” criterion. It is unclear, however, as to how firm or robust the projections for the outer years tend to be. 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 meets the "unification" criterion in the sense that it is prepared by a single ministry, the Ministry of Finance (MoF), and combines both recurrent and capital spending based on the same macroeconomic assumptions. While a unified budget should make it easier to enforce spending limits, it is not a sufficient condition to avoid out-of-control expenditure. The budget is "universal" to the extent that all revenues go into one fund, the Consolidated Fund (CF), for financing government activities. This requirement is stipulated in the 1992 Constitution (NC-1992) and the FAA. In principle, budget universality should prevent diversion of funds to "extra-budgetary" or "off-budget" expenditures, although this may still happen in the absence of strict control and monitoring systems.

In general, budget preparation is a "top-bottom" process in the sense that MoF issues comprehensive guidelines to all MDAs. The top-bottom approach reduces the possibility of line ministries exceeding their spending limits. However, this alone is not enough to keep spending in line. In practice, budget preparation goes through a back-and-forth process of "prioritization" of projects and programs within the aggregate and individual spending ceilings. While, in principle, prioritization should avoid overspending relative to budget, MDAs often exceed their allocations due to control and monitoring lapses.

The CF provided for under both the NC-1992 and the FAA is equivalent to a "*reserves*" fund, 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.

MDAs budgets are, almost invariably, trimmed by MoF, often by wide margins, before final approval. Thus, *ab initio*, line ministry budgets are under-funded. This deviation has the potential to increase the incidence of "expenditure commitments" and "extra-budgetary spending."

MDA budgets receive Cabinet endorsement and then final approval by Parliament. Parliament then passes an Appropriations Act (AA) that approves the total spending amount from the CF. Some respondents from parliament 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 are best placed to suggest suitable projects and programs for the Minister's consideration. These concerns seem legitimate and are worth looking into.

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. The 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. Most MDAs invariably receive less funds than they need, in which cases they have to resort to prioritization of their projects and programmes. The MDAs also do apply for extra budgetary support in the course of the year, which informs the supplementary budget submitted by MoF to Parliament around the middle of the year. However, more often than not, MDAs still exceed their spending allocations, suggesting weaknesses in implementation and monitoring.

Expenditure control and monitoring is carried out at the levels of the MDAs, MoF and the CAGD. 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 ex post. Parliament also has a role in monitoring expenditure.

In theory, MDA,s should monitor their spending in line within their ceilings. However, almost invariably, they exceed their ceilings. Remuneration was cited as 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, MDA's reportedly, barely exceed their budget allocations. However, they often incur un-paid-for expenditures, which give rise to "expenditure commitments" and payment arrears. Some of the MDAs regarded their allocations to be "unrealistic" in the first place and prone to overruns.

Expenditure management and control by MoF has gone through many reforms culminating in the launch of the Ghana Integrated Financial Management Information System (GIFMIS) in 2009. In general, GIFMIS is an automated system for processing expenditures emanating from the MDAs. The most common source of spending overrun was reported to be compensation of public employees. GIFMIS is generally seen to have introduced efficiency into budget management, especially by cutting down paper use and even allowing on-line requests for releases. In theory, GIFMIS 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 unapproved payments.

The Controller and Accountant General's Department (CAGD) represents another layer of monitoring and controlling expenditure and is linked to the GIFMIS. The FAA charges the CAGD to receive, disburse and provide secure custody for moneys payable to the CF and other funds. In principle, the CAGD allows payments approved by MoF to be made only after verifying expenditure allocations and also by checking availability of funds. In practice, this process can also be breached through official interventions and unapproved payments could be authorized.

MDAs surveyed were generally aware of legal provisions, including the Parliamentary Appropriations Act (PAA), for preventing excess spending by government and, impliedly, MDAs. Many were, however, not sure of the adequacy of those provisions. Regarding sanctions for breaches of spending limits, many MDAs were not aware of any legal provisions to that end.

The NC-1992 designates the CF as the key Public Fund that receives government revenues and stipulates that withdrawals from the CF must be authorized by Parliament. The FAA reiterates these provisions. Meanwhile, the PAA sets ceilings each financial year for government spending from the CF based on the budget submitted to Parliament. The NC-1992, FAA, and PAA vest in Parliament the authority to ensure that Government expenditure is in conformity with budget estimates. However, this mandate is rarely exercised. While the respondents from Parliament acknowledged that they have the mandate to check government expenditure, they indicated that in practice they are unable to do so since they cannot prevent overruns in, say, 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. Political parties do not seem to give this matter the attention it deserves. As is the case with many other key governance issues begging for solutions including the Right to Information Legislation, partisan Local Government elections, Winner-takes-All practice and important electoral reforms the tradition is for the party in power to favour the status quo and to call for change only when it is out of power.

The MDAs and parliamentarians surveyed generally agreed that parliamentary oversight of the budget is weak. They blamed this on lack of capacity, time or resources for the task. Many suggested the provision of resources to Parliament to engage experts and consultants to partner the relevant parliamentary committees. Some noted that 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 has been reached on it.

To strengthen parliamentary budgetary oversight and stem perennial spending overruns, many respondents supported the need for an independent Parliamentary Budget Office.[3] On the composition of the PBO, there was a strong preference for independent professionals or technocrats outside Parliament "with no political coloration" and "with a high sense of integrity." It was argued that parliamentarians would be biased and would still face capacity and time constraints. Some respondents also suggested a more permanent civil service-type office devoid of politics.

Civil society organizations (CSOs) have long advocated for some kind of "Fiscal Responsibility Act" to tie government to disciplined budget management. The advocacy provoked some initial debate in Parliament. However, it appeared to have been sacrificed on the altar of political expediency as there was no sustained interest in it.

[3] A recent study of seven African countries found that the presence of a Budget Office and Budget Act in Uganda and Kenya contributed to the effective financial functioning of their respective Parliaments. The Parliament of Ghana scored the least in terms of its capacity to perform financial functions.

On the basis of the findings of the study and to help entrench budget discipline, the paper makes the following recommendations for the attention of the appropriate authorities:

- Reinforce budget control systems at all relevant levels and especially at the GIFMIS level;
- In the interim, adopt some kind of fiscal rule, until fiscal discipline is firmly entrenched;
- Also in the interim, legislate fiscal discipline, embodying flexibility to respond to contingencies;
- Form a Parliamentary Budget Office manned by independent experts; and
- Make the Parliamentary Appropriations Bill legally binding with appropriate sanctions for infringement of expenditure ceilings.

CONTENTS

Abstract--1

Executive Summary--3

1. Introduction--9

2. Background literature---9

3. Methodology--15

4. Budget performance--16

5. Assessment of budget preparation, implementation and oversight----------------------------22

5.1 Budget preparation--22

5.2 Budget implementation and monitoring--28

6. Conclusion---32

References---34

Introduction

Budget implementation in Ghana has long faced challenges. Budget outcomes often deviate from estimates. Typically, revenue estimates tend to be underachieved while expenditure experiences overruns. As a result, deficit overruns commonly occur. Budget overruns tend to escalate in election years, driven by politically-inspired hikes in expenditure. Since borrowing is the main source of financing the deficit, deficit overruns drive up the public debt. Deficit overruns also destabilize the economy through inflation, external deficits, exchange rate depreciation and borrowing costs. Economic instability in turn stifles savings, investment and growth.

Persisting challenges with fiscal management have generated concerns not only internally but externally as well. While Ghana's access to concessional financing has started to decline due to its new middle-income and oil-producing status, donors have been withholding promised budgetary support due to their concerns about fiscal management. International credit rating agencies have downgraded Ghana's sovereign rating and the country's borrowing spreads have widened.

This paper was motivated by the widespread concern about perennial fiscal deficit overruns in Ghana and their adverse effects and the need to find lasting solutions. The paper is structured as follows: Following this introduction, Chapter 2 discusses the background literature, including best budgetary practices. Chapter 3 describes the methodology for the paper, involving assessment of budget preparation, implementation and oversight by evaluating institutional processes and arrangements and carrying out a survey of relevant actors. This is followed in Chapter 4 with a presentation of budget implementation record. In Chapter 5, an assessment of Ghana's budget preparation, implementation and oversight is carried out, identifying inherent weaknesses. Chapter 6 contains the conclusion of the paper and policy recommendations.

Background literature

Government expenditure: a necessary evil?

Government expenditure includes consumption, investment and transfer payments. Consumption is government acquisition of goods and services for current use to directly satisfy individual or the collective needs of the members of the community. Investment, (or gross fixed capital formation) is government acquisition of goods and services intended to create future benefits, such as infrastructure investment or research spending. Transfers comprise government outlays that are not acquisition of goods and services, and instead represent transfers of money, such as social security payments.

The celebrated English economist, John Maynard Keynes (1936), was one of the first economists to advocate government "deficit spending" as part of the fiscal policy response to an economic contraction. In Keynesian economics, increased government spending is thought to raise aggregate demand, which in turn leads to increased production. Keynesian economists argue that the Great Depression of early 1930s was ended by government spending programs, such as military spending during World War II. According to the Keynesian view, a severe recession or depression may never end if the government does not intervene.

Classical economists, on the other hand, believe that increased government spending exacerbates an economic contraction by shifting resources from the private sector, which they consider productive, to the public sector, which they consider unproductive.

In developing countries with relatively large but inefficient governments as well as serious supply constraints, government spending may create demand pressures while exerting limited impact on economic growth. Thus, government spending tends to be a source of macroeconomic instability. Given that macroeconomic instability is known to undermine sustainable growth, it is important to keep government spending under control in these countries.

Budget preparation process

Budget preparation differs from jurisdiction to jurisdiction. Nevertheless, according to the traditional literature, budget preparation should follow some basic standard steps:

> *The first step* should be the determination of a macroeconomic framework for the budget year (and ideally at least the next two years). The macroeconomic projections prepared by a macroeconomic unit in the Ministry of Finance or elsewhere should be agreed with the Minister of Finance. This allows the budget department within the Ministry of Finance to determine the global level of expenditure that can be afforded without adverse macroeconomic implications, given expected revenues and the level of deficit that can be safely financed. In a few countries, there are fiscal rules in place that may limit total spending or recurrent spending (e.g., the "golden rule").
>
> *The second step* should be the allocation of this global total expenditure among line ministries, leaving room for reserves (a separate planning and a contingency reserve as explained below) to be managed by the Ministry of Finance.
>
> *The third step* should be for the budget department to prepare a budget circular to give instructions to line ministries, with the indicative aggregate spending ceiling for each ministry, on how to prepare their estimates in a way that will be consistent with macro objectives. This circular will include information on the economic assumptions to be adopted on wage levels, the exchange rate and price levels (and preferably differentiated price levels for different economic categories of goods and services).

The fourth step is the submission of bids by line ministries to the budget department. Once received, there needs to be an effective "challenge" capacity within the budget department to test the costing of existing and any new policy proposals.

The fifth step comprises the negotiations, usually at official and then bilateral or collective ministerial level, leading finally to agreement.

The sixth and final step is Cabinet endorsement of the proposals for inclusion in the budget that will go to Parliament.

While these principles should be broadly familiar in most ministries of finance (and would even be considered out of date in those industrial countries with the most advanced budgeting systems) actual practices may fall a long way short. For example, in too many countries the budget department does not prepare a macro framework or even a first outline of the budget, let alone indicative ceilings by line ministries, before sending out the budget circular. In such cases, the circular is an administrative mechanism that initiates the budget-making process, usually providing a timetable for budget submissions that is, estimates of financial requirements by line item and by line ministry or spending agency but not giving them much guidance in the preparation of their estimates or overall spending limits. Thus, when preparing their budget requests, the ministries often merely add percentages, guided by an inflation projection in the circular, to their previous year's budget. With this "bottom-up approach," line ministries are able to overstate their needs, exerting upward pressure on overall spending.

Early in the preparation stage, that is *before* the budget circular is issued, it is suggested that those advising on the preparation of the budget should ask:

Is the budget based on an aggregate level of general or central government expenditure, in cash terms, that is consistent with the macro framework, and any fiscal rules in place?

Does the budget circular to the line ministries provide adequate guidance on preparing budget estimates? Does it include a guideline or limit for each line ministry on this total spending?

Are there suitable reserves? Ideally, within the aggregate total, there should be a *planning reserve* (not allocated in guidelines given to each line ministry), so the Ministry of Finance can assign extra resources later during budget negotiations for the most urgent priorities, without breaching the macroeconomic constraint. Moreover, after all final line ministry allocations have been made, there should still be a *contingency reserve* within the aggregate that will be held and administered by the Ministry of Finance to meet genuine contingency spending during the budget year.

Typical weaknesses of budget preparation systems

The literature identifies common weaknesses in budget preparation systems. The nature, scale and significance of the weaknesses need to be understood to be able to assess the value of the data produced and, where there are separate projections to be made by, say, an IMF team or other external advisers, to accommodate such weaknesses. Seven common problem areas are identified in the literature:

1. The central government budget is not really unified. It is a dual-budget system with separate recurrent and capital or "development" budgets that may be based on inconsistent macroeconomic assumptions, budget classifications, or accounting rules. Each budget may be compiled by a different ministry for example, the Ministry of Finance for recurrent expenditures and a planning ministry for capital or "development" expenditures.

2. The macroeconomic constraint is not explicitly taken into account in the budget process, or the economic assumptions underlying the estimated costs of expenditure programs are weak or erroneous.

3. Projections for the outturn of the previous and current years' budgets are not prepared, or the experience to date is not analyzed, so that budget preparation becomes a simple incremental exercise based on the previous year's (often erroneous) budget estimates.

4. Satisfactory procedures do not exist for review of expenditure policies and program prioritization.

5. There is no multiyear planning.

6. Extrabudgetary funds are used to divert spending to one or more "off-budget" accounts.

7. Quasi-fiscal expenditures, contingent liabilities, etc., are not taken into account.

The literature suggests that in many cases, remedying the problems encountered in the above areas would require extensive reforms, so there may be limited scope to make an immediate impact. Even in the short term, those reviewing budget preparation can play an important role in sensitizing policymakers to certain weaknesses and so assist in reorienting the system.

Table 1. Potential Weaknesses in Budget Preparation

Ideal Situation	Common Weakness	Resulting Problems for Those Preparing Budgets
Unified budget with full coverage.	Dual budget (separate development and recurrent budgets); many extrabudgetary funds.	Difficulty in developing a consolidated budget. Blurring of capital and current expenditure concepts. With two different budgets, it is more difficult to enforce expenditure limits or develop a fiscal adjustment program.
Universality: all revenues go into one fund for financing central government activities.	Earmarked funds, especially common for financing extrabudgetary funds.	Rigidity in spending priorities leading to inefficient allocation of public resources. Again, this makes fiscal adjustment a more difficult task.
Knowledge and analysis of previous year's projected outturn expenditures; availability of volume indicators.	Lack of data; data not communicated to budget office, or data are not analyzed.	Data in the budget office may be misleading. For example, actual expenditures are usually different from budgeted expenditures, and the actual number of persons employed may be very different from the original budget projection.
Use of macroeconomic framework. Separate price indices by category of expenditure.	Inadequate knowledge (or incorporation) of macroeconomic constraints. Poor estimates of program costs.	Leads to a bottom-up approach where the budget is determined more by spending-agency requests. This and inadequate program provision generally lead to overspending.
Multiyear planning.	Focus on current year only; no anticipation of future circumstances.	May have a negative impact on fiscal sustainability: shortsighted policies often cannot be maintained in the long term. Alternatively, a lack of planning means imminent problems or recurrent consequences of capital spending are not foreseen.
Procedures for resource prioritization implemented early in budget preparation.	No direction in priority setting, or attempt to prioritize until too late in the budget preparation process.	Procedures for prioritization are especially important for meeting deficit targets or spending targets. If priorities are not communicated in a top-down approach early in the budget preparation process, overspending relative to budget is a likely outcome.

Budget classification according to implementing institution (administrative), purpose of expenditure (functional), and use of expenditure (economic).	Inconsistent nomenclature--for example, mixing functional and economic or budget nomenclature is not consistent with the chart of accounts nomenclature.	An economic classification is most useful when designing a fiscal adjustment program. Sometimes the only classification available is administrative--by budget institution--so that reducing the budget requires cuts by institution, and the quality of the fiscal adjustment suffers. Nor is it possible to understand how expenditures are distributed among different items or for what purpose.

Table 1 shows that when budget preparation lacks key standards, the consequences could be dire. It is, however, not expected that budgets would meet all the standards, which could be said to be the "ideal situation." But meeting as many of them as possible would certainly enhance budget performance. These standards will generally form the basis for our assessment of Ghana's budget preparation process.

Methodology

Budget deviations potentially arise from deficiencies at the levels of budget preparation, implementation and oversight. At the preparation stage, both revenue and expenditure estimates are inherently plagued by uncertainties. Revenue estimates may be affected by uncertainties in forecasting domestic economic activity and the effect on personal and corporate incomes and international trade volumes. It is even more difficult to forecast external economic conditions and the possible effect on prices of commodities and taxes derivable from them. Further, tax estimates may be affected by unquantifiable factors like evasion, fraud, corruption and administrative lapses. In Ghana, actual revenues commonly fall short of estimates.

Given the constraints and the shortcomings in estimating revenue, expenditure becomes the "binding constraint" as far as budget deficit outcomes are concerned. In other words, it is expenditure that ultimately determines the final outcome of the deficit. In principle, expenditure becomes the policy instrument that is amenable to control in order to achieve the projected deficit. In view of its importance in determining budget outcomes, expenditure tends to be the focus of budget assessments. Indeed, budgets have more or less become synonymous with "expenditure." Ideally, as revenue shortfall occurs, the budget should have an in-built flexibility especially if it is based on an important principle of "fiscal rules" to cut back expenditure so as to avoid a deficit overrun.

Like revenues, expenditure estimates are also plagued by uncertainties. All categories of expenditure, including public sector compensation, government consumption of goods and services, transfers and capital expenditure may be affected by unanticipated developments. In Ghana, overruns commonly occur with respect to recurrent expenditure and whatever effort is put in to rein in expenditure invariably falls on capital expenditure. Shortchanging the development budget on a regular basis has a deleterious effect on investment and economic growth.

The study assesses the budget preparation process from the determination of the global level of expenditure by the Ministry of Finance (MoF) until final approval by Parliament. The budget preparation process is tested according to the standard features elaborated in the literature above. The tests are based on information available from key sources, especially the MoF, as well as on a survey of relevant institutions and actors. The assessment is conducted on the basis of the following features:

1. Macro-framework
2. Fiscal rules
3. "Top-bottom" approach
4. Unification
5. Universality
6. Multi-year planning
7. Prioritization
8. Reserves

In terms of budget implementation and monitoring, the study examines rules and institutional structures for keeping expenditure within estimates. This is done at two levels. The first level is the systems and mechanisms available to MoF for monitoring spending by Ministries, Departments and Agencies (MDAs). It examines systems for preventing the MDAs from spending beyond their authorized limits, which often manifest in expenditure commitments and payment arrears. The second level is examination of mechanisms available to Parliament for exercising oversight over government expenditure. This involves looking at constitutional and other legal provisions and institutional arrangements. The study also assesses available enforcement and sanctioning mechanisms for breaches of approved spending limits. The study investigates lapses in existing arrangements, which may impede effective monitoring of public expenditure.

The key source documents used for the assessment of budget implementation and oversight are:

The 1992 National Constitution (NC-1992)

The Financial Administration Act (FAA), 2003 (Act 654) and

Selected Parliamentary Appropriation Acts (PAAs)

Budget performance

Budget overruns are a common occurrence in Ghana. More often than not, shortfalls in revenue and overruns in expenditure occur, leading to overruns in the fiscal deficit. Deficit overruns drive up the public debt and destabilize the economy in major ways.

Table 2a: Government budget outturns, 2000-06

(Thousand Ghana Cedis)	2000	2001	2002	2003	2004	2005	2006
Budget Balance	**(234,140)**	**(166,080)**	**(298,642)**	**(232,928)**	**(221,344)**	**(190,016)**	**(897,086)**
% of GDP	-8.62%	-4.37%	-6.25%	-3.57%	-2.77%	-1.96%	-4.80%
Revenue & Grants	**538,502**	**846,308**	**1,032,444**	**1,686,160**	**2,382,870**	**2,825,640**	**3,191,768**
% of GDP	19.83%	22.26%	21.62%	25.84%	29.86%	29.12%	17.06%
Expenditure	**756,462**	**982,733**	**1,277,579**	**1,898,127**	**2,541,625**	**2,970,625**	**4,009,417**
% of GDP	27.86%	25.85%	26.75%	29.08%	31.85%	30.62%	21.44%
Total Public Debt	**4,932,264**	**5,391,180**	**6,540,033**	**8,022,331**	**7,523,724**	**7,620,636**	**4,903,743**
% of GDP	181.65%	141.82%	136.93%	122.92%	94.28%	78.55%	26.22%
GDP	**2,715,270**	**3,801,400**	**4,776,240**	**6,526,200**	**7,980,370**	**9,701,800**	**18,705,000**

Table 2b: Government budget outturns, 2007-13

(Thousand Ghana Cedis)	2007	2008	2009	2010	2011	2012	2013
Budget Balance	**(1,132,188)**	**(1,976,485)**	**(2,056,216)**	**(2,999,867)**	**(2,395,434)**	**(8,648,660)**	**(9,454,648)**
% of GDP	-4.89%	-6.55%	-5.62%	-6.52%	-4.00%	-11.54%	-10.12%
Revenue & Grants	**4,508,222**	**5,619,697**	**6,775,165**	**8,810,857**	**12,851,562**	**16,668,414**	**19,169,741**
% of GDP	19.47%	18.62%	18.51%	19.14%	21.49%	22.24%	20.51%
Expenditure	**5,624,526**	**8,009,822**	**8,248,245**	**11,532,209**	**13,379,984**	**20,944,720**	**26,277,163**
% of GDP	24.29%	26.54%	22.54%	25.05%	22.37%	27.94%	28.12%
Total Public Debt	**7,189,784**	**9,746,858**	**13,294,961**	**17,410,564**	**23,731,222**	**35,999,645**	**52,125,908**
% of GDP	31.05%	32.30%	36.33%	37.81%	39.67%	48.03%	55.77%
GDP	**23,154,000**	**30,179,000**	**36,598,000**	**46,042,000**	**59,816,000**	**74,959,050**	**93,461,450**

Source: Ministry of Finance

Tables 2a and 2b show abridged budget outcomes for 2000-13. During the period, revenue and grants ranged between 17.06% of GDP in 2006 and 29.86% of GDP in 2004. Expenditure (excluding arrears payments) ranged between 21.44% and 31.85% of GDP, again in 2006 and 2004 respectively. Notably, spikes occurred in expenditure during election years 2000, 2004, 2008, and 2012. The revenue and expenditure outcomes are further illustrated in Figs.1a and 1b.

Fig 1a: Government revenue and expenditure outturns, 2000-13

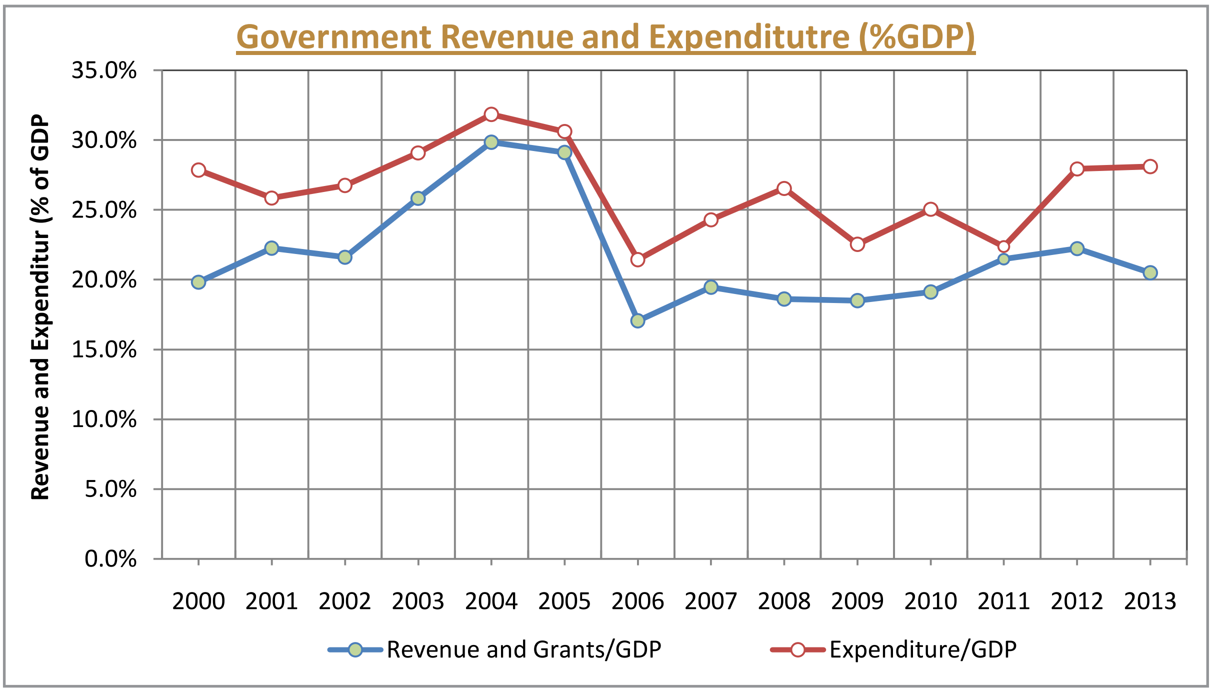
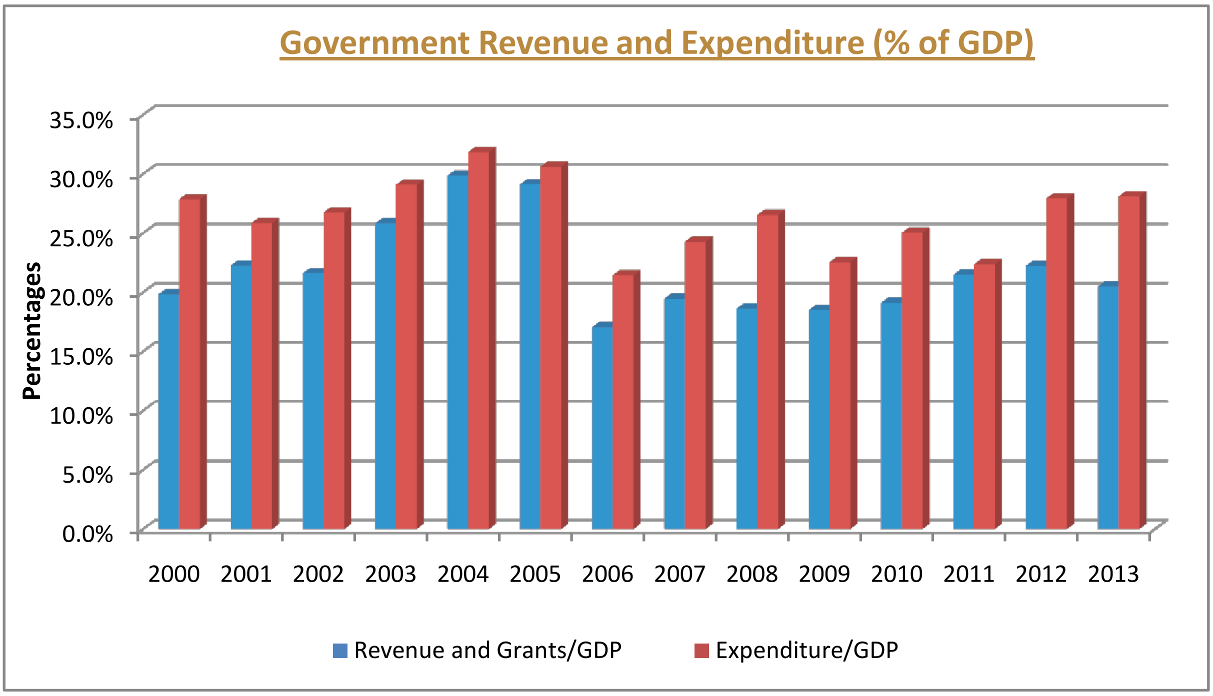


Fig 1b: Government revenue and expenditure outturns, 2000-13



Not surprisingly, during the review period, expenditure consistently exceeded revenues and grants. This implies that the budget was in deficit every year. Budget deficits, in and of themselves, are not a bad thing; and they are very common. It is rather the size of the deficit and the way it is financed that can be detrimental to the economy.

Fig 2: Budget deficit outturns, 2000-13

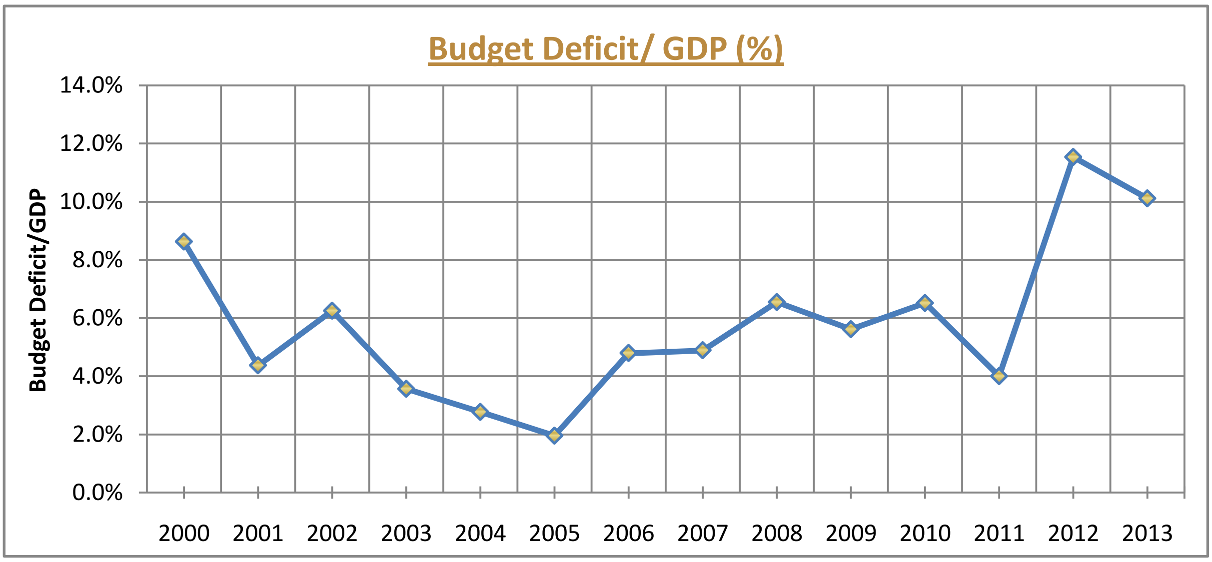
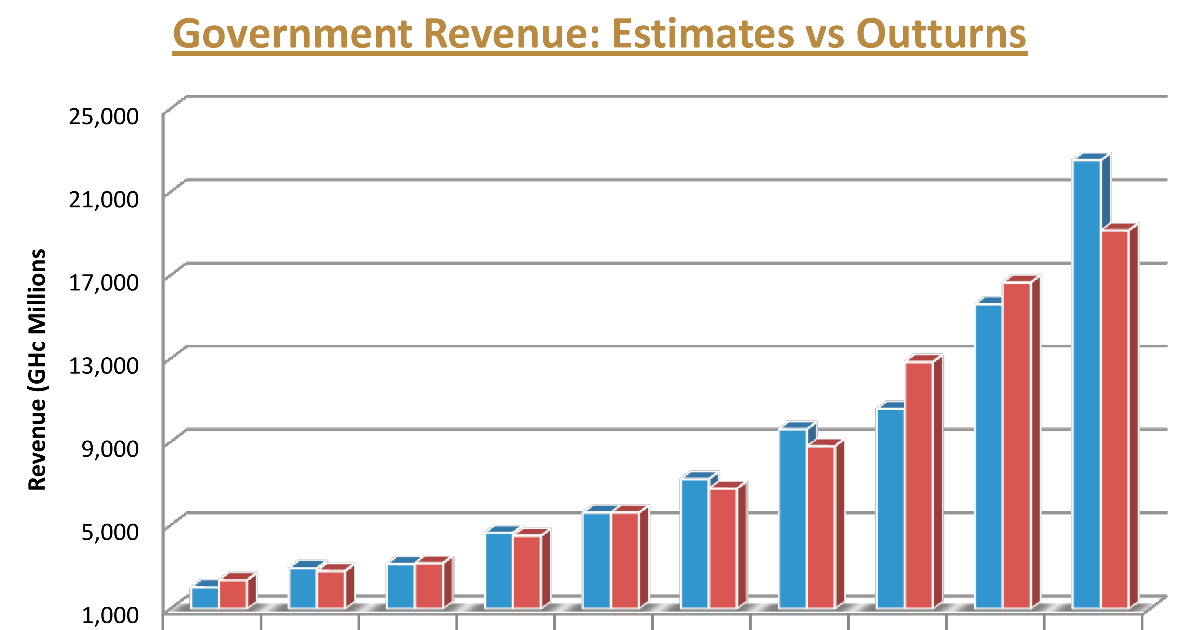


Fig 2 shows the budget deficit (from Tables 2a and 2b) for the review period. For the period, the deficit ranged from 2.0% to 11.5% and averaged about 6.0% per annum. This is high by international standards. In fact, the average deficit is twice the ceiling of 3% stipulated by the West Africa Monetary Zone (WAMZ) for member countries. Disturbingly, the deficit has assumed a higher trajectory over the past four years, ranging between 4.0% and 11.5% and averaging 8.0% per annum. Quite noticeable are spikes in the deficit during election years. This is reflective of the similarly observed spikes in expenditure for these years. The only exception is 2004, when an exceptionally-good revenue performance blunted the spike in expenditure and thereby dampened the deficit. Election years are always followed by attempts to consolidate the fiscal position, with consequential effects on economic growth, especially as investment tends to bear the brunt of such consolidation.

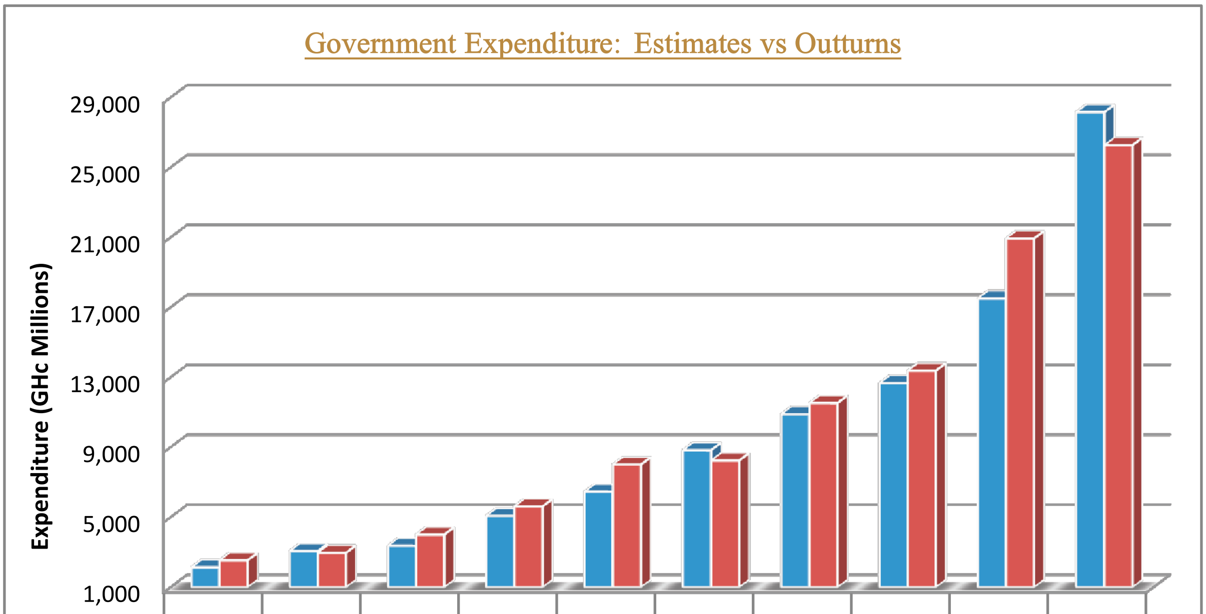
Fig 3: Government revenue estimates vs out-turns



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Estimates	2,029	2,958	3,151	4,648	5,617	7,237	9,629	10,601	15,614	22,533
Outturn	2,382.9	2,825.6	3,191.8	4,508.2	5,619.7	6,775.2	8,810.9	12,851.6	16,668.4	19,169.7

Fig 3 compares revenue outturns against estimates for a 10-year period, 2004-13. It shows that for the period, the revenue outturn fell short of the estimate for 5 of the 10 years, i.e. 2005, 2007, 2009, 2010 and 2013. The revenue outturn also exceeded the estimate for 5 years, i.e. 2004. 2006, 2008, 2011 and 2012. This suggests an even split between excesses and shortfalls in terms of frequency for the review period. In terms of magnitude of the deviations, revenue outturns exceeded the estimates by wide margins in 2004 and 2011, and fell substantially short of the estimate in 2013.

Fig 4: Government expenditure estimates vs. Out-turns



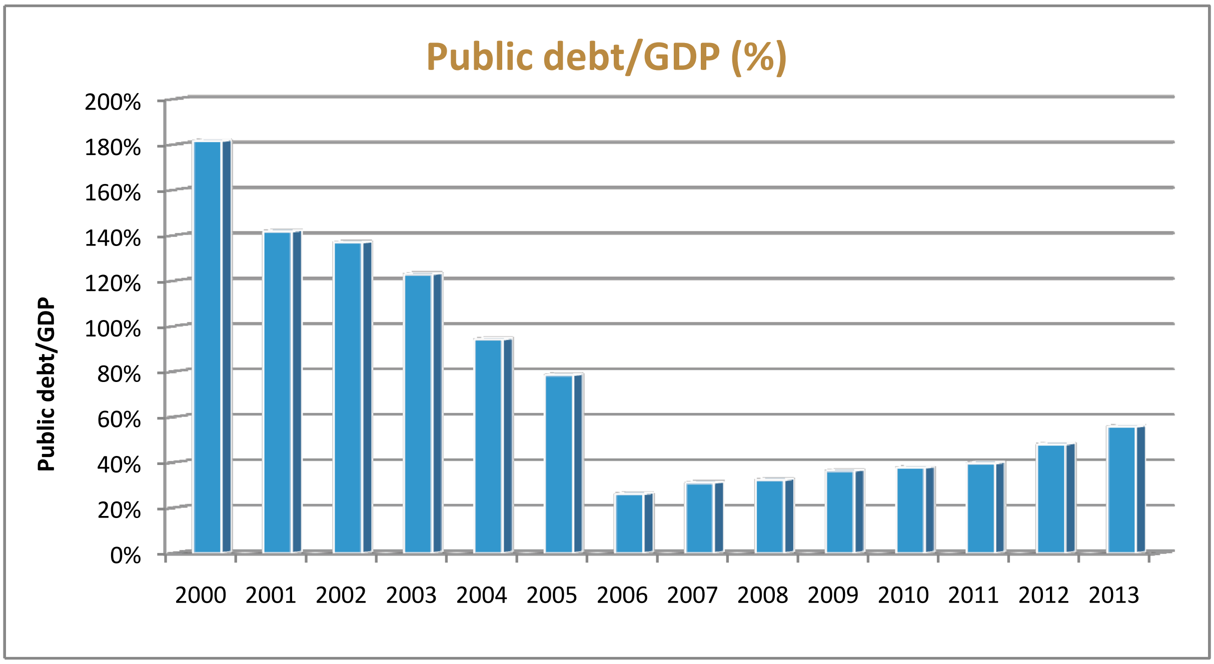
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Estimates	2,139	3,069	3,380	5,086	6,466	8,838	10,901	12,671	17,515	28,163
Outturn	2,541.6	2,970.6	4,009.4	5,624.5	8,009.8	8,248.2	11,532.2	13,380.0	20,944.7	26,277.2

Fig. 4 compares expenditure outturns against the estimates for the 10-year period, 2004-13. The outturn exceeded the estimate for seven of the 10 years, i.e. 2004, 2006, 2007, 2008, 2010, 2011, and 2012. Only in 3 of the 10 years did the outturn fall short of the estimate, i.e. in 2005, 2009, and 2013. Thus in terms of frequency, expenditure overruns were more common. Further, expenditure overruns occurred in every election year, i.e. 2004, 2008 and 2012. The last election year, 2012, recorded the highest expenditure overrun, followed by 2008 and then 2004.

A direct consequence of the high budget deficits has been high levels of public debt.[4] In 2000, Ghana's debt as a ratio of GDP was at a record-high of 180% and was judged to be unsustainable by the IMF and the World Bank. Previous borrowing to finance budget deficits had pushed the debt to such a level. However, after Ghana was granted relief under the Heavily-Indebted Poor Countries (HIPC) initiative and Multilateral Debt Relief Initiative (MDRI), the debt level declined sharply to reach a trough of 26% in 2006 (See Fig 5). The period also saw some moderation in the budget deficit and borrowing as Ghana implemented a succession of IMF- sponsored economic programs. The debt level in 2006 was judged to be sustainable.

[4] A previous study by IEA (See Kwakye, 2012) established that, in addition to debt, fiscal policy in Ghana has also been associated with inflation, external imbalances and currency depreciation.

Fig 5: Public debt-to-GDP ratio, 2000-13



Source: *Bank of Ghana*

After 2006, however, the debt level began to climb yet again. In 2006, Ghana exited the IMF program which restricted commercial borrowing and resorted to more borrowing thereafter, including on commercial terms. By 2013, the debt had risen to over 55% of GDP. Available data indicate that by June 2014, the debt ratio had risen further to 59% of GDP. Most analysts, including the IMF, consider 60% as the threshold for sustainable debt in Ghana. Clearly, it will not be long before this threshold is reached and surpassed. Indeed, debt servicing now represents a major cost to the budget, surpassing even development expenditure. This situation is clearly unacceptable and unsustainable.

Assessment of budget preparation, implementation and monitoring/oversight

5.1 Budget preparation

Ghana's budget preparation is assessed in terms of the standards indicated in the background literature, viz: macro-framework, fiscal rules, top-bottom approach, multi-year planning, unification, universality, prioritization and reserves

Test 1: Underlying macroeconomic framework

Section 1 (1) (a) of the Ghana's Financial Administration Act (FAA) requires the Minister (of Finance) to "develop and implement a macroeconomic and fiscal policy framework for the country…" This means that the use of a macroeconomic framework in budget preparation is a legislative requirement.

The budget is normally linked to the government's medium-term development framework overseen by the National Development Planning Commission (NDPC). The budget also usually forms part of a general macroeconomic framework with other targets, including relating to economic growth, inflation, and the balance-of payments. The framework is usually agreed on by the fiscal and monetary authorities. In that sense, the macroeconomic framework tends to be internalized within the Ministry of Finance and the Bank of Ghana. While some of the indicators are published in the budget statement, they are usually made less explicit and transparent and may not all be contained in a single document. The MDAs and parliamentarians surveyed indicated that they were aware that the budget is based on an overall macroeconomic framework.

Test 2: Fiscal rules

The budget is not based on any fiscal rules, like "cash-budgeting," budget balance or debt ceilings. The importance of fiscal rules has been demonstrated by Yartey (2014), among others. Yartey determined that fiscal rules, such as budget balance or debt rules, are strongly associated with a higher probability of reducing the public debt-to-GDP ratio. He calibrated an illustrative simple fiscal rule for Ghana based on the debt sustainability approach with a debt-to-GDP target of 50% by 2020 that required maintaining average fiscal deficits of about 4% of GDP. Lack of fiscal rules normally jeopardizes fiscal sustainability and macroeconomic stability.

Test 2: Multi-year planning

The annual budget is usually located within a medium-term macroeconomic plan that normally spans three years. In that sense, it meets the multi-year planning criterion. As confirmed by MDAs and parliamentarians surveyed, the medium-term plan is usually based on the government's election manifesto. It is unclear, however, as to how firm or robust the projections for the outer years tend to be. In the course of implementation of the plan, it is common for large deviations to occur from original macroeconomic targets. This may have an adverse effect on fiscal and macroeconomic sustainability.

Test 3: Unification

The budget is unified in the sense that it is prepared by a single ministry, MoF, and combines both recurrent and capital spending based on the same macroeconomic assumptions. 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 expenditure.

Test 4: Universality

The budget is universal to the extent that all revenues go into one fund for financing government activities. This requirement is stipulated in the Constitution and the FAA. Sections 175 and 176 of the Constitution designate the Consolidated Fund (CF) as the sole fund to receive all revenues or other moneys raised or received for the purposes of, or on behalf of, the Government and any other moneys raised or received in trust for, or on behalf of, the Government. While part of revenue is earmarked for statutory funds the GETFund, DACF, NHIF, and Road Fund all of it has to be deposited in the CF before being disbursed to the various funds as necessary. In principle, budget universality should prevent diversion of funds to "extra-budgetary" or "off-budget" expenditures. This may, and does, however, happen in the absence of strict control and monitoring systems.

Test 5: "Top-down" approach

As indicated in the literature, the top-down approach encompasses:

- Budget circular to give instructions to MDAs, with the indicative aggregate spending ceiling for each MDA on how to prepare their estimates in a way that will be consistent with macro objectives,
- Submission of bids by MDA to MoF, and
- Negotiations leading finally to agreement.

The budget preparation approach is top-down. The MoF issues guidelines on the budget preparation process, spending magnitudes and prioritizations to individual MDAs. MDAs and parliamentarians surveyed confirmed this approach. In principle, the top-down approach reduces the possibility of line ministries exceeding their spending limits. But as we know, this alone is not enough to keep spending in line and requires other equally important control systems.

Test 7: Prioritization

The budget preparation seems to go through a sort of back-and-forth process of prioritization of projects and programs within the aggregate and individual spending ceilings. This process was confirmed by survey respondents. While, in principle, prioritization should avoid overspending relative to budget, the respondents indicated they often exceed theory allocations. This is due to various control lapses discussed in the paper.

Test 7: Reserves

Both the NC-1992 and the FAA provide for a Contingency Fund (CF), 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. Any advances made from the CF should be replaced by a supplementary estimate. The CF or reserve should be within, but not additional to, the aggregate expenditure estimate.

Test 8: Cabinet endorsement of budget proposals

After MoF receives budget estimates from the MDAs, it reconciles them with individual and aggregate ceilings and arrives at final spending levels for each ministry. Most MDAs surveyed indicated that almost invariably their budget requests are trimmed by MoF, often by wide margins, before final approval. Thus, *ab initio*, line ministry budgets are under-funded. This deviation has the potential to increase the incidence of "expenditure commitments" and "extra-budgetary spending" as the line ministries struggle to work with below-budget releases from MoF. Meanwhile, MoF submits the approved aggregate and individual-ministry budget proposals to Cabinet. After extensive discussions, which may involve further changes to the aggregate or individual budgets, Cabinet gives its final endorsement for presentation to parliament.

Test 9: Parliamentary approval

The National Constitution requires that, at least one month before the end of the financial year, government lays before Parliament, the budget for the following financial year. With the financial year being January-December, the Minister usually presents the ensuing year's budget to Parliament in November of the current year. After receiving the budget, the relevant parliamentary committee usually the Finance Committee (FC) holds discussions with line ministries to allow them to justify their respective budgets. However, the original budgets are almost invariably approved by the Committee, especially because the government party chairs and has majority representation on the Committee. The approved budgets are then submitted to 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 Consolidated Fund (CF) for government for the relevant fiscal year. (See Box 1 for sample AAs for 2004, 2013 and 2014).

Some of the respondents from parliament expressed concern 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 are best placed to suggest suitable projects and programmes for the Minister's consideration.

Box 1: Selected Appropriation Acts2004, 2013, 2014

Appropriation Act, 2004 (ACT 666)

Section 1-Sum of money to be issued from the Consolidated Fund for 2004 financial year.

A sum of money not exceeding Twenty-four trillion, eight hundred and fifty-three billion cedis (¢24,853,000,000,000) shall be issued from the Consolidated Fund during the financial year commencing on the 1st day of January and ending on the 31st day of December, 2004 and shall be appropriated for the purposes specified in the Schedule to this Act.

Section 2-Payment of money on authorization of Minister for Finance

The Controller and Accountant-General may, on a warrant issued on the authority of the Minister responsible for finance, pay out of the Consolidated Fund during the financial year ending on the 31st day of December, 2004 any sum not exceeding on the whole the sum referred to in section 1 of this Act.

Section 3-Commencement

This Act shall be deemed to have come into force on the 1st day of January, 2004.

Section 4-Repeal

The Appropriation Act, 2003 (Act 643) is hereby repealed.

Appropriation Act, 2013

Parliament approved the 2013 Appropriation Bill by taking it through all the necessary stages to allow government to withdraw monies from the Consolidated Fund and other funds for the running of the country for the 2013 financial year.

A total of GHc 31,845,664,819.00 to be issued from the Consolidated Fund for the purposes of meeting government expenditure was approved by the House.

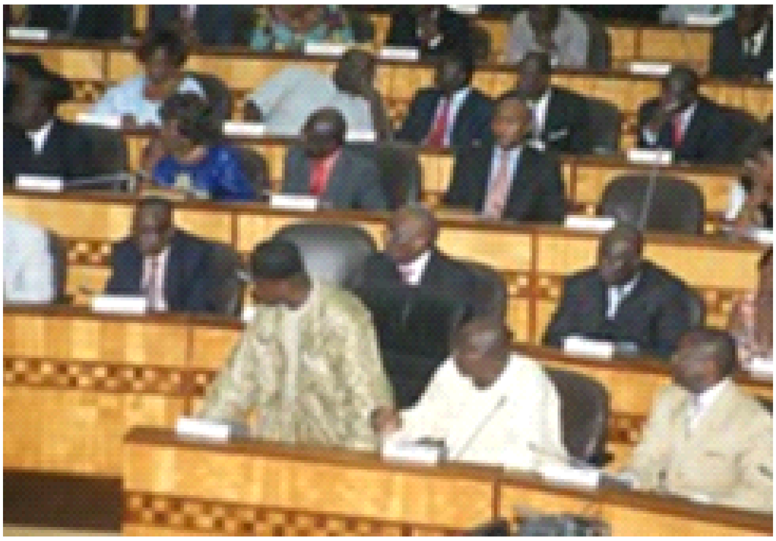
The Bill is divided into 5 clauses and 2 schedules. Clause 1 deals with sum of money to be issued from the consolidated Fund for the 2013 financial year. Clause 2 deals with Internally Generated Funds (IGFs) while Clause 3 talks of the payment of money on authorization of the Minister for Finance.

Clause 4 spells out the commencement date of the Appropriation Act and Clause 5 seeks to repeal the Appropriation Act of 2012. Schedule 1 provides for the total appropriation expenditure by items and schedule 2 provides a breakdown of total IGF retention for 2013. In debating the report of the Finance Committee on the Appropriation Bill, the Ranking Member of the Committee, Dr Anthony Akoto Osei bemoaned the practice where state institutions overspend their budget, noting that in 2012 the Appropriation Bill was exceeded but no one was held accountable, a situation he expressed regret for. He urged the Finance Ministry to liaise with Parliament to enact clauses that will impose sanctions on anyone who overspends the Appropriation Bill, adding that as Parliament must be concerned about how the ordinary tax payers' monies are used.

The Deputy Minority Leader, Dominic Nitiwul who also expressed similar concerns called on Parliament to bare its teeth by enacting stringent laws to check such unauthorized spending. He noted that even the Controller and Accountant General, who was expected to check such anomalies, overspent his budget. " If the gatekeepers themselves are dipping their hands into the soup, then how much more the thieves," he added.

However, an attempt by the MP for Akuapem North, Hon. W.O. Boafo to amend a portion of the Appropriation Bill recommending a jail term of not less than 15 years for anyone found to have overspent the appropriation was harshly shot down by the Majority side. The Majority Leader, Hon. Benjamin Kumbour, explained that his objection to the amendment was because his colleague's intervention was irrelevant to the Appropriation Bill and should not be entertained.

Appropriation Act, 2014



Parliament on Wednesday, prior to going on recess, passed the Appropriation Act for the 2014 financial year, committing a sum of GH¢36,170,983,663.00 from the Consolidated Fund for government to meet its financial obligations for the year.

The Appropriation Act also makes provision for the sum of GH¢6, 498,022,790.00 to be allocated to the District Assemblies Common Fund, Ghana Education Trust Fund, National Health Insurance Fund, Road Fund, Petroleum related Fund and Transfers to the Ghana National Petroleum Corporation from the oil revenue in the 2014 financial year.

Earlier before the passage of the Act, the Finance Committee of Parliament urged the Finance Minister to ensure timely releases of these allocations since the Funds are committed to various projects and programmes, delays of which would have adverse effect on their smooth implementation and completion.

5.2: Budget implementation and monitoring

During the financial year, the MoF releases funds to MDAs through the Controller and Accountant General's Department (CAGD) based on their approved individual budget allocations. The MDAs surveyed confirmed that 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, usually have to go through a procurement process whereby the MDAs have to obtain commencement certificates from MoF before funds are released.

Most of the MDAs surveyed said they invariably receive less funds than they ask for. As noted above, MDAs receive much less than they demand in their budgets as a result of which they have to resort to prioritization of their projects and programming. And when it comes to actual releases, they may get even much less than their allocation. This means that they often carry substantial unmet demands forward to the following year. The MDAs also do apply for extra budgetary support in the course of the year. This informs the supplementary budget submitted by MoF to Parliament around the middle of the year. However, in spite of the supplementary budget, the MDAs indicated that more often than not, they 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. While the Auditor General's Department (AGD) is also mandated to monitor government spending and to ensure proper book of accounts for public funds, its role is normally after the fact and, therefore, cannot prevent expenditure overruns.

In theory, MDAs must not spend above their respective budget ceilings. However, MDAs surveyed indicated that almost invariably they exceed their ceilings by the close of the year. They cited remuneration as 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, the MDAs said they 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.

Box 2: GIFMIS

The Ghana Integrated Financial Management Information System (GIFMIS) was launched in September 2009, as part of the Public Financial Management (PFM) Reforms in Ghana. The Controller and Accountant General's Department (CAGD) under the auspices of the Ministry of Finance and Economic Planning (MoFEP) is responsible for the reforms.

It is jointly funded by four development partners- the (i) World Bank (ii), DFID of UK (iii) European Commission (EU), and (iv) Danish International Development Agency (DANIDA).

GIFMIS basically involves the use of Enterprise Resource Planning (ERP) to improve on public financial management in Ghana.

GIFMIS is jointly being implemented by three public institutions. The major areas of the reforms are:

" Financial Management and Controls (Controller and Accountant Generals Department)

" Budget Reforms using the Programme Based Budgeting (Ministry of Finance)

" Human Resource Management Information System (Public Services Commission)

Source: Ministry of Finance

Expenditure management and control by MoF has gone through many reforms culminating in the launch of the Ghana Integrated Financial Management Information System (GIFMIS) in 2009 (See Box 2). In general, GIFMIS is an automated system for processing expenditures emanating from the MDAs. 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 can intervene to authorize payments that were not previously approved. It was learnt that the most common source of spending overrun was compensation of public employees.

The CAGD represents another layer of monitoring and controlling expenditure and is linked to the GIFMIS. The FAA charges the CAGD to receive, disburse and provide secure custody for moneys payable to the CF and other funds. In principle, the CAGD allows payments approved by MoF to be made only after verifying expenditure allocations and also by checking availability of funds. In practice, this process can also be breached through official interventions and unapproved payments could be authorized.

Some of the MDAs were of the view that the GIFMIS had introduced efficiency into budget management, specially by cutting down paper use and even allowing on-line requests for releases. They felt it should be able to check overspending. However, information available to us from the MoF and CAGD suggests that 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. It also points to serious shortcomings in budget implementation and monitoring.

The MDAs surveyed indicated that they were aware of legal provisions, including the Parliamentary Appropriations Act (PAA), for preventing excess spending by government and, impliedly, MDAs. Many of them, however, were not sure of the adequacy of those provisions. On sanctions for breaches of spending limits, many of the MDAs said they were not aware of any legal provisions to that end.

5.3: Budget oversight by Parliament

The Constitution designates the Consolidated Fund (CF) as the key Public Fund that receives government revenues and stipulates that withdrawals from the CF must be authorized by Parliament. The Financial Administration Act (FAA) reiterates these provisions. Meanwhile, the Parliamentary Appropriations Act (PAA) sets ceilings each financial year for government spending from the CF based on the budget submitted to Parliament. It is clear that the NC-1992, FAA, and PAA vest in Parliament the authority to ensure that Government expenditure is in conformity with budget estimates. However, this mandate of Parliament is rarely exercised; and from financial year to financial year, expenditure overruns occur.

One would expect that, extra-budget expenditures would never occur without Parliamentary authorization. The practice is that, after presenting the budget to Parliament in November of the previous year, the Government returns in July to present a supplementary budget. The supplementary budget allows the Government to revise its estimates for revenue and expenditure, and therefore the deficit, with the benefit of having had six months of actual information. Despite this opportunity to revise the budget estimates, expenditure is almost invariably exceeded by the close of the year, often by wide margins. As we have noted previously, the problem intensifies during election years, when fiscal profligacy escalates. To give a more recent example, in the election year 2012, a budget deficit of 4.8% was announced in November 2011. In the supplementary budget of July 2012, the deficit was raised to 6.7% of GDP. However, at the end of December 2012, the deficit rose to 11.8% of GDP; and this emanated exclusively from expenditure overrun. Parliament failed to enforce the spending limit approved in the 2012 PAA. Parliament has systemically failed to monitor the budget and enforce spending limits.

Some of the respondents from Parliament acknowledged that they have the mandate to check government expenditure. However, they indicated that in practice they are unable to do so since they cannot prevent overruns in, say, compensation of employees. Thus, the dilemma is that GIFMIS cannot control this item and neither can Parliament. As noted, the overruns in this item arise from payroll management deficiencies, inadequacy of original allocations to MDAs for this item and, many times, subsequent award by government of unbudgeted salary increases.

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. The MDAs and parliamentarians surveyed confirmed the absence of sanctions for excess spending. For political expediency, the two main political parties, the National Democratic Congress (NDC) and the New Patriotic Party (NPP), do not 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 practice and important electoral reforms the tradition is for the party in power to favour the status quo and to call for change only when it is out of power. For example, in approving the 2013 PAA, the opposition NPP attempted to introduce a sanctioning provision for breach of the expenditure ceiling, but they were blatantly shot down by the ruling NDC (See Box 1 above). It is likely that if the NPP should come to power in the future, they might relent on the issue whereas the out-of-power NDC would then argue in its favour.

The MDAs and parliamentarians surveyed generally agreed that parliamentary oversight of the budget is weak. Many of them contended that Parliament lacks capacity, time or resources for the task. Majority of them suggested the provision of resources to Parliament to engage experts and consultants to partner the relevant parliamentary committees. A few respondents argued the Finance and Public Accounts Committees should, in theory, be able to monitor government spending, although they also agreed that the committees required resources and capacity building to enhance their effectiveness.

Some respondents noted that 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 the executive, including matters relating to spending overruns. This is an issue that came up strongly during the constitution review process, but it appears no consensus was reached.

To strengthen parliamentary budgetary oversight and stem perennial spending overruns, some people have proposed an independent Parliamentary Budget Office (PBO), similar to that of the US Congressional Budget Office (CBO), as such an option. The survey respondents generally welcomed the PBO idea.[5] On the composition of the PBO, however, there was a strong preference among the MDAs and parliamentarians surveyed for independent professionals or technocrats outside Parliament "with no political coloration" and "with a high sense of integrity." In their view, parliamentarians would be biased and would still face capacity and time constraints. Some respondents 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 to disciplined budget management. The advocacy provoked some initial debate in Parliament. However, it appeared to have been sacrificed on the altar of political expediency.

Conclusion and policy recommendations

The paper evaluated the institutional processes, arrangements and the legal framework for budget preparation, implementation and oversight in Ghana. It also carried out a survey of relevant actors in these processes.

The paper found budget preparation to be fairly in line with international standards. It found 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 and without any sanctions.

The paper makes the following recommendations to the appropriate authorities to avoid the perennial expenditure and deficit overruns and thereby 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

[5] A recent study of seven African countries found that the presence of a Budget Office and Budget Act in Uganda and Kenya contributed to the effective financial functioning of their respective Parliaments. The Parliament of Ghana scored the least in terms of its capacity to perform financial functions.

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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